Webinar Series

April 3, 2020

Wine Market Council

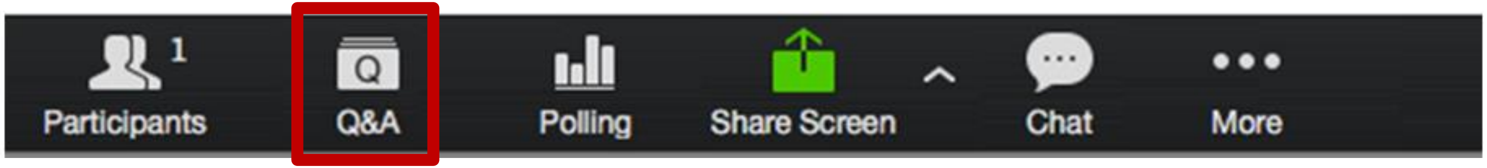
- Information sourced from two previous studies
  - On-line Shopping Study - 2018
  - Changing Retail Landscape – 2018

- We don’t have answers to all your questions
  - On-premise business unlikely to be the same medium to long term
  - On-line shopping has exploded-likely to hold medium to long term
  - Current retail trends are not sustainable
  - Will stock up purchasing lead to increased consumption?

- Christian Miller & Danny Brager

We Want to Hear From You

- Ask Questions during the webinar
  - Jennifer Pagano is monitoring
  - If we don’t get to your question now, we will follow up



- Let us know what you think dale.stratton@winemarketcouncil.com

- We will post this webinar and Christian and Danny's presentation decks in the member section of our website winemarketcouncil.com

Covid-19 Era: What does past research tell us about the current retail disruption?

Christian Miller,
April 2020

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Outline

- ✓ BACKGROUND
- ✓ SHIFTING RETAIL
- ✓ HIGH FREQUENCY WINE CONSUMERS ONLINE
- ✓ NIELSEN ON CHANGES IN SALES & SHOPPING IN THE BEVERAGE ALCOHOL CATEGORY
- ✓ KEY LEARNINGS & COPING
- ✓ Q & A

Background

Economic

- ✓ UNEMPLOYMENT: HUGE - 6.6M filing last week (on top of 3.3M week before) and that doesn't include many gig/contractor/independents! And a lot more on the way.... But WHO is filing, and are they wine drinkers? That partly determines impact on demand.
- ✓ FINANCIAL STRESS: move to liquidity and safety. Impact on loans & credit lines?
- ✓ PSYCHOLOGICAL STRESS: Tendency to freeze may impact trade buyers, wholesale. Short term has opposite effect on consumers, but medium term?
- ✓ DISTRIBUTION: Some channels nearly shutdown – cruise, airlines, banquet/catering vaporized. On-premise generally very restricted. Wine Tourism (i.e. tasting rooms) severely impacted. Off-premise operating under unique conditions; impact variable by channel.
- ✓ ONLINE: Major shift in communications and purchasing to online vehicles for wine.
- ✓ FISCAL STIMULUS: Safety net repairs; low/no interest loans...

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Covid-19 Timeline

Disease	PHASE 1. News, warnings, first cases	PHASE 2. Cases soar, SIP orders, closures	PHASE 3. Cases & severity increase	PHASE 4 Plateauing & decline	AFTERWARDS
Consumer Behavior	limiting public activity, increased shopping	Frantic pantry stocking. Drinking?	Sheltering; drinking?	slow emergence vs. big party?	back to normal or New Normal?
Off-premise store	initial stocking +20-30%*	SALES SPIKE +50-66%* Trading down?	Lull or increased baseline of consumption?	Slow emergence (see 2009-10?)	back to normal or New Normal?
On-premise	Slowing -10-35%*	Closures, minimal business except delivery -60-70%*	Survival, weeding out, delivery	Check post 2008 or NYC post-9/11?	back to normal or New Normal?
Tasting Rooms	Slowing -20-50%*	Closure or minimal -50-70%*	minimal/adapting?	slow emergence	Back to normal or New Normal?
Online	Growth	SALES SPIKE Virtual and delivery +170-800%* Wineries +20-62%*	???	Back to normal or new normal?	Back to normal or New Normal?

