2022 Alcohol E-commerce Playbook

The Size of the Prize

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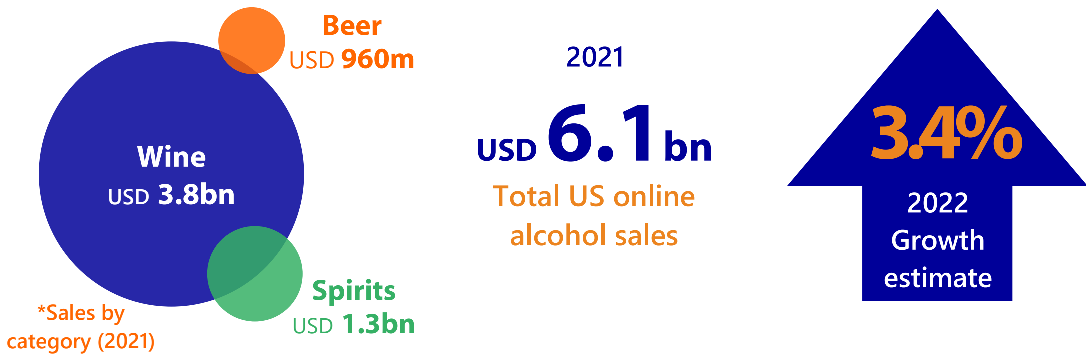
Summary

Backed by months of research, dozens of interviews, and exclusive access to unique data sources, Rabobank's 2022 Alcohol E-commerce Playbook is the most complete and rigorous analysis of the current US alcohol e-commerce landscape and the changes it has undergone over the past two years. Brands, retailers, and distributors can use these insights to benchmark their performance, set future key performance indicators (KPIs), rightsize their investment in digital, and ultimately build a solid, long-term e-commerce strategy.

Introduction

In 2019, US online alcohol sales totaled USD 2.6bn, or just under 1.9% of total off-premise alcohol sales, according to Rabobank (*see Figure 2 and Figure 3*). In 2021, we estimate US online alcohol sales reached USD 6.1bn, or 4% of total off-premise alcohol.

Figure 1: US online alcohol sales have grown 131% since 2019, and will continue to grow in 2022 and beyond

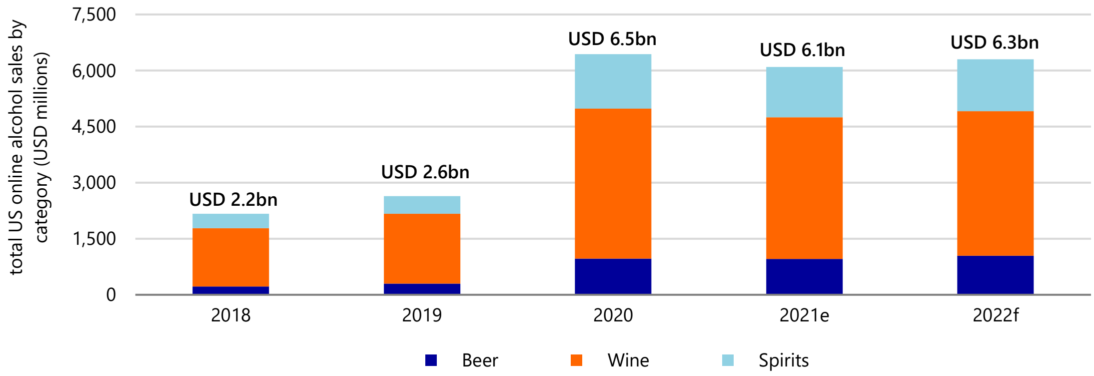


Source: Industry sources and interviews, Rabobank 2021

Although beverage alcohol remains underpenetrated relative to other edible grocery categories online, it has made up significant ground over the past two years. According to Rabobank, online alcohol sales have grown 131% since 2019, outpacing growth of overall online grocery sales during that period by a wide margin. Even more impressive, the two channels most relevant to large beverage alcohol companies, online grocery and marketplaces, are nearly *four times* larger than they were in 2019, growing 271% over the two-year period. This has particularly helped boost the penetration of the beer and spirits categories, which capture a larger share of sales in these channels relative to the overall online alcohol market (*see Figure 3*).

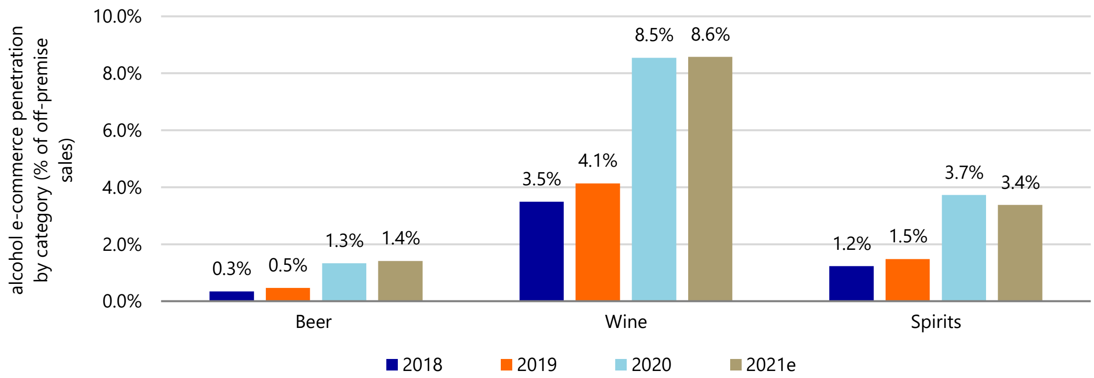
Meanwhile, wine-dominated channels like direct-to-consumer (DTC) wine and licensed specialty retail, which are more fragmented, mature, and tend to be dominated by smaller, super-premium brands, didn't grow as quickly. Still, they more than doubled, growing a combined 114% over the two-year period.

Figure 2: US online alcohol sales have exploded over the past two years. Even as the gravity of the Covid-19 pandemic has diminished, online alcohol sales have proved far stickier than most experts had expected



Source: Interviews and other industry sources, Rabobank 2021

Figure 3: Penetration rates of US online alcohol sales are catching up to the rest of the CPG industry, but more investment is needed to continue making gains



Source: Interviews and other industry sources, Rabobank 2021

Of course, sales weren't the only thing that grew over the last two years. The size of e-commerce teams at beverage alcohol companies has grown 117% since 2019. For years, we have warned industry leaders that they are systematically underinvesting in their e-commerce teams, and we are glad to see they have finally started to rightsize their e-commerce investment. However, there is still a lot of work to do. E-commerce will be the number-one driver of industry growth over the next decade and a critical component of brand-building, awareness, and trial, both online and in-store. Even as the pandemic wanes, companies that fail to invest proactively in their e-commerce teams will struggle to remain relevant and retain market share. "The shift to digital beverage alcohol shopping is here to stay," Wayne Duan, VP E-commerce & Digital Commerce at Constellation Brands, told Rabobank. "The beverage alcohol category is up over USD 700m… compared to a year ago, with over 68% of that growth coming from online sales."

"The shift to digital beverage alcohol shopping is here to stay."

- Wayne Duan, VP E-commerce & Digital Commerce, Constellation Brands

Throughout the rest of this report, we will dig into how the world of US online alcohol sales has evolved over the past two years and what to expect going into 2022. We will start off by exploring the growth dynamics, emerging trends, and successful strategies within the four major e-commerce channels (online grocery, marketplaces, licensed specialty retail, and DTC wine). We will then look at how the size of e-commerce teams has changed in response to the massive growth of the past two years. Finally, we identify four things that senior leaders might forget to consider when determining the size of their digital investment. We hope it helps unlock critical resources for their future.

Online Grocery*

Figure 4: In 2021, alcohol sales in online grocery are nearly four times larger than they were in 2019

Source: Interviews and other industry sources, Rabobank 2021

*Note: Throughout this section, we use the shorthand 'online grocery' to describe this channel for online alcohol sales because the majority of sales in the channel come from omnichannel grocery retailers like Kroger, Walmart, and Albertsons. However, these estimates are meant to capture sales from any off-premise retail environment in which a consumer would regularly purchase food or groceries as well as alcohol. Thus, our estimates for the channel include sales from pure-play retailers like Gopuff and Amazon, omnichannel supermarkets, supercenters, and warehouse retailers (like Kroger, Walmart, Costco, Albertsons, H-E-B, Meijer, Publix, etc.) and finally, marketplaces like Instacart that enable omnichannel retailers, which captures other formats like convenience and pharmacy.

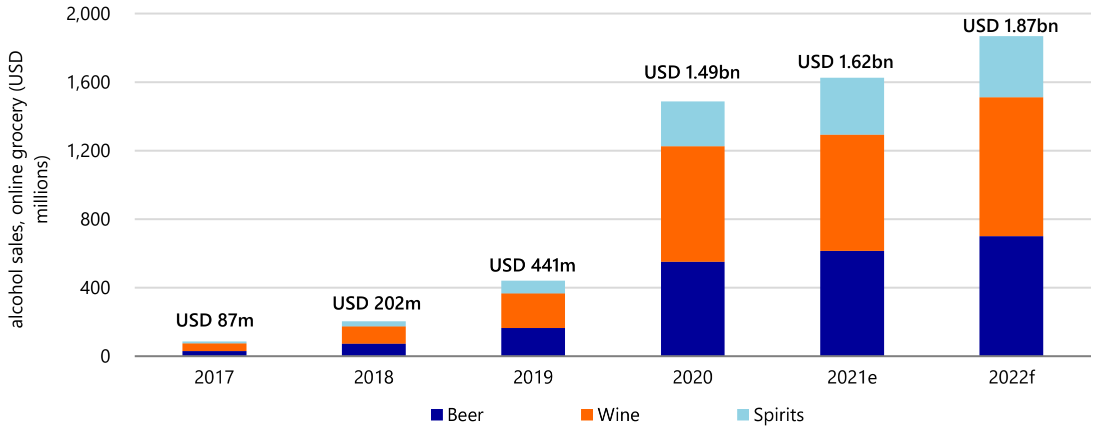
The Rundown on 2020 and 2021

The last two years have shown just how important the grocery channel will be for driving the future of US online alcohol sales. Spurred by the pandemic pushing consumer dollars online and retailers to expand the footprint of their online alcohol offerings, the online grocery channel exploded in 2020, growing 238% YOY and accounting for USD 1.49bn in sales, according to Rabobank estimates (*see Figure 5*). In 2021, despite difficult comparables, rising vaccination rates, a resurgent on-premise, and growing weariness with Covid-19 precautions, the channel still managed to eke out a positive growth rate of 9% to reach USD 1.62bn.

Even though sales grew overall in 2021, they declined 5.8% in the last three quarters compared to the same period in 2020, according to Rabobank estimates. With the worst of the pandemic in the rearview mirror but no end in sight, the near-term prospect for the channel's growth remains full of uncertainty.

Considering the massive growth rates of 2020, however, moderate growth in 2021 and 2022 is an incredibly positive outcome. It points to the stickiness of the alcohol category online and is a testament to the infrastructure retailers and alcohol brands have built over the past two years. Even if sales won't return to their pre-pandemic growth rates until 2023, the long-term outlook of alcohol in the online grocery segment is brighter than ever.

