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# Beverages in the Time of Covid-19

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## **RaboResearch**

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## Initial Impacts of Covid-19 on the US Beverage Industry

The first cases of coronavirus in the US were recorded in January 2020, but the dramatic changes in consumer behavior did not begin until March. Events, travel, schools, and professional sports have come to a standstill, and there are widespread bans on dining in restaurants and bars in many cities and states.

We have put together this update to help readers identify how Covid-19 could impact the industry, keep abreast of evolving government responses and key shifts in consumer behavior, and offer best practices and valuable insights on how beverage companies are working to mitigate the impact of Covid-19.

We understand things are changing rapidly, but this is how we see impacts to the beverage industry right now.

## Alcoholic Beverages

**Off-premise:** Off-premise sales are growing significantly as consumers stock up, and e-commerce channels are doing particularly well. As part of the stock-up, initial evidence suggests that consumers are looking for larger formats and lower-priced products, and we expect some benefit to more mainstream, commercial brands at the expense of high-end premium/luxury brands.

**On-premise:** Restaurant closures will impact all beverage alcohol categories (now mandated in 35 states). Some states and districts (NY, MD, DC, et al.) are waiving restrictions and allowing bars and restaurants to deliver alcohol, though this will likely have little impact. The on-premise channel sells about USD 10bn of alcohol per month. If the ban on sit-down dining lasts two months (perhaps at a very minimum), the channel would likely see at least USD 15bn, likely closer to USD 20bn, in lost sales for alcohol alone. Categories that skew to the on-premise, (e.g. tequila) may feel the impact disproportionately.

**E-commerce:** E-commerce is exploding across the industry. NakedWines had to “pause taking new orders while we work to ensure we meet existing consumers’ expectations.” Drizly reported that sales from new customers are 500% higher than they were only weeks before and sales from repeat customers increased 125%. Similarly, Wine.com saw sales triple last weekend (March 14-15). For brand owners, perhaps this is the wake-up call they needed to start investing resources in e-commerce.

**Lost occasions:** The loss of numerous on-premise consumption occasions (St. Patrick’s Day, March Madness, etc.) and at-home consumption occasions (birthdays, dinner parties, etc.) will likely impact total alcohol consumption.

**Wineries:** Wineries are set to see a dramatic drop in tasting room sales. Data shared with Rabobank indicates that winery tasting room sales were down 40% during the first two weekends in March, compared to the February average. There has been no reported increase in direct-to-consumer (DtC) wine sales.

**Craft brewers:** Craft beer (specifically small and independent) will be massively impacted by loss of brewpub sales. A survey from The Brewers Association shows its median member expects a 60% volume decline (NOT a volume-weighted average) in March, and only 10% of respondents think they will avoid layoffs. Taprooms will likely see similar losses in revenues (as a share of total) as those of the on-premise accounts. Brewers with wider distribution in off-premise retail will be least affected. Unlike wine, beer does not have the option for out-of-state DtC shipping.

**Craft distillers:** Similar to small brewers, craft distillers' reliance on the tasting room could cause extreme economic strain.

**What is an essential business?:** Pennsylvania has shut down all state-run liquor stores. Alabama has shut down a third of their own. Many states do not allow spirits sales in grocery stores. This could seriously impact wine and spirits companies and benefit beer.

## Non-Alcoholic Beverages

**Stocking up:** Supermarkets are seeing record sales as consumers stock up on 'essentials.' Growth is particularly strong for 'healthier' beverages, such as water, isotonic, coffee, and tea. There should be little disruption if consumers move to online purchasing.

**On-premise:** In general, non-alcoholic beverage occasions are less social than those for alcoholic beverages. Thus, out-of-home beverage consumption is more easily replaced by at-home consumption. This could also suggest a potential shift towards at-home machines; single-serve coffee or soda-stream type appliances could benefit.

**Coffee:** Falling foot traffic – a result of people working from home – and in-store seating bans are having a profound impact on coffee shops, particularly those without broad distribution in retail or a strong DtC business (which will benefit). Small coffee shops face similar challenges to craft beer, though online sales and to-go offerings remain much more viable for coffee than for beer. Layoffs are already being announced across the industry.

## Strategic Responses by Beverage Companies

Discussions with industry contacts suggest companies are taking numerous measures to respond to the current crisis:

- The number one concern across the industry is to protect employees, with people working from home where possible. Stay safe out there!
- Companies are shifting personnel from business units with slack demand (on-premise/events) to units with high demand (off-premise, e-commerce) as much as possible.
- Some states are waiving rules restricting on-premise alcohol sales for off-premise consumption, and alcohol trade organizations should push to ensure these laws become permanent.
- Craft brewers/distillers, coffee shops, and restaurants are lobbying to ensure they are included in any stimulus package.
- Wineries are stepping up outreach to consumers to compensate for lost tasting room sales.
- Companies are drawing down revolving loans to preserve cash flow.
- Companies are promoting at-home consumption occasions ("St. Patrick's at home").
- Industry players are maximizing efforts to avoid further supply chain disruptions (i.e. production or warehouse functions shut down due to Covid-19).

## Longer-Term Risks/Concerns That We Will Be Watching

The current situation is having a profound impact on current operations, but is also likely to have long-term consequences. The questions we will examine include:

- If we assume this will lead us into a recession, how deep and long-lasting will it be?
- How will the decline in the stock market value affect spending by retirees?
- Could the current shock disrupt longer-term trends, such as premiumization?
- What will the on-premise recovery look like?

### **Conclusion:**

The current situation is extremely fluid, but we will continue to provide regular updates.

# Imprint

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