*change in sales reflects a range of numbers from scan data, press &company reports, not measured total market sales Source: Full Glass Research

Background of Two WMC studies

- ✓ CHANGING RETAIL LANDSCAPE July 2018:
  - 1,000 consumers, 50% high frequency/50% occasional wine drinkers who drink wine at least once a month (ergo skewed somewhat HF vs. population)
  - 57% female (vs. 52% for wine drinking population), age within WMC norms
  - 66% live in multi-outlet states, 27% in liquor store only, 7% in control states
- ✓ ONLINE SHOPPING November 2018
  - 1,203 consumers from the Wine Opinions national panel, representing high frequency and high involvement consumers (86% drink wine more than once/week; 21% buy $20+ wines at least monthly)
  - Geographically dispersed per HF consumers, skew higher income, 16% under 40, 38% 60+, 43% female

Retail Channels, Off- & Online (50/50 High Frequency/Occasional)

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Retail Best Channel By Occasion

Best Channel for…

(Among respondents who live in multi-channel states, based only to those who shop that channel)

% who shop this channel:	*80%*	*44%*	*30%*	*49%*	*29%*
Where you…	FOOD	MASS MERCH	WINERY DIRECT	WINE STORE	ONLINE RETAILER
Buy wine at the best price	**52%**	27%	14%	22%	12%
Buy your best quality wines	29%	9%	**50%**	**49%**	10%
Find the best wine selection	**36%**	15%	17%	**59%**	16%
Find it most convenient to shop	**67%**	22%	10%	19%	15%
Buy wines for special occasions	**36%**	15%	31%	**53%**	10%
Easiest to find what you want	**52%**	18%	15%	**45%**	19%
Most enjoy shopping for wine	**41%**	13%	**41%**	**43%**	20%

Source: Wine Market Council Retail Study 2018

Why Shop Online?

Letters indicate channel advantage
S = retail stores
V = virtual retail
W = wineries

Ranked Reasons Choose to Shop Online vs. In Person (Base: buy wine online AND in person)

		Ranked 1	Ranked in top 3
?	Convenience of the shopping experience	20%	52%
?	Better price on the type of wine I want to buy	19%	50%
?	Availability of the specific wines I want to buy	18%	48%
S	The convenience of having wine delivered	16%	43%
S, V	A wider range of wine choices	14%	43%
W	Access to information about the wine or winery	7%	28%
?	More convenient to chat online with staff than in-person	6%	20%

Base: n = 272

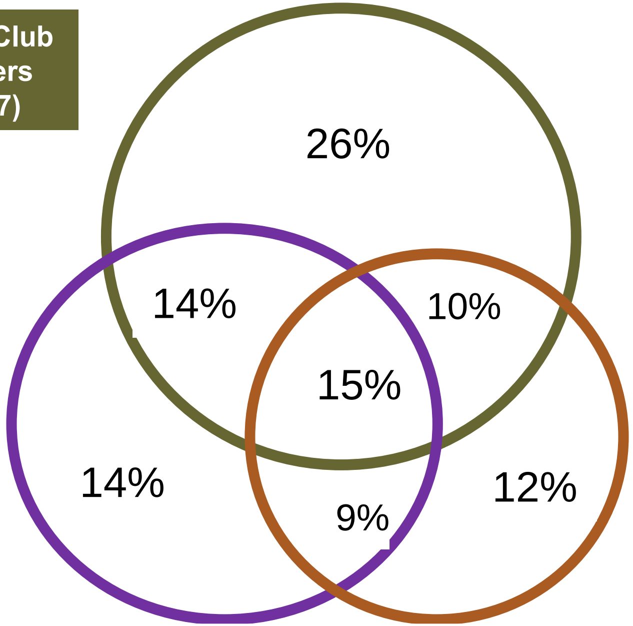
Online Shopping: 3 Sub-channels

Channel Crossover (number of respondents)

NEW CUSTOMERS

Advantages?

Winery Club Members (n=447)



Virtual Retail Customers (n=357)

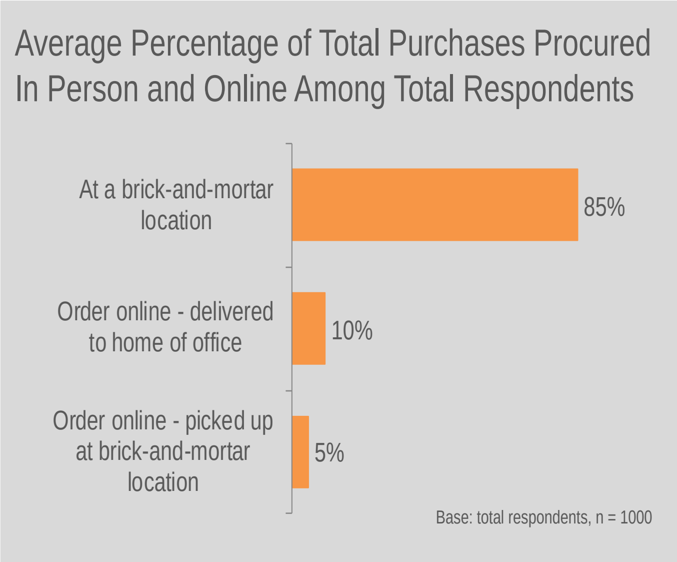
Search Advantage

Bricks and Mortar Online (n=320)