Figure 5: We often referred to the online grocery channel as a 'sleeping giant;' clearly that giant has awoken[1]



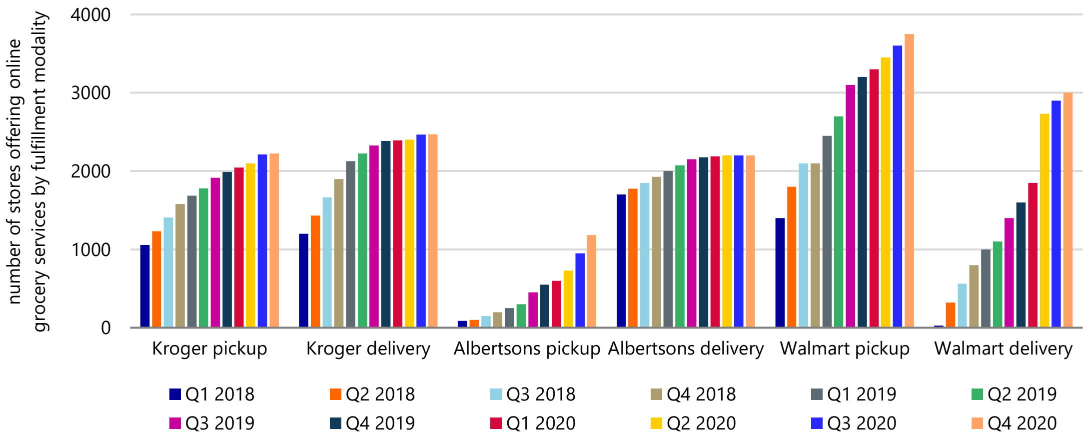
Source: Interviews and other industry sources, Rabobank2021

Expanding Online Alcohol Footprint Drives Exceptional Growth

For 2020, most major grocery chains reported overall e-commerce sales growth around 100%. So why did the alcohol category, which grew 238% in 2020, grow so much faster? The simple answer: Grocers oversaw a massive expansion in the number of retail locations that offer alcohol online.

Prior to the pandemic, most grocery retailers willingly ignored the alcohol category. Focused on expanding the footprint of their most basic e-commerce offerings (*see Figure 6*),[2] they were not willing to risk delays in order to navigate the patchwork of complex and often ambiguous state alcohol regulations.[3] Thus, when consumers bought their groceries online, they were often unable to buy alcohol – even if they were shopping from the website of a local retailer that carried alcohol *and* that could legally sell it online.

Figure 6: By the start of 2020, retailers like Kroger and Walmart were running out of room to expand their online grocery offerings and started turning their attention to the alcohol category*



Source: company websites, press releases, and quarterly reports 2021
*Note: Store counts in Figure 6 represent locations with a general online grocery offering, not specific to alcohol.

By the end of 2019, however, some retailers were running out of runway for geographic expansion and started turning their eye to the alcohol category. The 118% growth rate of online alcohol sales in the channel in 2019, and the 80% growth rate in the first two months of 2020, were a testament to that. As we wrote at the time, "The growth of alcohol sales in 2019 is an indicator that grocery retailers are starting to activate their online alcohol programs with more urgency. But there is still lots of work to be done."

After Covid-19 hit, the surge in consumer demand and a friendlier regulatory environment led to a massive acceleration in the growth of grocery store locations offering alcohol. As you might expect, the companies that had already started building the infrastructure for the category – Instacart, Gopuff, Kroger, and Walmart – benefited most from the circumstances. For example, at the end of 2019, there were 1,100 Walmart locations offering grocery delivery, but only 200 (18%) also offered alcohol delivery. Today, there are 3,200 locations offering grocery delivery, 1,500 (47%) of which also deliver alcohol. Similarly, at the end of 2019, Instacart was fulfilling alcohol orders from 7,000 retail partner locations in 18 states. Today, those numbers have risen to 17,000 store locations and 26 states plus Washington, DC.

Of course, some retailers didn't expand their alcohol offerings much in 2020. For example, Albertsons reportedly throttled online alcohol sales for a few months in 2020 because getting an adult signature complicated their effort to streamline contactless deliveries. Interestingly, many of those retailers with slow rollouts in 2020 have seen the largest growth rates in 2021. Target, for example, only offered alcohol online in three states in 2020. In May 2021, they announced an expansion of curbside pickup to 1,200 stores in 29 states, plus alcohol delivery in 600 stores. While most other retailers are flat or down in 2021, Target sold between three and four times more alcohol online in 2021 than it did in 2020.

Lastly, changes to state laws also buoyed the growth of online alcohol sales – not only in grocery, but across e-commerce channels. Georgia, for example, legalized alcohol delivery in 2020.[4] Ohio legalized spirits delivery in April 2021. In all, ten states representing 12% of the US population passed laws that made it easier for grocers to sell alcohol online (particularly by enabling third-party delivery), in effect increasing the total addressable market for online alcohol sales.

"Alcohol e-commerce is a clear growth driver for our retail partners, who typically see their basket sizes increase by 25% with alcohol."

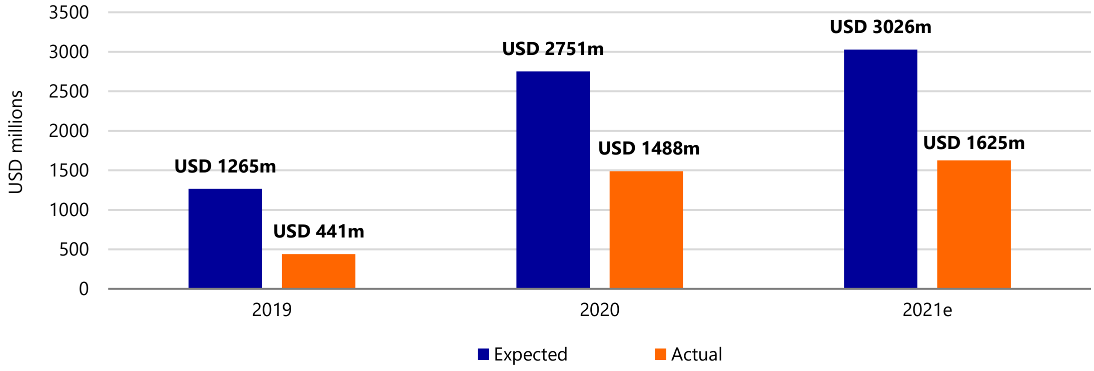
- Chris Rogers, Vice President of Global Retail at Instacart[5]

Alcohol: Catching up, but Still Far Behind

Even with its recent growth spurt, the alcohol category remains woefully underpenetrated, and grocers stand to lose billions of dollars in revenues if they don't act fast to fix it. If alcohol had the same share of spending online that it does in-store, alcohol sales in online grocery would be over USD 3bn dollars (*see Figure 7*). This means grocery retailers are leaving 1.4bn in online revenue on the table in 2021. In fact, given that alcohol is a major driver of shopping trips, basket size, customer retention, and conversion for online grocery overall, the lost sales caused by this foot-dragging are probably much larger.

Retailers recognize the category's critical role in-store, but online, where shoppers tend to be wealthier, highly educated, and more urban than the general population (all demographic characteristics linked to higher demand for alcoholic beverages), alcohol is mission-critical. Even better, from a fulfillment standpoint, alcohol items are easy-to-pick, which, combined with the category's high price point, means online alcohol sales are more profitable than just about any other CPG category – even if tied-house laws limit retailers' ability to collect incremental marketing revenues from alcohol brands.

Figure 7: Until alcohol's share of online grocery dollars (actual) matches that of its in-store share (expected), grocers are leaving money on the table. In 2021, grocers missed out on USD 1.4bn in online alcohol sales, to be exact



Source: Interviews and other industry sources, Rabobank 2021

Gopuff Makes It 'Big'

When the last installment of this report was published two years ago, Gopuff was (literally) only a footnote that read, "The Philadelphia-based startup already sells nearly as much alcohol online as Albertsons. Most people have not heard of them, but that will change quickly."

Today, they are an online-alcohol-sales powerhouse that pioneered the quick-delivery business in the US, single-handedly changing the meaning of 'quick' in that context from same-day delivery to less than thirty minutes. To give a sense of their scale, they are the third-largest outlet for online beer sales in the US, trailing only Instacart and Walmart, and by the end of 2022, they could sell more alcohol online than Kroger.[6]

For those that are unfamiliar, Gopuff is a vertically-integrated, licensed retailer that operates hundreds of micro-fulfillment centers in major cities across the US. They offer an assortment of products that more or less correspond with a convenience store or pharmacy. DoorDash has started operating a similar business model, launching what they call 'DashMart' in the summer of 2020.[7]

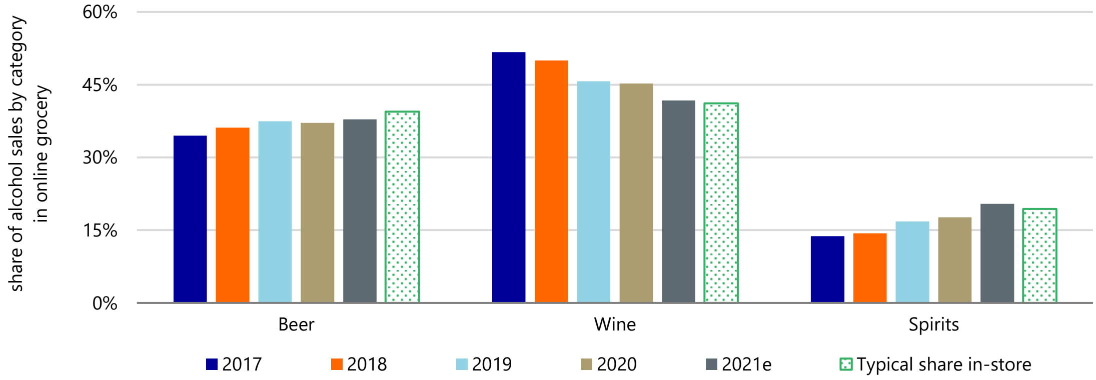
Perhaps most intriguing is Gopuff's recent acquisition of two of the country's largest liquor store chains, BevMo! and Liquor Barn. During a presentation earlier this year at the UJA-Federation of New York, Gopuff's co-founder, Rafael Ilishayev, said the main reason for buying Bevmo! was to get more liquor licenses to support their core business. "It really gave us an extensive, physical, and licensed infrastructure footprint," he said.[8] "We bought BevMo! to bring Gopuff to California." A comment that shows just how important alcohol is to their core offerings. Ilishayev added that it would have taken three to four years to build that footprint without an acquisition. Given the importance of the category online, we expect other national chains will eventually follow their example – i.e. acquiring assets specifically to bolster their online alcohol footprint and offerings.

How Do Online Sales Differ From In-store Sales?

Wine tends to overperform and beer tends to underperform online compared to the in-store environment (*see Figure 8*). Consistent with almost every trend everywhere, spirits are quickly gaining share, increasing from only 13.8% of alcohol sales in 2017 to 20.3% in 2021.

Beyond category mix, discussions with industry leaders have revealed two other important differences between online and in-store sales. First, larger formats perform better online than they do in-store (e.g. a 1.5 liter bottle of spirits or 12-pack of beer). Second, the products that perform best online tend to have a much higher price point (for example, craft outsells domestic premiums on many platforms).

Figure 8: As the channel matures, product mix online is starting to look more like the in-store environment, at least for now



Source: FMI, Rabobank 2021

Many of these differences probably aren't driven by the online environment changing consumer behavior. Instead, they are likely driven by the demographics of the online alcohol shopper. As we pointed out, people that shop online tend to be wealthier and more educated and are much more likely to live in an urban or suburban environment (where online grocery services are available). All these characteristics are correlated to a preference for wine and an ability to pay for more premium products and to pay upfront for large formats to stock the pantry (or liquor cabinet).

