US Online Alcohol Sales Reach USD 2.6bn

The 2020 Alcohol E-Commerce Playbook

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Summary

Rabobank estimates that US online alcohol sales reached USD 2.6bn in 2019, growing by 22% YOY. Alcohol sales in online grocery and alcohol marketplaces, the most important channels for future growth of the industry, grew by 115% and 60%, respectively. Despite the strong growth of e-commerce sales, the penetration of the online alcohol category remains abysmally low, and alcohol's share of food-and-beverage spending drops by 88% online, compared to its share of wallet in brick-and-mortar stores. The industry must take assertive action to address the challenges facing alcohol e-commerce. A failure to act could have profound consequences.

Alcohol brands are losing billions of dollars in online sales opportunities every year, and they are missing a critical opportunity build digital relationships with millions of omni-channel consumers. If alcohol companies are not able to effectively participate in the online ecosystem, e-commerce could become a wedge that separates alcohol brands from their consumers.

We have produced robust estimates for the total value of the US online alcohol market, but we must offer them with a warning: companies cannot base their investment in e-commerce solely on the value of online sales today. A brand's online presence plays a critical role in driving sales in more traditional channels. Beverage companies must consider digitally-influenced sales, the future size of the alcohol e-commerce market, and the annual value of lost sales opportunities when deciding how much to invest in their e-commerce operations. Actual sales are only the tip of the iceberg.

Only a few forward-thinking organizations seem to understand this fact and are investing enough in their e-commerce capabilities. We want to help the rest of the beverage industry and their executives understand the urgency of building their e-commerce capabilities now.

Online grocery | sales: USD 295m

- Supermarkets and other general food-and-beverage retail outlets that offer online alcohol sales
- Grew 115% YOY in 2019
- Top Players: Instacart, Walmart, Kroger, Albertsons, goPuff, Amazon-Whole Foods
- Sales in the channel are approximately 50% wine, 40% beer, 10% spirits

Alcohol marketplaces | sales: USD 265m

- Marketplaces provide a platform for liquor retailers to sell online. They are not retailers and do not hold a liquor license
- Grew by 60% YOY in 2019
- Top Players: Drizly, Instacart, Vivino, Minibar Delivery, ReserveBar, Thirstie
- Sales in the channel are approximately 55% wine, 15% beer, 30% spirits

DtC wine online | sales: USD 950m

- Wine sales processed through a winery website and shipped direct-to-consumer without the involvement of a distributor
- DtC wine sales grew by 9% in 2019
- Top Players: WineDirect, Copper Peak Logistics, Commerce7, Naked Wines, Winc and 10,000 wineries
- We believe that the total DtC wine market is actually worth USD 5.5bn to USD 6.2bn

Online liquor stores | sales: USD 1.1bn

- Pure-play liquor retailers with a website
- The most mature channel in online alcohol. Unlocking growth will require more capital, consumer awareness, and consolidation
- Top Players: Wine.com, Total Wine & More, BevMo!, and Binny's Beverage Depot.
- Category Breakdown: 90% wine, 10% spirits – the discrepancy is driven by laws restricting spirits shipments

Introduction

In the first four sections of this report, we break down 2019 sales for the four most important e-commerce channels (*online grocery*, *alcohol marketplaces*, *direct-to-consumer wine,* and *online liquor stores*). We also review the most important developments of the past 18 months, the ongoing challenges, and future growth potential for each channel.

Later in the report, we compile insights and advice from e-commerce leaders across the food and beverage landscape for a section we are calling, ***Hey Beverage Executives! Here's What Your E-Commerce Teams Would Like you To Know***.

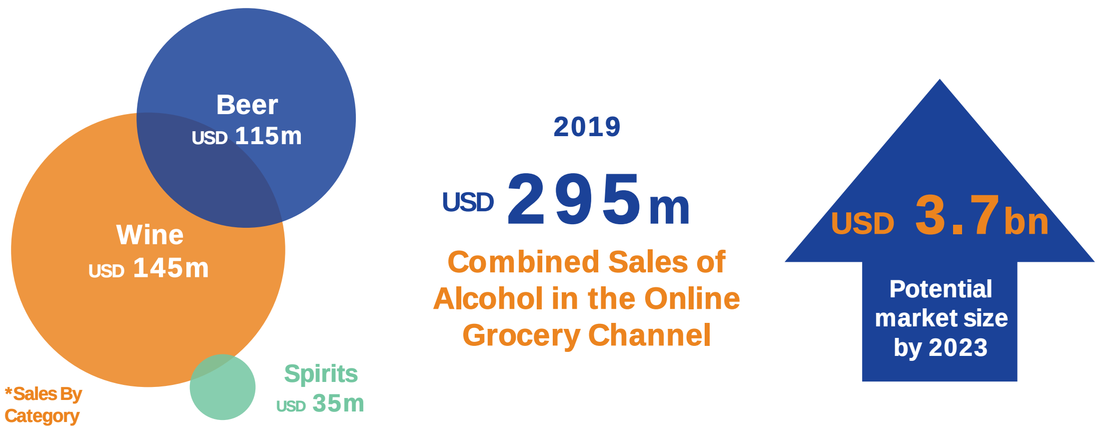
We are concerned, however, that even if they understand the problems and opportunities of e-commerce, most alcohol companies are not investing enough in their e-commerce team. In the last section of this report, ***A Final Warning To Beverage Industry Executives***, we make a final attempt to convey the urgency of investing more in e-commerce now. As the head of e-commerce from a major alcohol company told Rabobank: "It is hard to play catch-up with everything moving so quickly."