Most obvious substitute

	% of Total
1 source	52%
2 sources	33%
All 3	15%
TOTAL	100%

Who was buying online?



Who was not buying online?

Age	
20s	58%
30s	45%
40s	69%
50s	78%
60s+	86%

Source: Wine Market Council Retail Study 2018

Unplanned Purchases

23% on online shoppers “often”

and

53% “sometimes” make unplanned purchases online.

Unplanned Online Wine Purchase Prompts

(Base: often/sometimes browse and make unplanned purchases)

	Majority Grocery	Majority Liquor Store	High-Ends
A favorable review by another customer	58%	47%	61%
A favorable rating or review by a critic or wine authority	42%	50%	52%
A favorable review by the retailer	8%	43%	58%
You discovered a wine that was discounted or on promotion	83%	50%	26%
The wine was featured or prominently displayed on a website	42%	30%	35%
An online chat with staff	0%	27%	38%

Direct to Consumer & Online Wine Purchasing
(Wine Opinions Panel)

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Past-12-Month Online Wine Purchases and Club Shipments by Channel

Only 30% of Ad Hoc buyers aren't club members. What % of your customers/mail list aren't club members? Underdeveloped for sales?

70% are wine club members

Base: total respondents, n = 1203

A closer look at non-club winery website buyers

- ✓ More likely to buy online "regularly" than club only members (53% vs. 37%)
- ✓ More likely to buy from online virtual retailer (46% vs 37%) or online from bricks n mortar stores (44% vs. 30%) than club only members
- ✓ More frequent purchasers of $30+ wines (83% several x year vs. 74% clubbers)
- ✓ Almost as likely to have visited wineries in the previous 12 months (76% vs. 82%) or attend events (56% vs. 62%) and purchase wines there (71% vs. 75%)
- ✓ In contrast <u>only 36% of club members made an ad hoc purchase </u>directly from a winery visited within the past year.
- ✓ Club members consider ratings from other customers helpful (45% vs 28%), critics/medals (55% vs. 41%) and flavor descriptions (67% to 58%). Non-clubbers are more likely to think technical information about how the wine was made helpful (58% to 45%)

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Why some consumers don't buy wine online:

Reasons Do Not Buy Wine Online

(Do not buy wine online or haven't in the past year, n = 473)

	% don't buy online	
Like to browse in person	60%	65%
Shopping in person is more convenient	39%	
Can discuss wine with staff	39%	
High cost of shipping/delivery	36%	54%
Being home for delivery difficult	26%	
Can't receive winery deliveries in my state	13%	
Unsure if can receive winery deliveries in my state	11%	
Wines too expensive	10%	
Don't think wines I buy are available online	5%	
Didn't know could purchase directly from a winery	1%	

Why some don't buy wine from Winery Websites:

Reasons Don't Buy Wine Through Winery Websites (Base: haven't bought wine via winery website and answered question, n = 228)

	% non-winery website shoppers
High cost of shipping/delivery	57%
Wine bought through winery too expensive	22%
Difficulty being home to sign for shipment	28%
Happy with selections available near where live	26%
Prefer to buy wine in person	29%
Can't receive wine from wineries due to state law	11%
Unsure if legal to receive wine from wineries in my state	6%
Thought you had to be a wine club member to buy wine online	4%

62% Barrier

44% Opportunity?

17%

Covid-19 removes these

Key Points

- ✓ Pantry stocking is real. The shift online is real.
- ✓ But all online shopping isn't the same (Virtual vs. Bricks n Clicks vs. Winery):
  - ➢ there are important consumer differences by sub-channel
  - ➢ each sub-channel has strengths and weaknesses
- ✓ The new wave of shoppers buying online will be different. Requires reassessment of winery tactics.
- ✓ Your club members are your safety net. Your non-club contacts or local customers or contacts are your insurance.