What to Expect in 2022 and Beyond

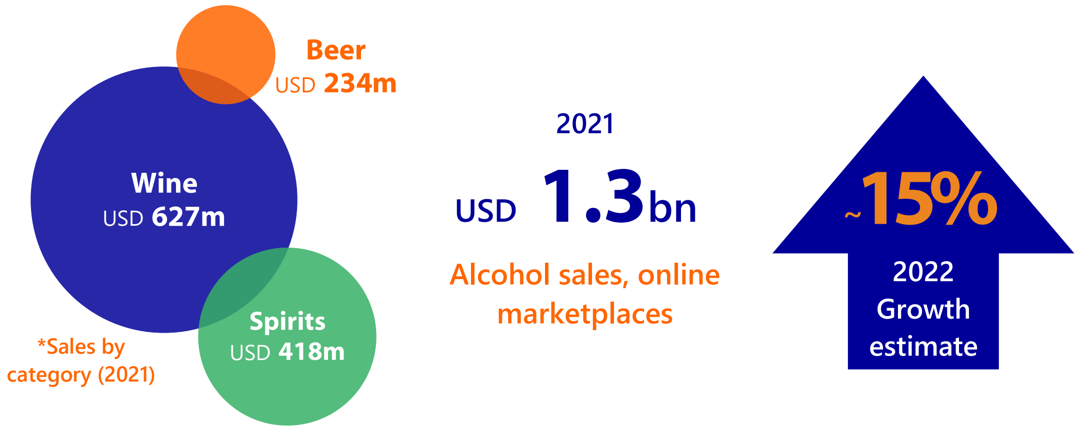
In 2022, there will be fewer opportunities for growth through geographic expansion – the main driver of alcohol sales in the channel before and since the pandemic. Furthermore, fear of the pandemic, which has been strongly correlated to monthly alcohol sales in the channel, will likely continue to decline in 2022. Both of these factors suggest growth in the channel will be fairly moderate in 2022. We certainly aren't going to see triple-digit growth, but we expect alcohol sales in the online grocery channel to grow 15% YOY in 2022, to reach USD 1.87bn.

Ultimately, retailers will determine whether growth is -10% or +50% in 2022. Retailers must continue to raise awareness of their alcohol offerings through featured landing pages and cross-category promotions. They must optimize assortment, expand their offerings to include multiple modalities of fulfillment (curbside pickup, local delivery, and ship-to-home), and, perhaps most importantly, customize and improve the online shopping experience around alcohol (something we discussed heavily in our 2018 report about *fixing alcohol sales in online grocery* and a theme we will definitely revisit in 2022). If grocers can get these things right, there is no doubt that, in a few years, penetration of online alcohol will actually *outpace* the overall grocery business.

For their part, brands have to yield their soft power wisely to push retailers in the right direction. Brands have to offer actionable insights to retailers (like sharing this report) that will spur continued investment in their online alcohol business and, in the words of one insider, show that "Grocers that don't serve this trip will lose out to retailers or channels that *do* offer alcohol online." And, as we will get to later in this report, success in the channel must start with brands investing in their own e-commerce teams and capabilities.

Online Alcohol Marketplaces

Figure 9: Marketplaces like Instacart and Drizly are 310% larger than they were in 2019, pushing brands' retail media spend on these platforms to new heights



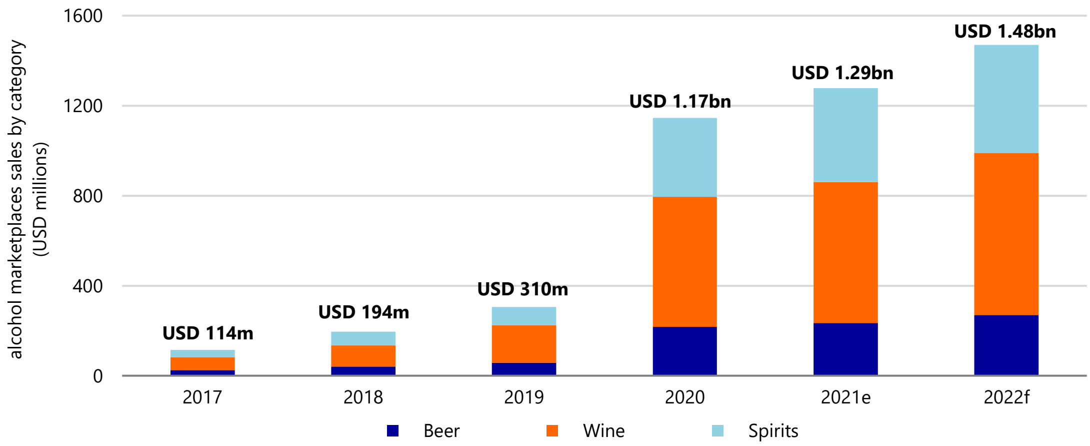
Source: Interviews and other industry sources, Rabobank 2021

What Happened in 2020 and 2021?

Unlike retailers, marketplaces like Drizly, Instacart[9], ReserveBar, and Vivino do not own liquor licenses and, therefore, do not own inventory. Instead, they provide platforms or marketplaces where retailers can hawk their wares online. They make money collecting fees from retailers, and rake in huge revenues from suppliers buying data and promoting their brands on the platform. Instacart, followed by Drizly, are by far the largest players in the channel and have further consolidated that position in the past two years. In 2019, they had a 76% market share. In 2021, they have an (estimated) 86% market share.

The growth dynamics for marketplaces over the last two years are very similar to online grocery. The pandemic drove a massive uptick in consumer demand for online services, which in turn led to massive growth in brick-and-mortar stores searching for an e-commerce solution, which in turn added thousands of retailers to marketplaces' retail network. For example, Drizly's network increased from 1,250 retailers in mid-2019 to around 4,000 by the end of 2020. This helped marketplaces achieve USD 1.17bn in online alcohol sales in 2020, growing 274% YOY (*see Figure 10*).

Figure 10: Sales on marketplaces are four times larger than they were in 2019, and will continue to grow in 2022 as these platforms continue to expand the footprint of their retail networks



Source: Interviews and other industry sources, Rabobank 2021

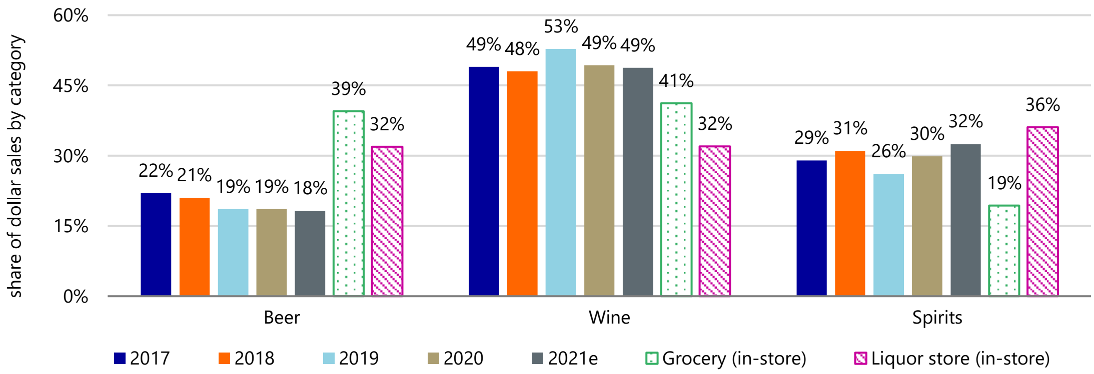
In 2021, the channel grew just under 10% – a rate eerily similar to online grocery – reaching USD 1.29bn in sales. In the last three quarters of 2021, however, the channel declined 4.8%. This decline was inevitable as consumers returned to some of their pre-pandemic routines – although the declines were smaller than we would have anticipated at the start of the year. This weak growth in the final three quarters of 2021 is a strong indicator that the channel will likely see fairly flat growth rates in 2022.

Product Mix in the Marketplace Channel

Wine has continued to be the top category in the marketplace channel, representing nearly half of all sales (*see Figure 11*). But if you exclude sales from Vivino, which created its wine marketplace in 2019, wine's share has actually fallen from 49% of the channel in 2017 to 44% in 2021. Beer, like almost every online channel, underperforms online – likely due to its broad availability in physical retail, the demographics of the online shopper, and higher pricing on some platforms.[10] That being said, these platforms are adding lots of convenience stores to their retail networks, which offers a glimmer of hope for the growth of beer sales in the channel. Spirits has gained market share in the channel, likely due to changing state regulations on delivery, scooping up 32.5% of sales in 2021, up from 29% in 2017.

The sales mix on Drizly, which is largely integrated with liquor stores and wine shops, more closely resembles that of a liquor store, while Instacart's sales mix more closely resembles that of grocery.

Figure 11: The product mix on online marketplaces is favorable to wine and spirits but presents real challenges for beer



Source: FMI, Euromonitor, bw166, Rabobank 2021

How Much Do Brands Actually Spend on Retail Media

Marketplaces' unlicensed status puts them in a unique regulatory position. In most states, they can accept marketing dollars from suppliers, which would otherwise be prohibited by tied-house laws.[11]

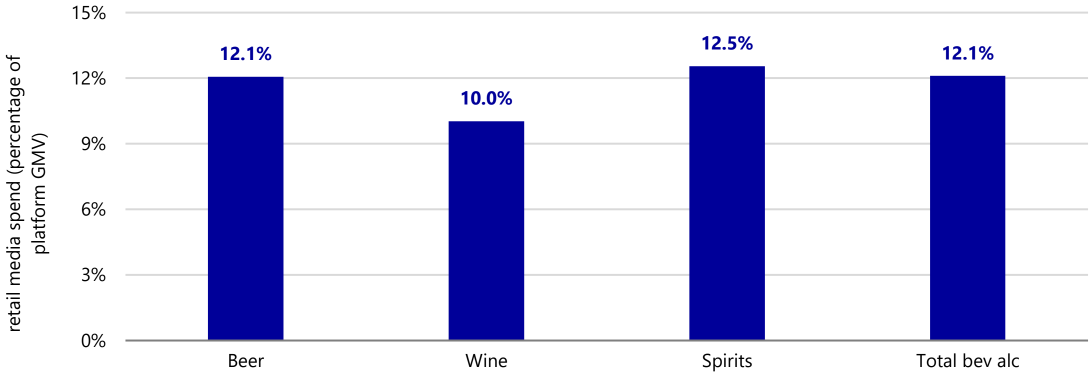
This kind of marketing, which is usually referred to as 'retail media' or 'on-site merchandising,' can take many forms. Brands spend most of their budget bidding[12] on keywords – also called 'placement in search'. Essentially, brands identify a keyword associated with their brand – "beer", "whisky", and "red wine" are some common examples – and pay the platform to place their product at the top of search results if consumers search for that keyword or if consumers search for a product using the built-in taxonomy menu.[13] Brands can also, depending on the platform, pay for enhanced content on their product pages, banner ads, and buy-in to other featured programs (think being featured on a product carousel for something like National Bourbon Day).

Virtually all of the industry's retail media budget gets funneled into two companies: Instacart and Drizly.[14] No surprise, given that they have an 86% market share in the channel. Brand owners typically measure their retail media budget as a percentage of their brands' gross merchandise value

(GMV).[15] So if GMV for a brand on Instacart is USD 10m and the brand's owner spends USD 1m on retail media on the Instacart platform, you'd say the brand spent 10% of GMV on the platform.

Rabobank estimates that in 2021, alcohol companies with national distribution[16] spent, on average, 12.1% of GMV on marketplace platforms (*see Figure 12*).

Figure 12: In 2021, alcohol brands reinvested 12.1% of the GMV produced by marketplaces into retail media



Source: Interviews and other industry sources, Rabobank 2021

With these levels of spending, suppliers aren't actually making money (or are making very little money) when their products are sold through marketplaces like Instacart and Drizly.[17] In an interview with Rabobank, one company's consternated head of e-commerce wondered, "Our competition is willing to pay USD 13 per click for certain keywords, nearly ten times more than before the pandemic. How far are we [as an industry] willing to go?... Who's going to be the leader that brings logic back to this conversation?"

"Our competition is willing to pay USD 13 per click for certain keywords.... Who's going to be the leader that brings logic back to this conversation?"

- Anonymous head of e-commerce, large multinational alcohol company

Almost everyone in the industry agrees that this is not sustainable over the long term. Especially frustrating for brands is the fact that these platforms are often unable or unwilling to share consumer data or convincing and actionable insights on attribution, best practices, or the incremental impact of suppliers' retail media spend. In fact, one reason suppliers are willing to spend so much on some of these platforms is that, in order to gain access to sales data and the performance of their portfolio, they must reach a certain threshold of spending – typically around 10% of GMV.