This report will help beverage companies and their executives build a foundational understanding of the beverage alcohol ecosystem, identify the needs of their e-commerce teams, and highlight the most pressing challenges facing alcohol e-commerce in the US.

Ultimately, our goal is to help our clients in the beverage alcohol industry solve the problems emerging in the e-commerce world. This report establishes the groundwork for future publications in which we take a deep dive into each e-commerce channel and give specific and actionable insights into how beverage companies can grow their e-commerce business. Together we are calling the series 'The 2020 Beverage Alcohol E-Commerce Playbook.'

Online Grocery: The Sleeping Giant Wakes… Kinda

In our report, The Times They Are E-Changin', we estimated that online alcohol sales in the grocery channel (online sales from supermarkets, supercenters, warehouse clubs and sales from grocery stores through Instacart)[1] were worth USD 87m in 2017. While small at the time, we predicted that supermarkets would "develop into the most important driver of online alcohol sales." That prediction has proven correct. Sales in the channel have more than tripled over the past two years and are now worth approximately USD 295m. In 2019 alone, online beer sales in grocery grew by more than 120%, wine sales grew by just under 100%, and spirits grew by nearly 150%!



Source: Rabobank 2019

While this would seem like cause for celebration, serious problems persist in the online grocery channel. Despite its triple-digit growth, alcohol's share of online grocery revenues was less than

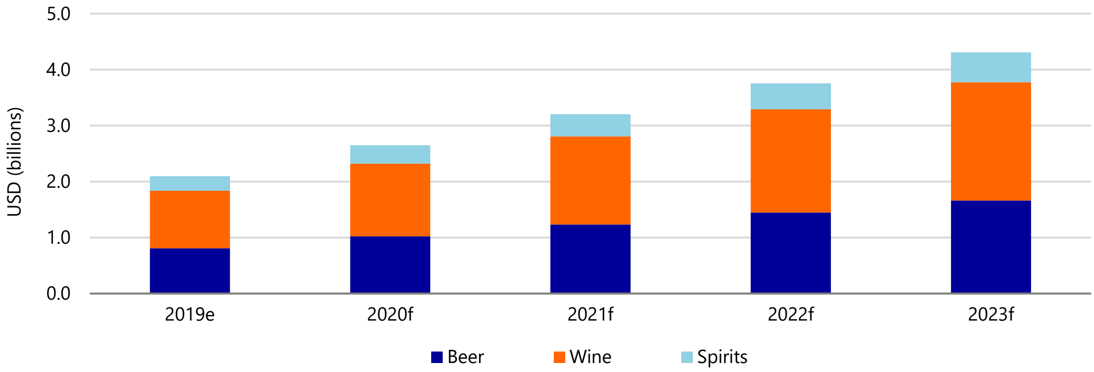
1% in 2019 – far lower than its 5% to 6% share of in-store revenues. Supermarkets are responsible for approximately USD 15bn in beer sales, USD 14bn in wine sales, and USD 7bn in spirits sales per year.[2] If alcohol companies and their retailer partners aren't able to fix the problems responsible for alcohol's underperformance, problems will only worsen as more consumers move their grocery spending online.

Online Grocers Missed out on USD 1.5bn of Alcohol Sales in 2019

If alcohol's 'share of wallet' online matched its 'share of wallet' in-store, grocery stores would have sold USD 1.8bn of alcohol in 2019. With more than 10% of grocery sales expected to move online over the next four years, grocers risks losing USD 3.7bn per year in online alcohol sales by 2023 (*see Figure 1*). Most of those alcohol dollars will shift to other channels or other retailers, but the greatest risk to the industry is that consumers could forego purchasing alcohol altogether.

This is an especially frustrating outcome because the online/omni-channel grocery consumer is wealthier, more educated, and more urban than the in-store-only grocery consumer. All these demographic factors are correlated with higher alcohol consumption,[3] suggesting that alcohol's 'share of wallet' online should be larger, not smaller, than its share in-store. (For more on this topic, see last year's report: Supermarkets Poised to Lose USD 3.9bn in Annual Alcohol Sales by 2022.)

Figure 1: Lost alcohol sales in the online grocery channel, 2019e-2023f



Source: Rabobank 2019

Fresh categories, which also under-index in the online grocery channel, struggle because consumers want to touch and hand-select their produce and meats. Alcoholic beverages, on the other hand, are shelf-stable and of uniform quality, making them ideal for online sales. In fact, data shows that when consumers shop online, the non-alcoholic beverage category more than doubles its share of wallet. This leads us to believe that the losses shown in *Figure 1* represent the lower bounds of potential annual losses for the channel. The reality could be a lot worse.