COPING & RANDOM THOUGHTS

ONLINE DOES NOT JUST MEAN WINERY SALES – you have competition. Consider your strategy to:

- Pick up your direct share of the new wave of online buying OR participate in the other online channels
- Compete for more casual consumers and occasions
- Virtual tastings and other outreach – Goals? Execution!

DtC - Tasting Room business is closed or very limited. That leaves:

- Club: this is your safety net, needs extra care. Vulnerable in recession.
- Non-club listers: these can be your incremental sales, don’t ignore them. What do they want?
- Local/regional club members and TR regulars. ID them from your CRM system

3 TIER: Everyone is shifting to off-premise.

- Monitor depletions tightly – cannot afford OOS, you’ll lose shelf space.
- Help and support your best retailers (check depletions data). Consider switching some of your online outreach to quality time with the trade.
- Bricks n Clicks or Virtual Retailers – if you can’t beat them, join them.

WINE IS NOT GOING AWAY

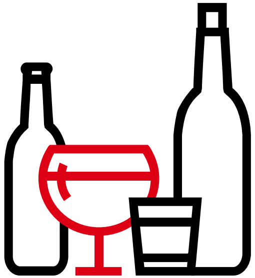
COVID-19 & BEV ALC

Nielsen Beverage Alcohol Practice (BAP)

April 3, 2020 Update

Wine Market Council

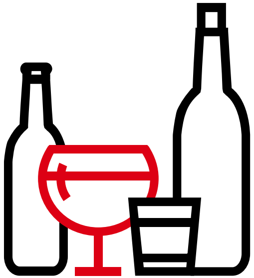
I'm giving up drinking for a month.



I'm giving up drinking for a month.

Sorry, bad punctuation.

I'm giving up. Drinking for a month.



COVID-19 & BEV AL

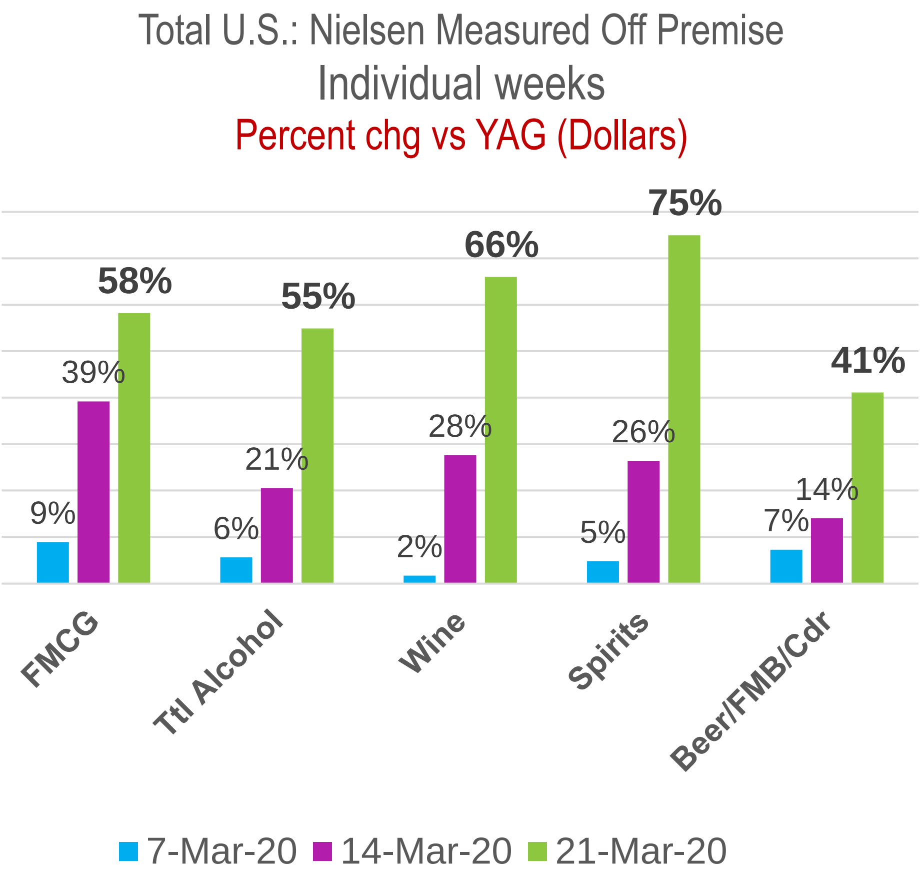
- Bev Al is a closely watched sector given its cross-channel impacts
  - -ve to broad Hospitality/On Premise sectors
  - +ve to Off Premise
  - +ve to OnLine