Why Spending More Now May Reap Long-term Rewards

If everyone agrees that this is too expensive, why are brands investing so much into these marketplace platforms? We spoke to e-commerce leaders at more than 25 of the country's largest companies and asked them to explain. Here are the justifications we heard the most:

Being the First in the Basket Pays Long-term Dividends

This appears to be the most common reasoning for current levels of investment. One supplier said, "We are aware of how much we are spending online and will maintain these levels of investment because the channel will grow faster for longer; it is stickier than just about anything else we could be doing." Hiba Fenwick, Director of E-commerce & Digital Communications at Edrington USA told Rabobank, "By getting into their 'buy it again' or 'previously purchased' lists, we are reducing decision fatigue and increasing our chances of success. While we are always looking for new consumers, it is less costly to sell to an existing consumer vs. recruiting a new one."

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This strategy, though, is predicated on the long-term growth of a given platform. If suppliers start to doubt that a platform can sustain +50% annual growth over the next five years, their spending levels will inevitably decline.

Retail Media Isn't Just About Conversion… It Builds Awareness Online and Off

E-commerce teams at most alcohol companies say senior leadership dramatically undervalues the impact of digitally-influenced sales. Consumers use online platforms to compare prices, check availability before going to a store in person, or even learn more about a product while standing in front of a physical shelf. "E-commerce is a sales channel, and it is also a channel that we can use to digitally drive sales both online and in-store." Carolyn Brown, Head of E-commerce, North America at AB InBev, told Rabobank. "In this sense, it's also a digital marketing channel, so we need to strategically invest to ensure we are meeting consumers where they are researching, interacting with, and shopping for our brands."

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- Carolyn Brown, Head of E-commerce, North America at AB InBev

Relatedly, marketing in the channel is an opportunity to drive sampling with an audience that is younger, wealthier, and more educated than the general population. This is exactly the kind of person that marketers dream of winning early and converting into a lifetime, brand-loyal consumer. If you create a brand-loyal consumer online, they are going to be brand-loyal both online and off. Additionally, younger consumers won't interact with traditional media the same way previous generations did. They're so buried in their phones that they'd sooner walk into on-coming traffic than notice a billboard. So, it's probably best to make sure you show up on their phones.

It's the Only Place Open for Business

Quite a few of the companies we spoke to feel their hands are tied: If they don't ask for a large media budget, their competitors will win that critical first purchase and gain a long-term strategic advantage at their expense. "It is the cost of doing business," one company told us, unceremoniously. The lack of retail media channels for alcohol leaves lots of players fighting for limited inventory.

With regards to smaller firms, they struggle to participate in this market at all. Besides being priced out by bigger players, marketplaces aren't typically able to isolate marketing campaigns to specific geographies, so spending marketing dollars only makes sense for brands with national distribution.

Lastly, in researching this report, we learned that ad-tech firms like CitrusAd and Quotient are opening opportunities for alcohol suppliers to purchase retail media on *licensed* retail platforms like Shoprite, H-E-B, and Gopuff. While most suppliers have sat on the sidelines due to legal concerns around tied-house laws, a few suppliers undoubtedly will be willing to take the risk to access new audiences and more affordable levers to promote their brands. We feel the most likely source of relief from this problem of limited ad inventory will come from white-label e-commerce platforms like City Hive serving independent liquor stores. To learn more on how that might work, see our discussion on white-label providers below.

Don't Punish It Just Because You Can Measure It

Because digital media is shoppable and its impact on sales can be measured more accurately, senior leaders tend to subject it to greater scrutiny than traditional media. They demand that performance be measured by return on advertising spend (ROAS) and that every dollar spent must be immediately profitable. But as we've just demonstrated, retail media and paid social linking to a retail website are still driving awareness, consideration, and trial with consumers.

It is really hard to measure these things, but it's also incredibly difficult to measure the direct impact that a Super Bowl ad or, God forbid, a billboard has on sales. Of course, we're not saying brands should stop spending money on billboards and Super Bowl ads. Everyone agrees that stuff works, even if its impact on sales cannot be so easily measured. Our point is that when it comes to digital media, senior leaders shouldn't apply a different standard. In short, "Don't punish it just because you can measure it."

The Easiest Way to Improve Conversion and ROAS: Hire More People

Ensuring your product is in stock and product detail pages are accurate and up to date is absolutely critical in the context of digital advertising and retail media. If a brand pays for a keyword but the product page has the wrong image (even if it is just a picture of the wrong package size), conversion plummets. If a consumer clicks on a shoppable Instagram ad only to arrive at a product page that reads 'out-of-stock,' it doesn't matter how well the ad is performing, ROAS will be zero.[18] "Investing in retail media spend without having the fundamental content updated is like hosting Thanksgiving dinner without a turkey," Chris Horvath, Director of Digital Commerce at Jackson Family Wines, told Rabobank. "[Content] should be the centerpiece for conversion. Financially, it does not make sense to invest in retail media unless your content is in a great place."

"Investing in retail media spend without having the fundamental content updated is like hosting Thanksgiving dinner without a turkey"

- Chris Horvath, Director of Digital Commerce, Jackson Family Wines

Maintaining updated product content and monitoring out-of-stocks is a constant battle for e-commerce teams. Though there are technology solutions to help manage these challenges (Salsify, Syndigo, Edge, etc.), they often fail to perform as advertised. Thus, managing product detail pages and out-of-stocks remains very hands-on, requiring a massive amount of resources and people power. "This role/team needs to be prioritized," added Chris Horvath over email.

Interestingly, some e-commerce leaders report that it is easier to get money for retail media or paid social than for hiring additional staff. If senior management is willing to spend millions on retail media, but not budget enough full-time equivalents (FTEs) to manage product content and out-of-stocks, they are throwing money down the drain. Similarly, e-commerce teams without the infrastructure to analyze and then optimize the performance of their digital advertising campaigns will struggle to spend money efficiently.

This is not to say that alcohol companies should reduce their digital advertising and retail media budget – quite the contrary. Brands simply have to make sure they have enough people and *the right people* to maximize the impact of every dollar they spend. This is perhaps one of the easiest ways companies can dramatically improve performance.

Marketplaces Are Digitizing the Entire Value Chain… And It's a Big Deal for In-store Sales Too

Marketplaces like Drizly and Instacart, and white-label providers like City Hive (for more, check out the Licensed Specialty Retailer section below) have to integrate into the point-of-sale (POS) system of every retailer in their network. This is what allows the platforms to populate their website with the correct inventory and pricing for each store. Once integrated, the platform then automatically populates product detail pages, or PDP, based on universal product codes (UPC) – often with text and images provided by the brands themselves.[19] In theory, these platforms could offer brands real-time insights into out-of-stocks and help them identify key accounts where they do not have distribution.

Obviously, ensuring your product is in stock at the right store locations[20] has a massive impact on both in-store and online sales. Coordinating with brand teams and distributors to actually put these insights into action is a monumental task, and e-commerce teams are the natural and correct team to take on this responsibility. They need enough people and a broad enough mandate to act on opportunities as they appear, even if the in-store sales are the primary beneficiary of their action.

The Uber-Drizly Deal: What Does It Mean, and Why Did It Happen?

In February, Uber announced it would acquire Drizly for USD 1.1bn. The deal, which closed in mid-October after reportedly being delayed by an FTC investigation, helps Uber in several ways. It creates opportunity for incremental sales of alcohol alongside takeout orders, and may improve capacity utilization of Uber's fleet of drivers. Neither of those, however, explain or justify the price tag. In our view, this acquisition is more closely linked to Uber's big move into the grocery space. It ensures Uber has a complete grocery offering (i.e. with alcohol) in almost every major market, but more importantly, Drizly is extremely experienced and proficient at selling ad inventory to CPG companies. The acquisition could massively accelerate Uber's push to monetize their grocery operations in a similar way, a critical component to making that business model profitable.

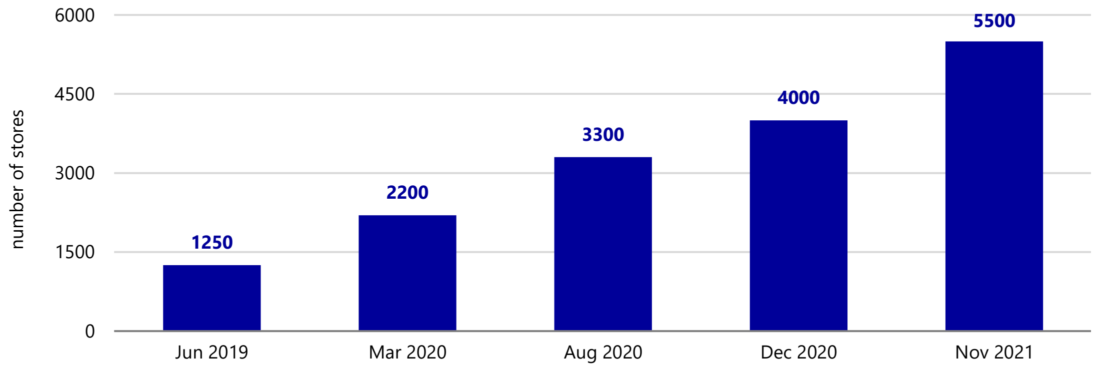
For Drizly, the partnership solves their two biggest problems: eyeballs and their limited offering. First, Uber's massive user base will definitely help drive awareness of Drizly's offerings, especially on the Uber app (consumers really prefer purchasing things online from familiar names… like Uber). More importantly, platforms, like Drizly, that specialize in alcohol, thrived in a vacuum left by brick-and-mortar retailers' failure to focus on the category. The value Drizly created for consumers will diminish as competition ramps up from grocers, liquor chains, and cheaper e-commerce solutions that better serve independent retailers' interests. So, a consumer who started buying alcohol on Drizly would eventually move their online alcohol purchases to a supermarket or specialty retailer with better pricing and assortment. Being part of the diverse suite of Uber Eats offerings helps solve that existential problem.

The other big deal announced this year is the ReserveBar acquisition of Minibar Delivery. ReserveBar's marketplace historically focused on a very narrow assortment of high-end wine and spirits often focused on gifts that were shipped to consumers' homes. More recently, they've been building white-label e-commerce solutions for brand websites and leveraging their retail network to fulfill those orders (akin to what Thirstie has been doing for years). The Minibar acquisition helps ReserveBar expand the markets where they are compliant, opens up the beer category, and allows them to start offering same-day delivery for a wider assortment of brands. In other words, it helps them diversify their offerings for both their classic business-to-consumer and their fast-growing business-to-business (B2B) operations.

What to Expect in 2022 and Beyond

Favorable Q1 comparables (lapping 2020 months before the pandemic hit the US) and continued expansion of marketplace retail networks were responsible for the channel's growth in 2021. Instacart, for example, added around 7,000 7-Eleven stores. Unsurprisingly, sales from convenience stores (all merchandise, not just alcohol) on Instacart grew by 350% in 2021.[21] Similarly, Drizly continued adding retailers throughout the year, and in November they announced the addition of 1,200 7-Eleven stores (with 800 more on the way), bringing their store count to over 5,500 stores (*see Figure 13*).

Figure 13: The number of stores in Drizly's retail network continues to rise, but for how long?