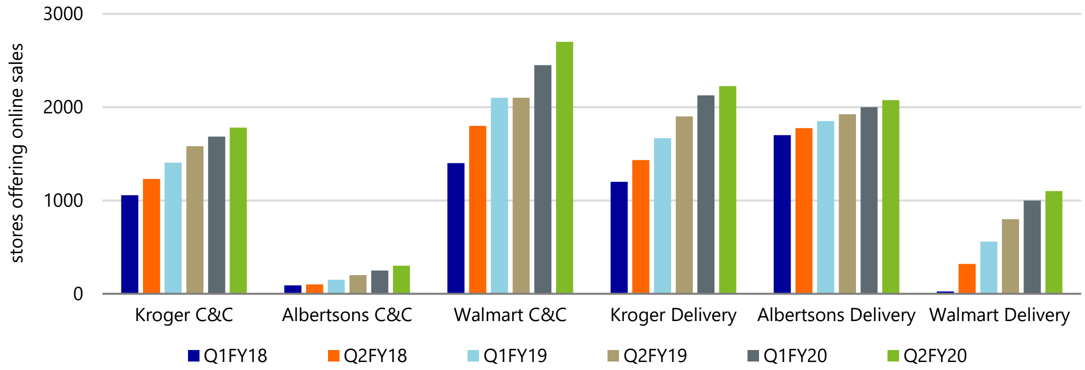
What's the Drag in Online Grocery?

Grocery retailers understand the importance of a robust alcohol program. For example, grocery leaders surveyed by Progressive Grocer in 2018 named alcohol as the fourth most important category for driving sales behind produce, private label, and meat. Furthermore, according to data from Nielsen and IRI, alcohol sales have grown faster than any other grocery category over the last five years. So, why are alcohol sales so far behind the rest of grocery when it comes to online sales? Here are three explanations:

Risk-Averse Retailers Have Been Slow to Activate Alcohol

The main reason that alcohol sales are lagging other food-and-beverage categories is simple: many grocers aren't selling it online. Grocery retailers have been focused on building the minimum viable product (MVP) required to sell products like deli meats, carrots, and diapers – expanding their footprint, building fulfilment capabilities, and activating channels for promotional revenue (*see Figure 2*). They have not been willing to delay their expansion in order to navigate the complex patchwork of state alcohol regulations.

Figure 2: Number of stores offering online orders by fulfilment ('click and collect' and delivery), Q1FY18-Q2FY19



Source: company websites, press releases, and quarterly reports, Rabobank 2019

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. Walmart, for example, offers grocery delivery from more than 1100 locations, but only 18% (200 locations) offer alcohol delivery.[4] Costco, the largest wine retailer in the United States, did not start selling alcohol online until October 2019 – at the time of writing, they launched online alcohol sales with Instacart in California.

We estimate that the fulfilment of alcohol purchases via 'click and collect' (C&C) is legal in 39 states (~90% of the US population), and third-party delivery is legal in around 30 states (~80% of the US population). Even though outright bans of online alcohol sales are not a major barrier to growth, state laws can still be very complicated. Suppliers and distributors should encourage regulators and state legislatures to create straightforward and unambiguous rules that offer clarity to retailers, remove unreasonable barriers to fulfilling online orders, and continue to protect public health.

"By leveraging technology, we believe we can improve the shopping experience for our category."

-Karen Mizell, Director of E-Commerce Sales, E. & J. Gallo

Buying Alcohol Through Online Grocery is Purely Transactional… It Should be Experiential

Grocery retailers are treating alcohol like chopped liver. We mean that literally. They sell alcohol much in the same way they sell toilet paper, apples, or say, chopped liver. Last year, we surveyed the websites of all the major grocery retailers in the US to understand how they are managing the alcohol category online, and it wasn't pretty. Forget about experiential product pages, tasting notes, and third-party ratings. At the time of the survey, not one major retailer allowed consumers to search their alcohol assortment by price. Things have hardly improved over the last 18 months.[5]

Consumers Don't Know it is Available

In a summer 2018 study, Constellation Brands found that 65% of online grocery shoppers living in areas where buying alcohol online is available were not aware that buying alcohol online was even an option. Alcohol companies cannot pay for banner ads and landing pages on supermarket websites to draw attention to the category, but retailers have long invested heavily in drawing consumer attention to the category in-store. Alcohol is a high-margin and high-value product (wine and spirits, anyway). It increases basket size, the number of consumer trips, purchase frequency, and customer retention. Retailers shouldn't need third-party spending to promote the category. It is a no-brainer.

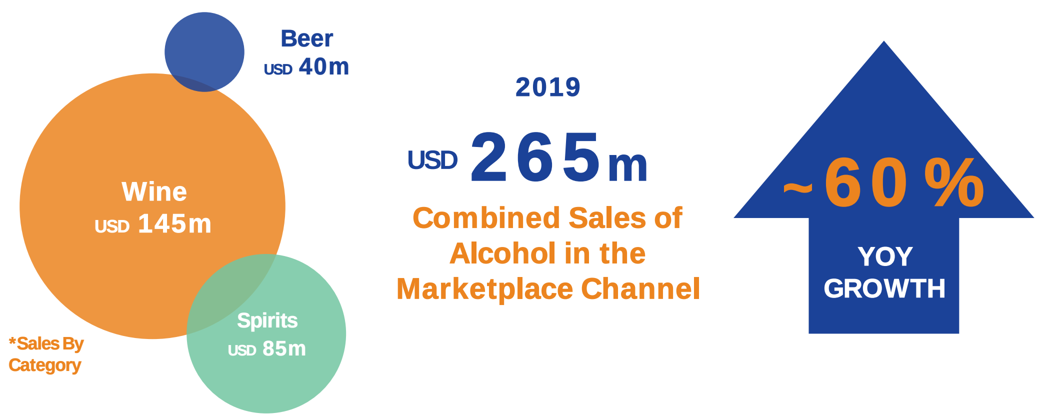
How to Solve the Problems in Online Grocery

With retailers focused on promotional revenues to recoup the margins they lose on fulfilment, alcohol companies are facing a unique problem: how do they get the retailer's attention if they can't buy that attention? The answer is quite simple: make yourself useful. We will release another report in early 2020, in which we take a deep dive into how exactly suppliers and distributors can start to solve the problems plaguing alcohol in the online grocery channel.

Online Alcohol Marketplaces Create a Call to Action

In last year's e-commerce report, we called this channel "on-demand." We decided to drop that description, however, because orders on marketplaces are actually fulfilled in many ways – traditional shipping, one-hour delivery, scheduled delivery, and 'click and collect'. Drizly is the market leader in this channel, followed by Instacart and Vivino. The other important players include Minibar Delivery, Reserve Bar, Thirstie, and Saucey, followed by a long tail of much smaller companies.

According to Rabobank estimates, the marketplace channel has grown from USD 100m in 2017 to USD 265m in 2019. Marketplaces, unlike retailers, do not own any product and instead provide a platform where actual retailers can sell alcohol online. Because they are not retailers (*nor do they have a liquor licence*), most of the startups operating as marketplaces are not subject to tied-house laws. This means brand owners can direct traffic to these marketplaces and spend promotional dollars to boost their products.[6] The channel's unique regulatory status has become a critical asset for brand owners that goes far beyond generating sales opportunities. This channel has created new pathways for brands to gather consumer data and build awareness for online sales on the back of their websites, digital ads, and social media feeds. Suppliers are investing heavily to support their brands in this channel. We see this as a strong indicator that this channel will continue to grow at a double-digit pace over the next five years. We think it could easily reach USD 1bn in sales by 2023.

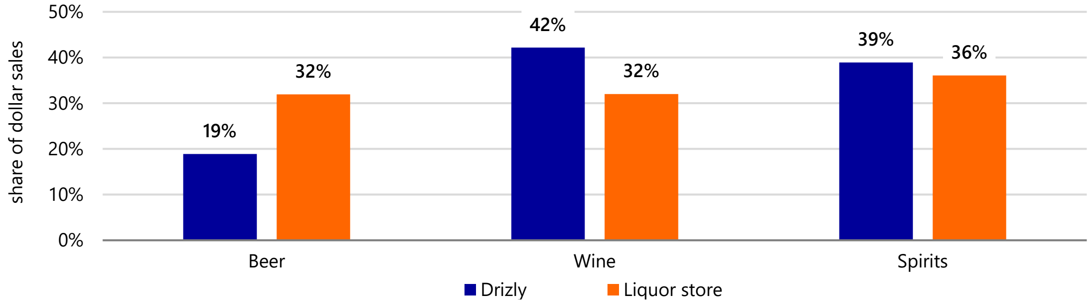


Source: Rabobank 2019
Important clarifier: Sales from Instacart are included in both the grocery and the marketplace channels. On the Instacart platform, about two-thirds of alcohol sales come from grocery retailers and one-third come from pure-play liquor stores. Only sales from liquor stores are included in our estimate for the marketplace channel.

Breaking Down Sales in the Marketplace Channel

The top players in this channel (Instacart, Drizly, and Minibar Delivery) are essentially digital storefronts for pure-play liquor stores. If you ignore sales on Vivino, which only sells wine, the breakdown of sales in the marketplace channel looks a lot like that of a liquor store but with an e-commerce twist (*see Figure 3*). Like the grocery channel, the people shopping on digital marketplaces are far younger, wealthier, more urban, and more educated than the general public. It makes sense, therefore, that the share of beer sold on this platform would be lower than the share of beer sold in brick-and-mortar liquor stores. Sales on Minibar Delivery and Instacart look very similar to Drizly but with a slightly larger share of sales going to wine.

Figure 3: Share of sales by category on Drizly vs. liquor stores (in-store)



Source: Drizly, BW166, Euromonitor, Rabobank 2019

Interestingly, the average order from a liquor store on Instacart (USD 90) is much larger than the average order on Drizly (USD 65). This is likely because Instacart almost exclusively partners with large liquor store chains, offering thousands of SKUs. A consumer on Drizly, which partners with many independent stores, would have to order from multiple retailers to create the same basket. This translates to smaller orders per store, multiple deliveries, and, well, multiple delivery fees.

No Dead-Ends on the Path to Purchase

At this year's GroceryShop conference, Carolyn Brown, Head of E-Commerce North America at AB InBev, told the audience that her team is working to ensure there are no "dead-ends" for their brands when it comes to e-commerce. This means every digital asset must be connected to a patch to purchase – that includes company websites, digital ads, and social media. Marketplaces provide the infrastructure that allows e-commerce teams to realize this lofty goal. This strategy has an impact along two important dimensions:

- It drives e-commerce sales
- It builds awareness among consumers, helping them realize that they can buy alcohol online.