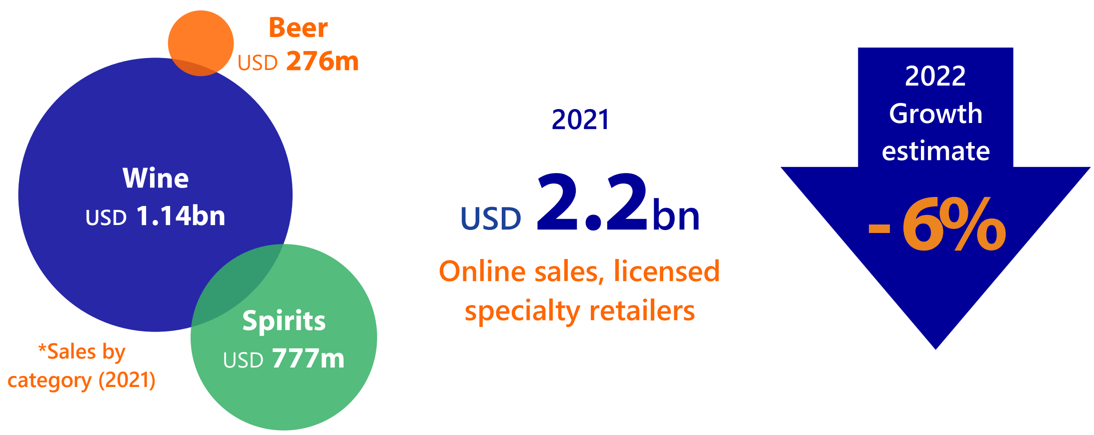
Source: company press releases, various news reports. Rabobank 2021

As was the case with grocery, sales growth for marketplaces will likely be relatively flat in 2022 (at least by historical standards) due to limited opportunities for geographic expansion[22] and consumer demand for online shopping normalizing as fear of the pandemic continues to subside. Rabobank estimates the channel will grow 15%, to USD 1.5bn, in 2022. If I were an e-commerce leader, I would be nervous if my 2022 KPIs for growth in the channel were any higher.

Finally, marketplaces must continue to provide value to consumers if they are to build on their recent success. Will consumers want to shop on a platform that only offers alcohol when they can save time and fees shopping the same assortment from their local grocery store? Recent partnerships, like the Uber-Drizly deal, give the channel hope. Marketplaces also have to show they are able to create value for brands. If they cannot do a better job of growing their business, providing data, tracking marketing performance, and offering better insights around things like out-of-stocks, the suppliers that pay the bills may decide, fairly, that the channel doesn't deserve the current levels of investment.

Licensed Specialty Retailers

Figure 14: Licensed specialty retailers have always been the largest, most mature channel for online alcohol sales. During the pandemic, they got even bigger by tapping into the local community



Source: Interviews and other industry sources, Rabobank 2021

This segment, which we've dubbed 'licensed specialty retailers,' is likely the largest channel for online alcohol sales in the US. We say "likely" because it is extremely fragmented and notoriously difficult to measure.

The profile of operators in this channel fall into five categories:

- Omnichannel national and regional liquor chains – e.g. Total Wine & More, BevMo!, and Binny's Beverage Depot
- Omnichannel, independent liquor stores with a national client base – e.g. K&L Wine Merchants, Astor Wines & Spirits, and Sherry-Lehmann Wine & Spirits
- Omnichannel independent liquor stores serving local markets, usually with the help of white-label e-commerce solutions like City Hive.
- State-run liquor stores with an 'e-commerce' offering – e.g. Virginia ABC, Pennsylvania's Fine Wine & Good Spirits
- Pure-play online stores, which basically means Wine.com

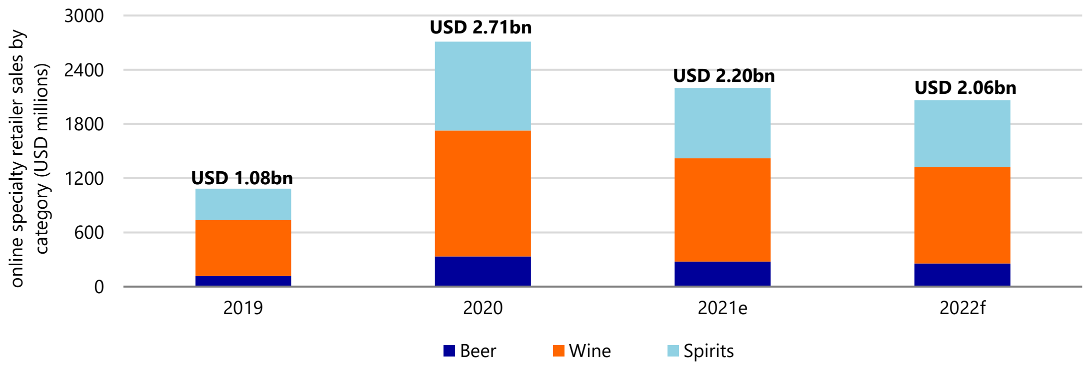
Historically, this channel was used primarily by retailers shipping hard-to-find wines – and to a lesser extent spirits – to high-end consumers and collectors. In 2019, for example, the top-ten spirits brands on Wine-Searcher, a search engine that makes money, in part, by connecting consumers with online wine and spirit retailers,[23] had an average bottle price of USD 299. Similarly, six of the top-10 SKUs by dollar sales on Pennsylvania's state-run Fine Wine & Good Spirits (PLCB) website had a unit price over USD 100,[24] including a USD 2,500 bottle of bourbon! Since the pandemic, the number one SKU on the PLCB website: a 1L bottle of Tito's Handmade Vodka.[25]

While that PLCB example is a bit extreme, it is symbolic of what was happening more broadly in the wake of Covid-19. The channel went from exclusively serving the eclectic needs of a small group of elites to also serving the general public in their local markets, bringing to life this very large but relatively mature, slow-growing part of the online alcohol ecosystem.

What Happened in 2020?

Rabobank estimates that the channel grew 151% in 2020, reaching USD 2.71bn in sales (*see Figure 15*). Most of the growth in 2020 was driven by local delivery and curbside pickup – before the pandemic, most orders were fulfilled with common carriers like FedEx and UPS. An interesting side effect of this change was that beer and spirits, which are shipped across state lines much more sparingly than wine, gained meaningful market share in the channel (*see Figure 15*)

Figure 15: Online sales in licensed specialty retail grew 151% in 2020, and despite double-digit declines in 2021, thousands of independently-owned retailers built the infrastructure for long-term e-commerce growth*



Source: Interviews and other industry sources, Rabobank 2021
*Note: We do not have reliable, comparable data dating back to 2019 or before.

Companies like City Hive – a white-label or software-as-a-service (SaaS) provider that helps build and manage a suite of digital tools for liquor stores, including customer relationship management (CRM), loyalty programs, and branded apps and websites – were the most important drivers of this growth. Once the pandemic hit, City Hive, alongside similar companies like WineFetch, Bottlecapps, and Beverage Media Group (BMG, now part of SevenFifty), were able to launch new functionalities, like curbside pickup, across thousands of retailers in a matter of weeks or even days. Also, retailers using these white-label providers were able to use the email lists from their in-store customer and loyalty programs to steer consumers to their online offerings – an incredibly cheap and efficient way to drive online sales in the early days of the pandemic.

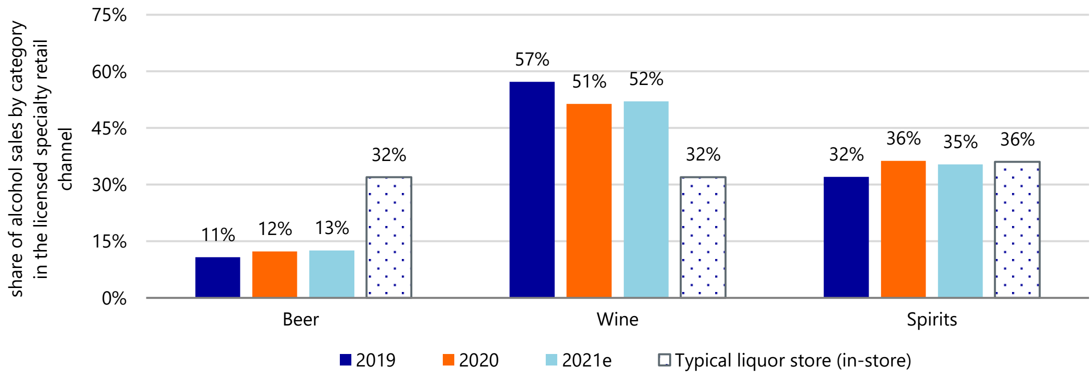
The other winner in this channel is Total Wine & More. The country's largest liquor store chain has finally fulfilled its destiny as an online sales powerhouse. They now account for 20% of online sales in the channel, up from less than 9% in 2019. Their wide geographical footprint, broad selection, competitive pricing, and extremely well-put-together website and online customer experience really helped them outperform the industry by a very wide margin.

What Happened in 2021, and What's Likely to Happen in 2022?

In 2021, the channel has seen steep declines as customers who were forced by the pandemic to shop online at their local liquor store returned to in-store shopping. Rabobank estimates that the channel declined 19%, to USD 2.2bn, in 2021. It makes perfect sense that this channel would see steeper declines than the others. Handselling and discovery are core values that shopping from a local wine store bring to the consumer. Far from being a failure of their online offerings, this a testament to the power of providing a fantastic in-store shopping experience.

Heading into 2022, Rabobank expects the overall channel to see a continuation of the trends that drove negative growth in 2021. Thus, we project that sales in the channel will fall by 6%, to USD 2.06bn in 2022. However, we expect the channel to return to growth in 2023, driven by – you guessed it! – the continued expansion of white-label solutions across the independent retailer landscape.

Figure 16: The licensed specialty channel has long served connoisseurs in search of hard-to-find wine and spirits, offering limited opportunity for beer and bottom-shelf wine and spirits brands



Source: Euromonitor, bw166, Rabobank 2021

White-Label Providers Offer a Glimpse of a Better Future

City Hive (the largest player in the space), WineFetch, BMG, and Bottlecapps build branded e-commerce-ready apps and websites for independent liquor stores. Together, their GMV is much larger than the online sales of BevMo!, Binny's, and Total Wine & More combined.[26] If it wasn't already obvious, we are extremely excited about the emergence of white-label or SaaS providers like City Hive. We think brands should be too. Here's why:

For suppliers, managing their brands and influencing their performance in this channel is incredibly difficult. Firstly, there are thousands of independently operated liquor stores with online offerings (likely more than 7,000 in the US). You can imagine how difficult it would be for a supplier to, say, transfer updated brand imagery to each one. Then there is the fact that these are licensed entities, so tied-house laws prevent suppliers from promoting their brands the same way they would on Drizly or Instacart.

White-label or SaaS providers like City Hive potentially offer brands a single point of contact in which they can update content, monitor out-of-stocks (see section on digitizing the value chain above), and track their performance across thousands of retailers.

"It gives visibility to an area of the business we previously weren't able to get line of sight on. This now allows us to understand how online is contributing to – and in many cases driving – growth," Simon Gilbert, Director of Channel & Customer Marketing – Off-premise and E-commerce at Campari Group explained to Rabobank. "It also opens up the opportunity to expand our shopper journey to influence people sooner, with more interaction points, and joining up our in-store activation with online."

Even more exciting, suppliers may be allowed to legally promote their brands on these platforms the same way they do on Drizly or Instacart (i.e. paying for banner ads, featured items, and keywords).[27] If true, this could help alleviate some of the ad cost inflation pressures we discussed in the marketplaces section.

"[City Hive] gives visibility to an area of the business we previously weren't able to get line of sight on. This now allows us to understand how online is contributing to – and in many cases driving – growth.."

- Simon Gilbert, Director of Channel & Customer Marketing – Off-premise and E-commerce, Campari

Why This Helps Independent Retailers

In many ways, these white-label providers offer retailers an alternative to Drizly. An independent retailer does not have the resources or technical ability to build and maintain a modern e-commerce platform. This is why so many turned to Drizly at the start of the pandemic. Some retailers, however, are becoming wary of that partnership. Not only are they giving up a large part of their margin to be part of the Drizly marketplace, they are also worried – rightfully – that Drizly is taking over the relationship with their customers. This is the same problem that grocers who use Instacart have been confronting for years.