How Coors Light Created a New Path to Purchase, Call to Action, and a New Source of Consumer Data, All at the Same Time

Here is an example of how brands are using marketplaces to create new paths to purchase. The team at Coors Light has launched their own e-commerce site, get.coorslight.com, where consumers can get Coors Light delivered in less than an hour through either Minibar Delivery or Drizly. Here is an example of the company pushing traffic to the site on Twitter. Sales are not the main driver for companies creating websites like get.coorslight.com or LVMH's Clos19, which uses technology from a company called Thirstie. Instead, they allow brand owners to direct traffic to a website where they can track consumers' path to purchase and collect data on their behavior on the platform. We'll discuss this topic further, as well as other ways alcohol companies can grow the marketplace channel, in a follow-up article that will be released in early 2020.

Future Growth for Marketplaces

With the availability of alcohol expanding rapidly in the online grocery channel, the marketplace is facing new competition that could tame the growth rate that they've enjoyed in recent years. Unlike supermarket websites, which have the advantage of drawing an audience that is already buying groceries online, marketplaces like Drizly and Minibar Delivery will have to distinguish themselves through exceptional product selection, footprint, and service. This will be easier for spirits, which, in most states, are not permitted for sale in grocery stores.

DtC Wine Sales Are Actually Worth USD 6bn

E-commerce is responsible for USD 950m of sales in the direct-to-consumer (DtC) wine market, growing approximately 9% YOY.[7] In our previous report, The Times They Are E-Changin', we estimated that the online DtC market was worth USD 410m in 2017. Those numbers are not directly comparable to our latest estimates due to methodological changes (we previously ignored online wine club registrations) and the fact that we significantly underestimated the size of the total DtC market. More on that below.

The vast majority of online DtC wine sales comes from consumers who previously visited a tasting room and later purchased wine or signed up for a wine club on the winery's website. In addition, companies like Naked Wines and Winc also operate in the DtC channel. These digital-first companies are essentially wine clubs with a winery license. Even though their operations have more in common with private label than they do a traditional winery, it is notable that these innovative e-commerce platforms (Winc, Naked Wines, etc.) are not being developed by wineries themselves. One explanation is that the large wine companies – the only players with the capital or expertise to create an innovative platform like Naked Wines – are wary of potential conflicts with wholesalers and retailers and have decided not to focus on DtC sales.

Source: Rabobank 2019

For most smaller and mid-sized wineries, however, DtC sales are a critical source of revenue, but due to their size, most wineries have struggled to expand their e-commerce reach beyond consumers who have previously visited their tasting room. This will be the most important skillset moving forward. Tasting room traffic, especially in premier wine-producing regions, is reaching maximum capacity, putting a damper on the number one driver of DtC sales. To make matters worse, wildfires are becoming a more frequent problem and can cause serious disruptions to tourism, even when they aren't directly affecting wine country in California.

The Key to Winery E-Commerce Is Mostly Email Marketing and Affordable Shipping

In part because the players are small, e-commerce in the DtC wine business is more about email marketing than innovative tech. At this stage, many wineries could vastly improve their business simply by adopting best practices for their e-commerce operations. WineDirect, which operates fulfillment centers, POS systems, and e-commerce platforms for wineries, found that, among their clients, 20% of wineries accounted for more than 89% of e-commerce sales. What were they doing differently? They collected lots of emails and charged *way* less for shipping. Of course, there is so much that wineries could do with their email lists (personalization and geofencing, for example). We've worked closely with the most innovative teams and companies operating in the DtC wine space, and we will be sure to publish more insights on this topic in the coming months.

Why the Wine Industry Is Dramatically Underestimating DtC Sales

Every year, Sovos and Wines Vines Analytics publish the annual Direct-to-Consumer Wine Shipping Report[8], and last year they estimated that USD 3bn worth of wine was shipped DtC. Many people in the wine industry and media believe this USD 3bn estimate represents the value of the entire DtC market, but the estimate from Sovos and Wines Vines Analytics does not include tasting room sales or event sales. Shipped wine accounts for a little more than half of all DtC sales.

How did we come to this conclusion? Earlier this year, WineDirect analyzed more than USD 1bn in transactional data from 1,000+ US wineries. They found that, on average, around 47% of US winery direct sales went through channels that are typically shipped – website sales (10%), wine clubs (37%). Furthermore, tasting room visitors often buy a case of wine and then have the winery ship the case to their home – a fine alternative to lugging 15kg of wine through airport security. Telephone sales are also typically shipped and likely account for 3% to 5% of DtC sales. Taken together, we estimate that 41% to 48% of DtC sales are never shipped, and therefore, never registered by the Direct-to-Consumer Wine Shipping Report.

Thus, with DtC wine shipments set to exceed USD 3.2bn in 2019, we estimate that there are an additional USD 2.3bn to USD 3.0bn of DtC wine sales sold in tasting rooms and events. That means that the overall DtC wine market was worth USD 5.5bn to 6.2b in 2019.

Figure 4: Why the DtC Wine Market is Worth USD 5.5bn to USD 6.2bn

Source: Rabobank 2019

Online Liquor Stores: 'Old School' Alcohol E-Commerce

E-commerce sales generated through this channel were worth an estimated USD 1.1bn in 2019. Similar to the DtC wine market, our most recent estimates for the online liquor store channel are *not* directly comparable to those from our previous report. New data and some changes to our model have led us to believe that we underestimated the size of this channel by ~12% in our last publication, The Times They Are E-Changin'.

The online liquor store channel exists for a simple reason: high-end wine consumers (and, increasingly, spirits consumers) are not satisfied by the limited selection of their local bottle shop. There are thousands of liquor stores in the United States that sell alcohol online. Unlike marketplaces, retailers in this channel sell alcohol through their own website. In some cases, orders are shipped across state lines (often illegally), but local delivery and pickup are also important.

Source: Rabobank 2019.

What We Know About the Online Liquor Store Channel

The online liquor store channel is fragmented, largely due to restrictions on interstate shipping. This makes measuring the channel incredibly difficult. It also makes it hard for brand owners to control their brands or influence consumer experience in the channel. Our estimate of 1.1bn has a huge margin of error. Whether the channel is worth USD 600m or USD 1.6bn, however, our message is the same. It is really big, and, for high-end wine and spirits brands, it is important. Here are three data points that will help readers understand this channel.

The Average Price for a Bottle of Wine Sold in the Online Liquor Store Channel Is Very High

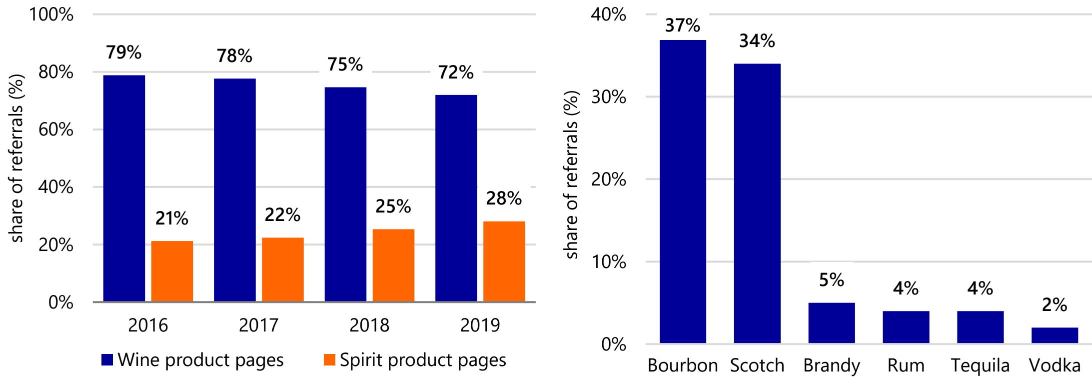
As we've already mentioned, this is the go-to channel for the high-end wine and spirits consumer. In the US, the average off-premise price for wine is USD 10.83, according to bw166. The average price for wine sold through the online liquor channel is between USD 20 and USD 30 per bottle. For spirits, the average bottle price is even higher.

There Is Huge Latent Demand to Buy Brown Spirits Online

The laws for selling and shipping spirits are much more restrictive than they are for wine, and this is one reason that wine dominates the online liquor store channel. That does not mean consumers aren't *trying* to buy spirits online, however. Wine-Searcher is a search engine that connects consumers with online wine and spirit retailers – basically the 'Google Shopping' of online alcohol. When a consumer searches for a product on Wine-Searcher, they are presented with a list of offers from various online retailers. If a consumer clicks on an offer, they are redirected to the product page of that retailer's website. Retailers pay Wine-Searcher for these referrals.

Since 2016, the number of referrals for wine on the Wine-Searcher platform have grown by 1%. Referrals for spirits grew by 47% over the same period (*see Figure 4*). Spirits are now responsible for 28% of the traffic sent to retailer websites from the Wine-Searcher platform. E-commerce is responsible for 50% of K&L Wine Merchant's spirits business – almost all of which is single-malt scotch. This trend also helps explain why Wine.com has started selling spirits in select markets.

Figure 5: Share of referrals on Wine-Searcher, wine v. spirits (left); Share of spirits search by category (right)



Source: Wine-Searcher, 2019

The Courts May Start to Shake Things Up

The recent Supreme Court decision in Tennessee Wine & Spirits Retailers Association v. Thomas could have a dramatic impact on the future development of this channel. If the courts eventually make a Granholm-like decision for retailers (those states that allow retailers to ship in-state must, in turn, allow out-of-state shipping too), 65% of the US population would be allowed to buy wine – and sometimes spirits – from out-of-state retailers. Right now, the share of the US population living in a state that legalized marijuana (28.69%) is virtually identical to the population living in states that permit out-of-state wine shipments from retailers (28.65%). You can't make these things up.

The Future of the Online Liquor Store

Restrictive interstate shipping laws have made it virtually impossible to consolidate the online wine retail channel the same way, say, Amazon did for books. Wine.com, which sold more than 40,000 SKUs in the US over the past 12 months, can offer no more than 15,000 SKUs in any given market due to these shipping laws. They need six fulfilment centers to do so.

Retailers like K&L Wine Merchants, Astor Wines & Spirits and Sherry-Lehmann have managed to gain a national following among a certain set of very high-end wine and spirit aficionados, but only one active player in today's market is positioned to help the channel realize its full potential: Wine.com (2019 sales are estimated at USD 145m). Total Wine & More and Amazon have yet to make major investments in an online alcohol business that would disrupt the status quo in this channel. Without a major change to the competitive landscape, Wine.com, with its wide selection, national footprint and Amazon-prime-like shipping program, is well-positioned to start consolidating market share. This is already happening: even as the growth in the channel is flat, Wine.com continues to grow at 15%-20% YOY.