By working with a white-label provider, retailers are able to keep shoppers within their own branded retail ecosystem and leverage all the synergies that come with that (e.g. personalized online offers based on in-store shopping history). "While third-party marketplaces allow for one-time transactions and boost revenues in the short term, I do believe that third-party marketplaces offer merchants very little long-term economic value," Mike Fisch, Director of Innovation, Gary's Wine & Marketplace, told Rabobank. "It is more beneficial for merchants to have a direct relationship with the customer through an 'owned' property, such as a branded website or mobile app."

Most importantly, besides fulfilling the order, the retailer doesn't really have to do anything to manage their e-commerce business. After integrating into the POS system, the white-label provider basically does everything, from populating product detail pages to creating banner ads and optimizing keyword search results. All this at a much lower cost than selling on Drizly.

"While third-party marketplaces allow for one-time transactions and boost revenues in the short term, I do believe that third-party marketplaces offer merchants very little long-term economic value... it is more beneficial for merchants to have a direct relationship with the customer through an 'owned' property, such as a branded website or mobile app."

- Mike Fisch, Director of Innovation, Gary's Wine & Marketplace

In reality, the most successful retailers will both sign up for Drizly *and* make sure they have their own robust branded e-commerce offering. In such a scenario, retailers could use Drizly as a business development tool to drive traffic to their own website. In fact, many retailers add a flyer to each Drizly order with a discount code and a message encouraging the consumer to order from their own website. Though we were told it is technically a violation of their terms of service with Drizly, the practice appears widespread and violations would be virtually impossible to enforce.

How Can Brands Help?

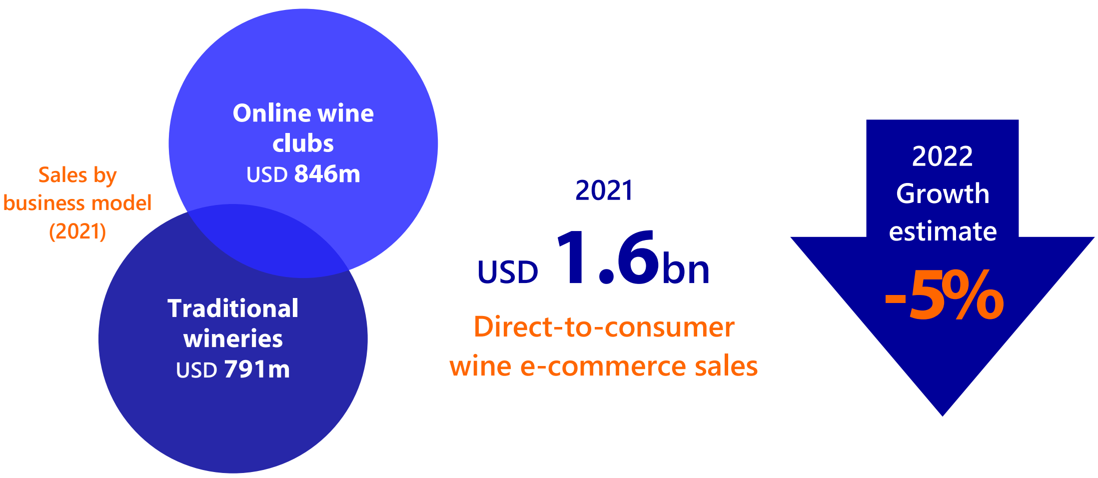
Despite being the single largest source of online alcohol sales, suppliers have long struggled to monitor and influence their brands' performance in the channel. The growing popularity of white-label providers like City Hive are changing that.

Brands and their distributors should work together to educate their retail partners to ensure those retailers understand how a white-label offering could help their business. In fact, brands and distributors should be advising their retail partners to adopt any and all e-commerce solutions that improve transparency and opportunities in the channel, including platforms like Drizly.

Direct-to-Consumer Wine Online

The direct-to-consumer wine market is split into two very different segments. On one side, you have a traditional winery with a DTC program anchored by an estate and a tasting room. Only a small fraction of DTC sales from this kind of winery are executed online. And even then, the classic formula for e-commerce sales – collecting emails from tasting room visitors and sending an email with an offer to buy wine from the website – leans heavily on tasting rooms to acquire customers.

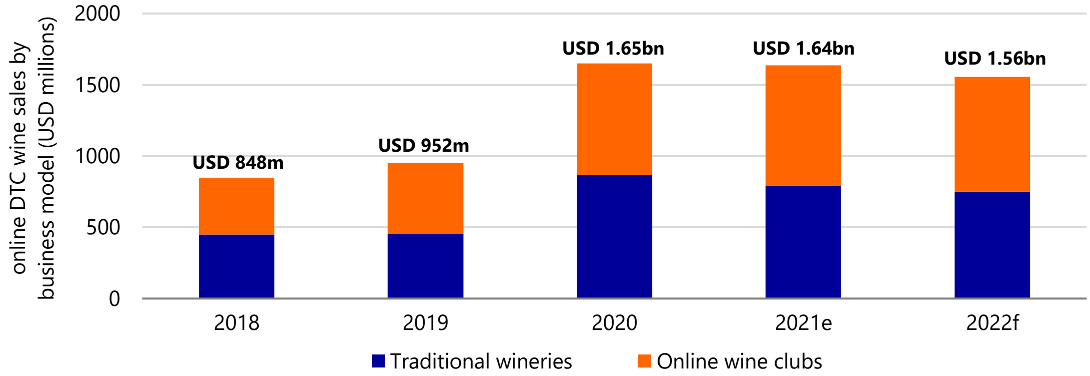
Figure 17: Traditional wineries – slow to adopt e-commerce best practices before the pandemic – drove growth in 2020. Did they learn the right lessons?



Source: Interviews and other industry sources, Rabobank 2021

On the other side are online wine clubs – Naked Wines, Winc, Penrose Hill, and the like. These *are* licensed wineries, but they typically contract out production and bottling to third parties. Rather than rely on tasting rooms like a traditional winery, they tend to use heavy discounting and social media advertising to acquire customers.[28] Virtually all of their business is transacted online, and they are, for the most part, unprofitable businesses.

Figure 18: Online DTC wine sales are 72% larger than they were in 2019, even though tasting room sales are breaking records*

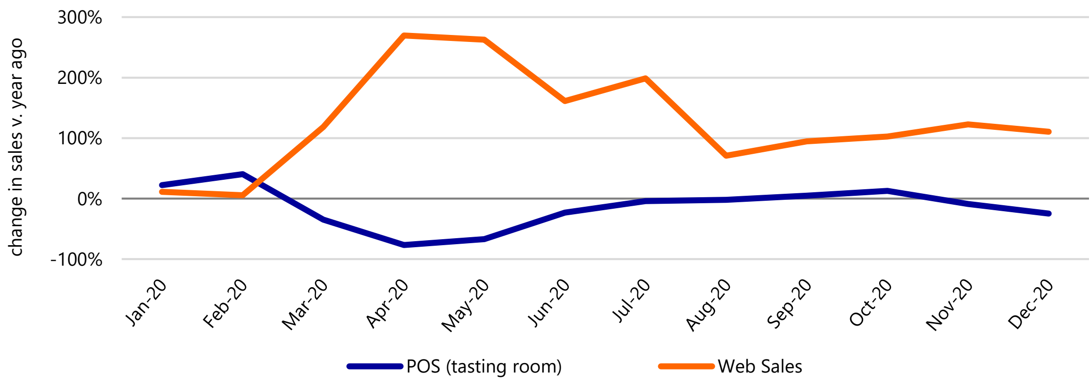


Source: Interviews and other industry sources, Rabobank 2021
*Note: We do not have reliable, comparable data dating back to 2017.

What Happened in 2020?

E-commerce sales for both models saw huge gains on the back of the pandemic. In 2020, online DTC wine sales grew 73%, reaching USD 1.65bn, according to Rabobank estimates, with traditional wineries responsible for 53% of those sales (*see Figure 18*). Counterintuitively, traditional wineries grew e-commerce sales faster than online wine clubs in 2020 (91% v. 57%). While online wine clubs had to acquire new customers on social media, traditional wineries were able to remarket (via email) to people that had previously visited their winery or were already members of their wine club – a good indication they are interested in buying *your* wine. Most wineries just hadn't invested time or resources into their online business before the pandemic, but with tasting rooms shut down (*see Figure 19*), e-commerce sales became a critical lifeline. Thus, the stronger growth for traditional wineries was not so much a testament to their superior capabilities, but a result of past inaction and oodles of unharvested, low-hanging fruit.

Figure 19: Monthly year-on-year change in tasting rooms and winery website sales in 2020



Source: WineDirect, Rabobank 2021

What Happened in 2021, and What's Likely to Happen in 2022?

In 2021, the channel actually contracted slightly, with sales falling 1%, to USD 1.64bn. The decline was largely due to e-commerce sales at traditional wineries dropping 9% YOY as consumers returned to tasting rooms. This is a totally predictable outcome. Similar to the situation with independent retailers, visiting a winery is not a run-of-the-mill transactional shopping trip. It is an experience that consumers cannot replicate online. For their part, online wine clubs, despite seeing negative sales growth during the last three quarters of 2021, eked out 8% growth on the back of strong comparables in the first quarter.

In 2022, we expect this channel to decline slightly, dropping by 5%. While we expect both business models to decline at similar rates in 2022, they will do so for different reasons.

Online wine clubs will be coming out of the single best customer-acquisition environment they will ever see (the pandemic). In 2022, they will face pressure from investors to prove they can be profitable. This will likely lead to a reduction in spending on customer acquisition, which, combined with waning pandemic demand, will cause stagnating growth in 2022 and beyond.

Many traditional wineries still have room to dramatically improve their e-commerce performance by continuing to adopt simple, low-cost best practices (i.e. updating to a modern, wine-specific white-label e-commerce provider like Commerce7 or WineDirect, systematically collecting emails from tasting room visitors, and discounting shipping fees instead of wines to drive conversion). We expect the channel will continue to normalize in 2022 before returning to high single-digit growth in 2023.

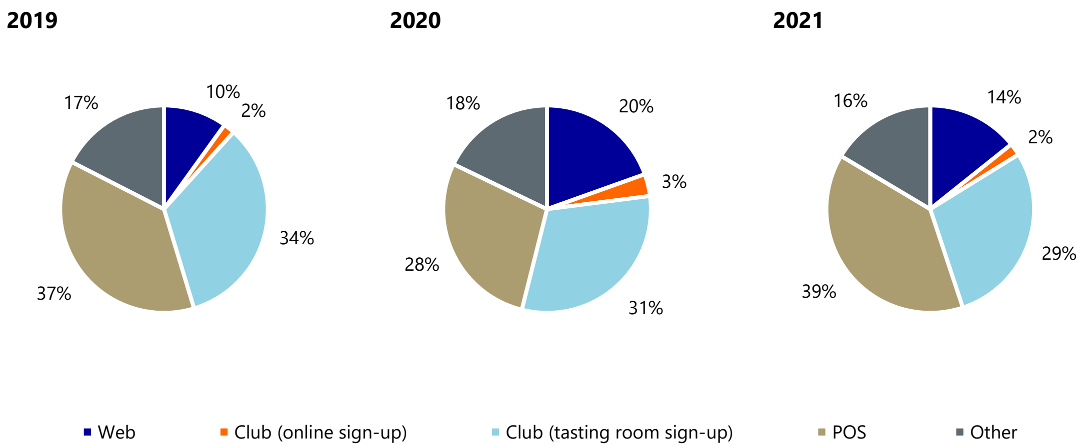
Of course, with sales declining in 2021 and 2022, some wine industry CEOs will be tempted to pull attention and resources from their online business. That would be a big mistake. The fact that online sales remain elevated, even as tasting room sales set records, is a clear indicator that they are incremental. Just as online sales couldn't replace the tasting room experience, these incremental online sales won't be replaced by tasting room visits.

Breaking Down a Traditional Winery's DTC Sales

Rabobank was given exclusive access to anonymized, aggregated sales data from the two largest POS and e-commerce providers in the US, Wine Direct and Commerce7. Combined, they likely have visibility into the DTC sales of nearly 25% of US wineries (mostly on the west coast) and a much larger share of overall sales.