At a fundamental level, Wine.com's business should be much larger than it is today. But unless more capital starts flowing into this channel to accelerate consolidation, consumers will be confronted with the paradox of choice, not for choosing wine, but choosing a wine retailer.

Hey Beverage Executives! Here's What Your E-Commerce Teams Would Like You to Know

In writing this report, our team has worked closely with e-commerce teams from a wide range of beverage companies – both alcoholic and non-alcoholic. Our discussions revealed that the most innovative e-commerce teams face similar challenges and share a common outlook for the future of the industry.

We've taken the four most important themes from these conversations and presented them below. If you are a beverage company executive, there are some things your e-commerce team think you should understand.

What's the Biggest Challenge: Content Management

Even with something as fundamental as content management – basically the product packaging of the internet - many e-commerce teams struggle to get the resources they need create content and to onboard the technology required to organize and distribute that content to retailer websites. Companies could be forgiven for not understanding how many resources and how much time it takes to get this right, but it is inexcusable to ignore the problem.

The head of one large e-commerce team recently told Rabobank that if a brand wants to update content on a grocery retailer's website, "it is a multi-month project every single time." Another individual working on the e-commerce team of a large spirits company added that "service providers often lack the capabilities needed" to properly manage and distribute their brand content to retailers. Well-capitalized e-commerce teams solve this problem by working with two or three, or more, technology providers just for product information management (PIM). Most companies, however, only have one PIM provider or simply send brand content in a spreadsheet over email.

Beyond distributing content, e-commerce teams have to create content to each retailer's unique specifications. Another beverage company's head of e-commerce complained to us that "Half of the time the [brand] teams don't understand the need for creating e-retail content."

"Content is so important… In most cases, we cannot pay for search or promotions, so great content is the key driver of sales for online alcohol."

– Sheldon Kail, Dir. E-commerce Solutions, MillerCoors

On our podcast in 2018, Wayne Duan, VP E-commerce at Constellation Brands, explained the consequences of not properly managing your brand's digital shelf. "If you don't have a good product image or if there's a typo… it's a huge leap of faith to expect a consumer to say 'you know… I don't really understand what it is, but I'm gonna buy it anyways.'" It is not only e-commerce sales that brands are losing when they don't get online content right, however. Bad content online can hurt in-store sales too.

What CEOs Need to Understand Better: Digitally-Influenced Sales

Most executives think that the sole purpose of building out a digital presence for their brands is to drive e-commerce sales, which drastically underestimates its relevance. The *vast* majority of food and beverage purchases, even among online shoppers, are made in brick-and-mortar stores. But when consumers go to a physical store, the digital landscape has a profound influence on their purchase decisions.

Forrester Research found that the value of in-store purchases directly influenced by the internet were ten times greater than the value of e-commerce sales themselves. In an omni-channel world, brands have less control of where and how consumers interact with their brands, so at the very least they can make sure that their brand looks great everywhere. This means democratizing brand content, making it easier for retailers and consumers to see the most accurate, beautiful and up-to-date images and campaigns. After you finish this report, we encourage you to do a Google Image search for your brand. You'd better be proud of what you see because that is a good proxy for what consumers see too.

"E-commerce... is not solely a sales channel, but a scaled consumer reach, media, and commerce ecosystem."

– Wayne Duan, VP E-commerce, Constellation Brands

Where E-Commerce Teams Want to Be in Ten Years: Obsolete

At this year's GroceryShop Conference, Wayne Duan[9] told the story about the original CEO: Chief Electricity Officer. When new technology emerges, companies have to create a specialized team to learn how best to adapt and capitalize on the disruption it creates. Eventually, like electricity, e-commerce should become such an engrained aspect of day-to-day business that having a stand-alone e-commerce team would be redundant.

This means that one of the principle responsibilities of an e-commerce team is both internal and external education and evangelism. One e-commerce manager told Rabobank that their team imposed a strict rule to never meet with a retailer without a member of their sales team being present. Their goal is to familiarize members of their sales organization with what is required to be successful in e-commerce. 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. In the long term, e-commerce teams will evolve into digital innovation teams or digital centers of excellence within their organizations rather than focus on managing things like brand content.

A Unifying Philosophy: Never Stop Being a Consumer-Focused Company

Many of the conceptual components of building brands in e-commerce are the same as in any other channel. Just because e-commerce requires more technical knowledge, companies cannot stop being laser-focused on one thing: their consumer.

Being a consumer-focused company does not require a degree in computer science – it requires empathy. Empathy is what allows e-commerce teams to understand consumer behavior, identify the most urgent problems impeding a great consumer experience, and fight for the resources to fix them. Lastly, 'for the consumer' is a battle cry that can unify retailers, wholesalers, and suppliers around a common goal so they can work together to overcome the hurdles to a seamless and delightful e-commerce experience.

A Final Warning to Beverage Industry Executives

Rather than offer a conventional conclusion, we want to end this report the same way it began: with a warning. Alcohol companies need to invest more in e-commerce, or face the long-term consequences of inaction. Many alcohol suppliers – even some of the largest in the world – have only one or two dedicated employees focusing on e-commerce.