We found that in 2019, 12% of DTC wine sales on these platforms were executed online. In 2020, that number jumped to 23% before settling at 16% in 2021 (*see Figure 20*). In Figure X, 'POS' captures sales executed in the tasting room and 'Other' is a catchall for orders entered into the back-end system by winery employees – likely telephone sales, allocations, events, etc.

Figure 20: DTC wine sales by channel, 2019-2021



Source: WineDirect, Commerce7, Rabobank 2021

It is important to note that data from these platforms is not representative of the overall DTC channel. For example, a 2018 report released by WineDirect showed 83% of their customers produce more than 5,000 cases per year. Only 19% of US wineries produce that much wine,[29] however. Moreover, wineries producing less than 5,000 cases account for more than 40% of the value of DTC shipments.[30]

Rabobank estimates the overall DTC wine channel (traditional wineries only) was worth USD 7.2bn in 2021, growing 16% YOY.[31] That means e-commerce likely represents only 11% of DTC sales, not 16% as Figure 20 indicates.

Of course, it isn't a coincidence that companies enrolling specialized e-commerce services are selling more wine online; wineries both large and small lack the sophistication to build a high-quality e-commerce experience. This underlines the point we made earlier: there are still plenty of wineries that would benefit from upgrading to a modern, white-label e-commerce solution like Commerce7 or WineDirect.

Will Beer and Spirits Be Left out of the DTC Space Forever?

Today, there are just not enough online DTC beer or spirits sales to include those categories in this report, nor any mechanism to measure them. In future versions, that's probably going to change.

Earlier this year, the Distilled Spirits Council of the United States (DISCUS) announced that toppling state bans on DTC spirits shipments was one of their top legislative priorities. This is a big deal. It was not long ago that DISCUS, wary of conflict with distributors, was officially opposed to such law changes. There is no doubt that it will take many years for the spirits industry to reach the same level of market access that wine has, but when it does, the size of the DTC spirits business will be enormous. "You're looking at between… two-and-a-half to three billion dollars," said David Ozgo, Chief Economist for DISCUS, during an interview on our podcast, Liquid Assets. Although, as we've pointed out for wine, most of those transactions won't qualify as an e-commerce sale.

While DTC shipments are a huge opportunity for spirits, the same is not true for beer. The simple truth is that beer is incredibly heavy and incredibly cheap compared to wine and spirits. The average bottle of wine shipped DTC is worth nearly USD 40 and weighs around 2.5lb. A very high-end four-pack of craft beer in 16oz cans costs USD 20 and weighs 4.0lb. It just is not economical.

The Pandemic Unlocked Long-needed Resources, but How Much?

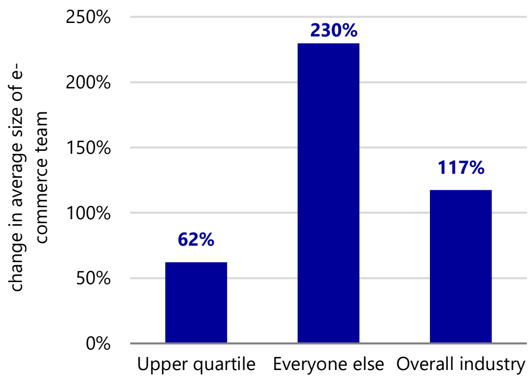
Over the past six months, Rabobank has spoken with e-commerce leaders at over 25 of the largest alcohol companies in the US. In total, we've spoken to suppliers whose combined sales represent over 70% of the US alcohol business. This unprecedented access has given us unique visibility into how alcohol companies have reacted to the pandemic and what it takes to win in the digital world.

In the section below, we share our first set of insights from these conversations on how much e-commerce teams have grown in the past two years. This is only the beginning, though. We will continue using data and insights gathered during these discussions in future installments of the 2022 Alcohol E-commerce Playbook series.

How Much Have E-commerce Teams Grown?

We ended the 2019 edition of our e-commerce playbook with the following warning: "Alcohol companies need to invest more in e-commerce or face the long-term consequences of inaction." Indeed, when the pandemic began, many alcohol suppliers – even some of the largest in the world – had only one or two dedicated e-commerce employees. Some didn't even (and still do not) *have* a dedicated e-commerce team!

Figure 21: How much have e-commerce teams grown since the pandemic?



Source: Company interviews, Rabobank 2021

Externally, senior leaders talked about the importance of e-commerce and innovation, boasting of their industry-leading capabilities and the size of their investment in digital. Internally, however, e-commerce teams at all but a few companies were being starved of resources. "Our leadership talks about it, and they know it is important, but I have to fight tooth and nail for each penny we get," one multinational company's head of e-commerce lamented to Rabobank. Another said they'd spent years "begging for resources," comparing their work to panhandling or non-profit fundraising.

Luckily, the pandemic has unlocked some of those long-needed resources. Rabobank found that the number of FTEs on the e-commerce teams of US alcohol companies increased 117% since the start of the pandemic. However, the companies with the largest e-commerce teams before the pandemic (upper quartile in terms of team size) only saw the number of FTEs increase by 62%, while the rest of the industry saw the size of their e-commerce teams grow by an average of 230% (*see Figure 21*).

Why Investing Early Made All the Difference

As Figure 21 shows, companies that invested heavily in their e-commerce teams prior to the pandemic have grown much more slowly since. We wrote in this series two years ago, "One of the principal responsibilities of an e-commerce team is both internal and external education and evangelism…. As the sales teams and marketing teams internalize these learnings, they will be able to take over many of the tasks that are currently the purview of e-commerce teams."

These early movers had years to map the market, establish dashboards and data sources to monitor their success, and decide where to dedicate resources. They've had time to vet and on-board critical technologies, build relationships with their retailer, distributor, and marketplace counterparts, and most importantly, make sure everyone along the value chain understood their responsibilities in supporting the e-commerce channel.

"Companies that had established their e-commerce strategy and partnerships were able to move quickly when the pandemic hit, reallocating resources from other channels to support and accelerate e-commerce initiatives. For example, we developed a Career Experience rotation where we mobilized 40 on-premise team members to audit digital capabilities and programming opportunities.."

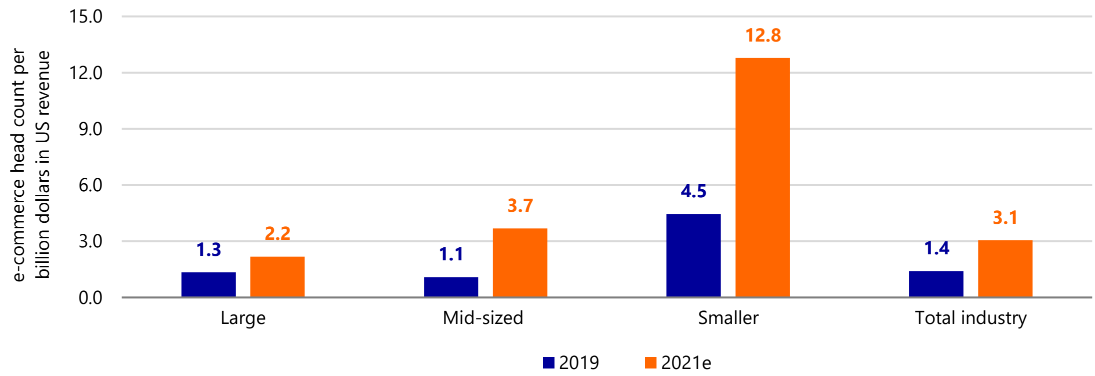
- Cody Rossen, Senior National Accounts Manager, Beam Suntory[32]

An organization that formed a ten-person e-commerce team three years ago is far more capable and efficient than a ten-person team that was formed last year. Organizations that were late to the game are at a distinct disadvantage and must now *overinvest* in their e-commerce and digital teams or else risk falling further behind.

Benchmarking the Size of Your E-commerce Team

In 2021, US alcohol suppliers have, on average, 3.1 dedicated e-commerce FTEs for every billion dollars in topline revenue (*see Figure 22*), with smaller firms having far more FTEs (12.8 FTEs per billion in US revenues) than large and mid-sized firms (2.2 and 3.7, respectively).[33]

Figure 22: Average e-commerce FTEs per billion dollars in US revenue by company size, 2019 vs. 2021*



Source: Interviews and other industry sources, Rabobank 2021
*Note: Categories are based on companies' share of total US beverage alcohol market. Large=greater than 5% market share; mid-sized=1% to 5% market share; smaller=less than 1% market share.

The dynamic shown in Figure 22 is what you'd expect given economies of scale. But we should be clear. The seemingly large investment by smaller companies does not mean they are ahead of the curve. The work of auditing and maintaining product detail pages on retailer websites, tracking performance, resolving out-of-stocks, and developing digitally native content is pretty much the same for a brand with USD 10m in annual sales and a brand with USD 1bn in annual sales. Thus, smaller companies are almost certainly struggling far more than larger companies when it comes to managing their digital operations.

Interestingly, Figure 22 suggests that before the pandemic, it was mid-sized firms that were most dramatically underinvesting in their e-commerce capabilities (this definitely checks out anecdotally). Mid-sized firms have the misfortune of being large enough to have organizational silos and slow-moving bureaucracies, yet too small to have millions in extra cash to throw at emerging challenges. While this may be an explanation, it is not an excuse. Companies of all sizes must continue building on the momentum of the past two years. E-commerce sales will continue to grow. There couldn't be a worse time to take your foot off of the gas.

A Few Reminders for CEOs as They Rightsize Their E-commerce Investment

Senior leaders that use sales alone to guide their digital investment will dramatically undervalue the impact of their e-commerce team. "E-commerce... is not solely a sales channel, but a scaled consumer reach, media, and commerce ecosystem," Wayne Duan told Rabobank over email.

Indeed, e-commerce teams are not merely driving online sales. They create media that drives awareness. They tell stories that deepen the connection consumers have with their brands. They get access to data, like real-time visibility into out-of-stocks, that wouldn't exist if not for the e-commerce ecosystems they helped create. Of course, all of this effort is driving the growth of online sales, but oftentimes, the work of e-commerce teams ultimately has a much larger impact on in-store sales. If e-commerce teams do not have enough resources, their failures will reverberate across every sales channel, online and off. And yet, many e-commerce teams still do not have the resources they need.

Thus, to conclude this installment of the 2022 Alcohol E-commerce Playbook, we've identified four things that senior leaders might forget to consider or might undervalue when determining the size of their digital investment. We hope it helps them justify a proper investment.

Don’t Undervalue Digitally-Influenced Sales

Even when people shop in-store, they are using their phone to compare prices, search expert reviews, and dig deeper into a brand’s backstory and provenance. The quality of a brand’s product detail page on Wine.com can determine whether a consumer buys that brand in-store at a Total Wine & More. “The quality and quantity of information available online and especially on the digital shelf is highly influential in the consumer’s decision-making process,” Wayne Blum, Director US E-commerce Strategy & Partnerships at Diageo, told Rabobank. “Brands who over-deliver with great digital marketing and digital content will be the ones who show up for the consumer researching a purchase or planning around an occasion.”

““Brands who over-deliver with great digital marketing and digital content will be the ones who show up for the consumer researching a purchase or planning around an occasion.”
- Wayne Blum, Director US E-commerce Strategy & Partnerships at Diageo

Creating an impeccable digital presence requires a large investment in people and education. Brands that fail to make that investment aren’t only going to suffer low conversion rates online, their in-store business will suffer too.

These principles of digitally-influenced sales also apply to paid media. As we highlighted in the marketplaces section, it is easier to measure the direct sales impact of paid social or retail media than it is traditional media (the wonders of the digital age!). However, that media is still having an important impact on brand-building, awareness, and trial. It is really hard to measure these things, but they’re immensely important. Alcohol companies have been spending millions on awareness campaigns like billboards and sports advertising for eons. Everyone agrees that stuff works, even though its impact on sales cannot be so easily measured. When it comes to digital media, senior leaders shouldn’t apply a different standard.