Executives may point to the current size of the online alcohol market, their inability to spend promotional dollars on retailer websites and the complicated patchwork of state regulations to rationalize their lack of investment in e-commerce capabilities. But we feel it is precisely because of these hurdles that industry leaders must take action and invest appropriately to develop the alcohol category online.

In the short term, these problems are leading to billions of dollars in missed sales opportunities across e-commerce channels. So, rather than measure e-commerce as an opportunity for incremental revenue (i.e. actual sales), it should be considered an urgent matter of revenue protection and protecting consumer trips for retailers and brand-owners alike.

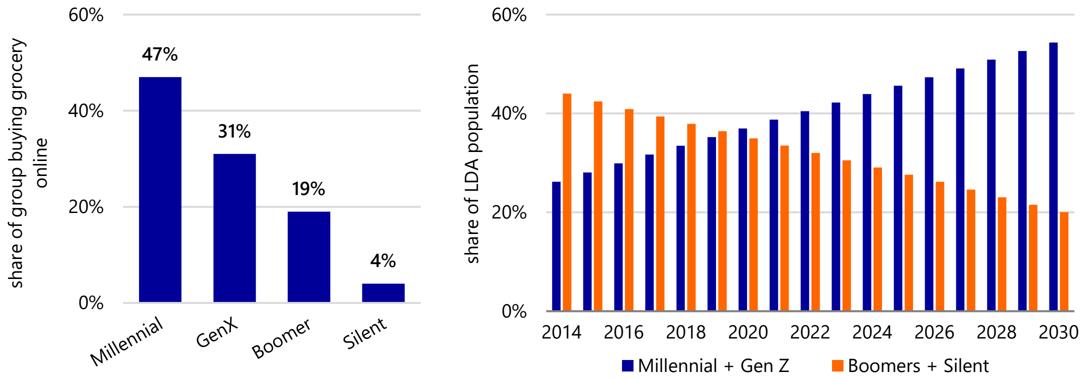
"Some companies invest ahead of the curve… others will underinvest, as they see growth in e-commerce as 'natural' and investment isn't seen as necessary"

- E-commerce Manager, Large CPG Company

Failure to act now could also have serious long-term consequences. Every year, millions of consumers start shopping for food and beverage products online. These freshly-minted omni-channel consumers are creating new shopping habits and developing new brand relationships in the online world. If the alcohol industry does not act quickly, their brands will be left out of this important relationship-building process. In essence, e-commerce could become a wedge separating alcohol brands from their consumers.

Perhaps most concerning is that online grocery shopping is being driven by millennials and Gen Z, groups that the alcohol industry is already struggling to attract (*see Figure 5*). Alcohol companies can ill afford to lose another important touch point with young consumers.

Figure 6: Penetration of online CPG purchasing by generation in 2018 (left); Shift in share of LDA population, 2014[10]



Source: FMI, US Census, Rabobank 2019

An online ecosystem with a healthy alcohol program provides ample opportunity for incremental growth. The research conducted by Constellation Brands that we cited earlier in this report indicates that when consumers start buying alcohol online, their overall (omni-channel) alcohol spend increases by nearly 10%. Unfortunately for the industry, the limited availability of online alcohol offerings, restrictions on fulfilment and suboptimal retail websites have turned what should be a boon for the industry into one of its greatest challenges.

We understand that many of the factors that make it difficult to grow the alcohol category online are seemingly out of the industry's control, but the industry cannot docilely accept the challenging hand it has been dealt. The track record for companies that chose inaction in the face of digital disruption is not good. To quote one more head of e-commerce from a major alcohol company, "It is hard to play catch-up with everything moving so quickly." We hope you heed our warning: Act now or fall behind.

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[1] One outlier we decided to include in this channel is Gopuff. Gopuff is essentially the Fresh-Direct of convenience stores. Founded in 2013, the Philadelphia-based startup already sells nearly as much alcohol online as Albertson's. Most people have not heard of them, but that will change quickly – James Harden definitely thinks so, anyways.

[2] Estimate calculated from the following sources: Bw166, euromonitor, FMI.

[3] They also help explain why wine over-indexes in the online grocery channel.

[4] Walmart issued a press release on October 30 "toasting" a milestone: 2000 Walmart stores across 29 states offer online alcohol sales for pickup (about 75% of stores offering grocery pickup). They have not expanded alcohol delivery offerings nearly as quickly.

[5] On the product page for one of Walmart's own private label wine brands, there was a header in the product description reading "special features." Under the header sat a single word: "melon."

[6] Promotional revenues represent the majority of income for most of these marketplaces. The total value of product moving through a marketplace is referred to as Gross Merchandise Value (GMV), and should not be confused with revenues for the marketplace itself.

[7] While there are DtC e-commerce sales for spirits and beer, the market is so small and data so scarce that the segment does not warrant inclusion in this report.

[8] The data for this report comes from Shipcompliant, a company that helps wineries manage the byzantine patchwork of state shipping and licensing regulations. As an overwhelming market leader, they are able to monitor a huge volume of shipping transactions – likely more than 75% of such transaction in the US. For this reason, we consider their estimates to be highly reliable.

[9] Yes, the same Wayne Duan quoted earlier in the piece

[10] Sorry for ignoring you again, Gen Xers!

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