Data Is Power Online, In-Store, and Everywhere in Between

As platforms like Instacart, Drizly, and City Hive grow their retail networks, they aren’t only driving e-commerce sales. By integrating into the POS systems of tens of thousands of retailers, they are aggregating and unlocking massive amounts of information that will ultimately create – for those that can pay – a more transparent value chain.

“From a supplier’s perspective, if we can offer senior leadership visibility into out-of-stocks, measure the impact of digitally influenced sales and the incrementality of our retail media spend, we can unlock further investment in resources, technology, and advertising to support our customers and drive growth not only online, but across our entire business.”
- Sara Goucher, Director of E-commerce, Molson Coors Beverage Company[34]

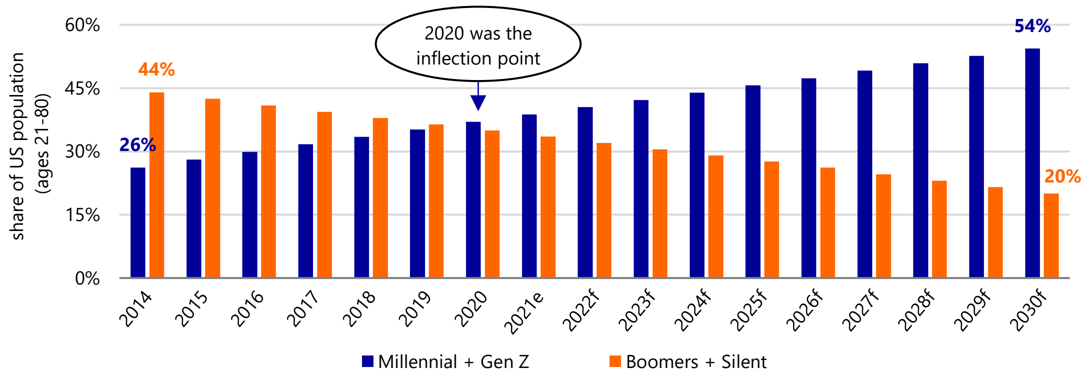
Eventually, brands and their distributors could have real-time visibility into assortment and out-of-stocks. Coordinating with brand teams and distributors to actually put these insights into action is a monumental task, and e-commerce teams are the natural and correct team to take on that responsibility. They need enough people and a broad enough mandate to act on opportunities as they appear, even if the in-store sales are the primary beneficiary of their action.

Lastly, digital media, e-commerce sales, and DTC sales in particular offer companies an opportunity to understand who is buying their brands and why they are buying them. As we explored in a recent report on DTC strategy, e-commerce is revolutionizing the brand development pipeline, allowing companies to test and launch new brands faster, more effectively, and at far lower costs than they did in the past.

Your Future Consumer Is an Online Consumer, We Guarantee It!

Believe it or not, generational change is the most important driver of e-commerce growth in the long term. Over the next decade, as younger millennials and older Gen Z consumers reach their prime spending years (*see Figure 23*), they will push a dizzying share of sales online.

Figure 23: By 2030, millennials and Gen Z will represent 54% of individuals between 21 and 80 years old



Source: US Census, Rabobank 2019

Today, e-commerce represents just over 4% of the USD 150bn off-premise alcohol market. An earlier quote from Constellation Brands' Wayne Duan is worth repeating, "The shift to digital beverage alcohol shopping is here to stay… The beverage alcohol category is up over USD 700m … compared to a year ago, with over 68% of that growth coming from online sales." In other words, an investment in e-commerce is an investment in growing the overall industry.

Additionally, e-commerce offers brands an opportunity to drive awareness and sampling with an audience that is younger, wealthier, and more educated than the general population, i.e. the consumers we are warning you about. Moreover, this is exactly the kind of person that marketers dream of winning early and converting into a lifetime, brand-loyal consumer. As noted earlier, in many cases, younger consumers won't interact with traditional media the same way previous generations did, They're so buried in their phone that they'd sooner walk into on-coming traffic than notice a billboard. Thus, it's probably best to make sure you show up on their phone.

Rome Wasn't Built in a Day

E-commerce teams do not have decades of established best practices to guide their digital strategy. Sales teams, distributors, and retailers have not had decades of working to understand their responsibilities within this ecosystem. Therefore, to operate effectively, e-commerce teams have to map the market, establish dashboards and data sources to monitor their success, and decide where to dedicate resources. They have to vet and on-board critical technologies, build relationships with their retailer, distributor, and marketplace counterparts, and make sure everyone along the value chain understands their responsibilities in supporting the e-commerce channel. It takes a surge in resources to build out this infrastructure and to continue to execute the day-to-day responsibilities of managing online sales.

Most importantly, e-commerce teams will have to break through operational silos to do all that successfully. E-commerce leaders must be given the resources, freedom, and a broad enough mandate to tackle challenges and opportunities as they appear, wherever they appear. "At the end of the day, what matters the most is that the e-commerce teams are equipped and empowered to make decisions quickly." Cécile Peters, Senior Director, E-Business at Moet Hennessy USA, told Rabobank. "The traditional top-down approach cannot work in such fast-changing environments."

What's up Next in the 2022 Alcohol E-commerce Playbook?

Backed by months of work and dozens of interviews, this report represents the most complete picture of the US alcohol e-commerce landscape. Brands, retailers, and distributors can use these insights to benchmark their performance, rightsize their investment in digital, and ultimately build a future-proof e-commerce strategy. However, there is still so much we were not able to cover in this report.

In future installments of the 2022 Alcohol E-commerce Playbook, we will help brands choose which channels they should prioritize to drive their e-commerce business, and share how brands can support their retail and distributor partners and how they can prepare for the business-to-business e-commerce explosion (i.e. Provi, SG Proof, etc.). We will explore what skill sets and team structure are needed for an e-commerce team to be successful, and where successful teams tend to live within an organization (sales or marketing?).

Our next installment in the series, however, may be the most exciting. We will reveal e-commerce leaders' long-term growth expectations for the US alcohol e-commerce business and offer our own estimation for the penetration of online alcohol sales by 2025. Stay tuned!

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[1] Rabobank had previously estimated online grocery sales were USD 295m in 2019. The discrepancy is not so much a consequence of revising our estimates, but in how we categorized sales for Instacart. In our last report, 75% of Instacart's alcohol sales were allocated to the online grocery channel. The other 25% were counted in the online 'alcohol marketplace' segment. Instacart is an unusual business because the consumer shopping experience reflects that of a grocery environment. We estimate that 85% of alcohol sales on the platform come from grocery and food retail stores. Yet, Instacart is also a marketplace, which dramatically impacts the strategy and levers brands can pull to improve their performance on the platform. To deal with such a duality, we took inspiration from quantum mechanics and decided Instacart's status as a marketplace and online grocery player were inextricable and counted them twice. That is, 100% of Instacart sales are included in the online grocery channel and marketplaces channel. Of course, we adjust for this when calculating our estimates for total US online alcohol sales. So, as a warning, be careful not to simply add sales for the online grocery and marketplaces segments, or else you will count Instacart sales twice and ultimately overestimate the size of the market.

[2] i.e. making sure as many stores in their network were able to sell diapers, carrots, milk, 'eggs cetera.'

[3] It also didn't help that, due to tied-house laws, retailers couldn't tap alcohol suppliers – as they do for other CPG companies – for marketing revenue (i.e. retail media).

[4] Georgia may have legalized delivery in 2020, but the legislation requires municipalities to enact ordinances before it is allowed. Will be a slow burn.

[5] Source: Instacart company press release

[6] This is *without* online sales from Bevmo! and Liquor Barn – just Gopuff.com and the Gopuff app.

[7] Despite Gopuff's success, there are a thousand, nay, a million reasons to be skeptical of the long-term potential for similar startups like Gorillas and JOKR. There is a lot of investment flowing into the space, but I doubt profit will ever flow out of them.

[8] As quoted by Shanken News Daily

[9] Remember Instacart is DOUBLE-counted in this report – they're included in both online grocery and the marketplaces section.

[10] In 2018, we did an analysis of each category on Drizly across ten markets and found that a basket of beer listed on Drizly was 30% more expensive than an identical basket at a Total Wine in the same markets (our control). The markup for wine was 13% and for spirits it was 12%. It's important to remember that Drizly does not set prices for products on their marketplace in most markets.

[11] Tied-house laws are a set of rules that severely limit the direct financial relationship that alcohol manufacturers and alcohol retailers can have with one another.

[12] Drizly used to sell bundled marketing packages, but since adopting CitrusAd earlier this year, it has been transitioning to a bidding system.

[13] A taxonomy menu is the ready-made list of categories that websites create to help consumers find what they are looking for. If you were shopping for clothes, a drop-down menu might list "men" at the top with subcategories such as "pants" and "shirts," as an example.

[14] Instacart only began offering this kind of optionality for alcohol in early summer 2020.

[15] The value of sales enabled by marketplaces is referred to as gross merchandise value (or GMV as we refer to it throughout this section). Retailer fees and supplier marketing are the main revenue sources for these companies – actual revenue, not GMV.

[16] Alcohol companies with at least 1% marketshare in their respective categories.

[17] If the supplier makes 33% margins selling to a wholesaler, then the wholesaler and retailer each add a 33% markup. Then, 12.8% of the final retail price (the average share of GMV invested by suppliers on Instacart) represents 69% of a supplier's margin.

[18] Besides awareness-building, of course.

[19] Apparently Drizly – and most other platforms – will not populate their marketplaces with products that do not have a UPC, which disproportionately impacts smaller, more premium suppliers. Mike Fisch, Director of Innovation at Gary's Wine & Marketplace, one of New Jersey's largest alcohol retailers, wrote on Twitter that "about 85% of wines in our stores have UPCs."

[20] "We are spending USD 100,000 on a national marketing campaign to support our brand on Drizly. If you don't have it in stock or on your shelf, you can't benefit from those marketing dollars," is a powerful sales pitch to a retailer.

[21] https://www.csnews.com/7-eleven-instacart-partner-30-minute-delivery

[22] Some industry sources have suggested that, if it were not for the recent 7-Eleven partnership, the size of Drizly's retail network would have declined in recent months.

[23] Basically the 'Google Shopping' of online alcohol.

[24] If you include tax.

[25] This is not a completely good-faith example. Pennsylvania shut down in-store sales for an extended period in 2020, which forced many people who would never shop online to purchase alcohol from the state's website – basically, what the pandemic did for many people but at a much larger scale.

[26] As well as a suite of other services, like automated CRM programs, marketing packages, and loyalty programs.

[27] In essence, they operate on the same principles as Drizly. Once the white-label provider integrates into a retailer's POS system, they control the entire retail experience. And most importantly, the retailer – hypothetically – wouldn't profit either directly or indirectly from promotional spending on the platform.

[28] They, of course, use a variety of marketing techniques to acquire customers (e.g. mailers).

[29] Wines Vines Analytics.

[30] Sovos ShipCompliant's "2021 Direct-to-Consumer Wine Shipping Report."

[31] When sizing the DTC wine market, most people point to the annual Direct-to-Consumer Wine Shipping Report produced by Sovos ShipCompliant in collaboration with Wines Vines Analytics. The topline revenue number from that report – USD 3.7bn in 2020 – only represents an estimate of the value of wine that is *shipped* DTC in the US. Thus, it does not capture tasting room sales, allocations, or wine bought by phone or online and collected via curbside pickup. It is often misunderstood to represent the entire DTC wine market. Only about half of the DTC wine business is ultimately shipped to the consumer. Also, people often confuse direct-to-consumer with e-commerce sales. The vast majority of DTC wine shipped in the US is not an e-commerce transaction.

[32] Quote gathered from interview with Rabobank.

[33]Total supplier revenues, not just e-commerce.

[34] Quote gathered from interview with Rabobank.

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