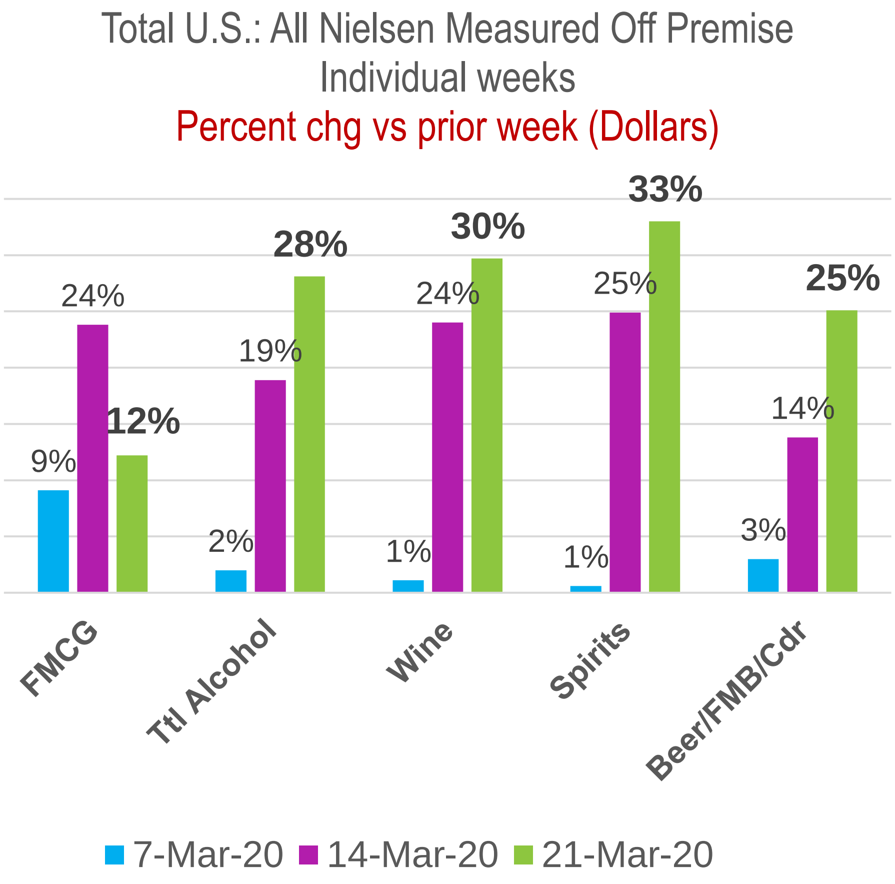
- How are consumers reacting to such a drastic/dramatic change to our normal way of life? Today? Today?

- On Premise represents roughly 20% of Bev Al volume/Off Premise is 80%
- Say the On Premise business is down -90%, that means the Off Premise would need to grow by almost +18% to just get back to 'flat' volume
  - On Premise: .2% x -90% = -18 pct pts
  - Off Premise: .8% x +23% = +18 pct pts
- Consumer spending will almost assuredly fall given the much higher markups On Premise

Rapid shuttering of tasting rooms/bars & restaurants very difficult for many, especially those who are highly dependent upon these channels, and without a strong DtC presence and capability

COVID-19 – SALES IMPACT





STUNNING NUMBERS..

- Incredible amounts of Alcohol sold w/e March 21, 2020 relative to what's normally sold in an average week for the last year
  - Was 2nd biggest week for Wine (after week of X-Mas); equal to week of Thanksgiving
  - Was 2nd biggest week for Spirits (after week of X-Mas)
  - Ws 2nd biggest week for Beer (after week of July 4)

- Hard Seltzer – only getting bigger, faster
  - was growing in the +200% range in 2019, then +329% w/e March 14, 2020, then +456% w/e March 21, 2020 – another signal that it's not a fad!

Source: Nielsen Measured Off Premise Channels; Total U.S. (Dollars)

WINE SALES INCREASES HUGE & BROAD

Latest 3 w/e March 21, 2020

- **Varietals: All key varietals up large double digits (even Merlot & White Zin up between +10 and +20%); High end champagne the exception**
- **Origin: All key Domestic states, & key Import countries up at least +20%**

Single week ending March 21, 2020

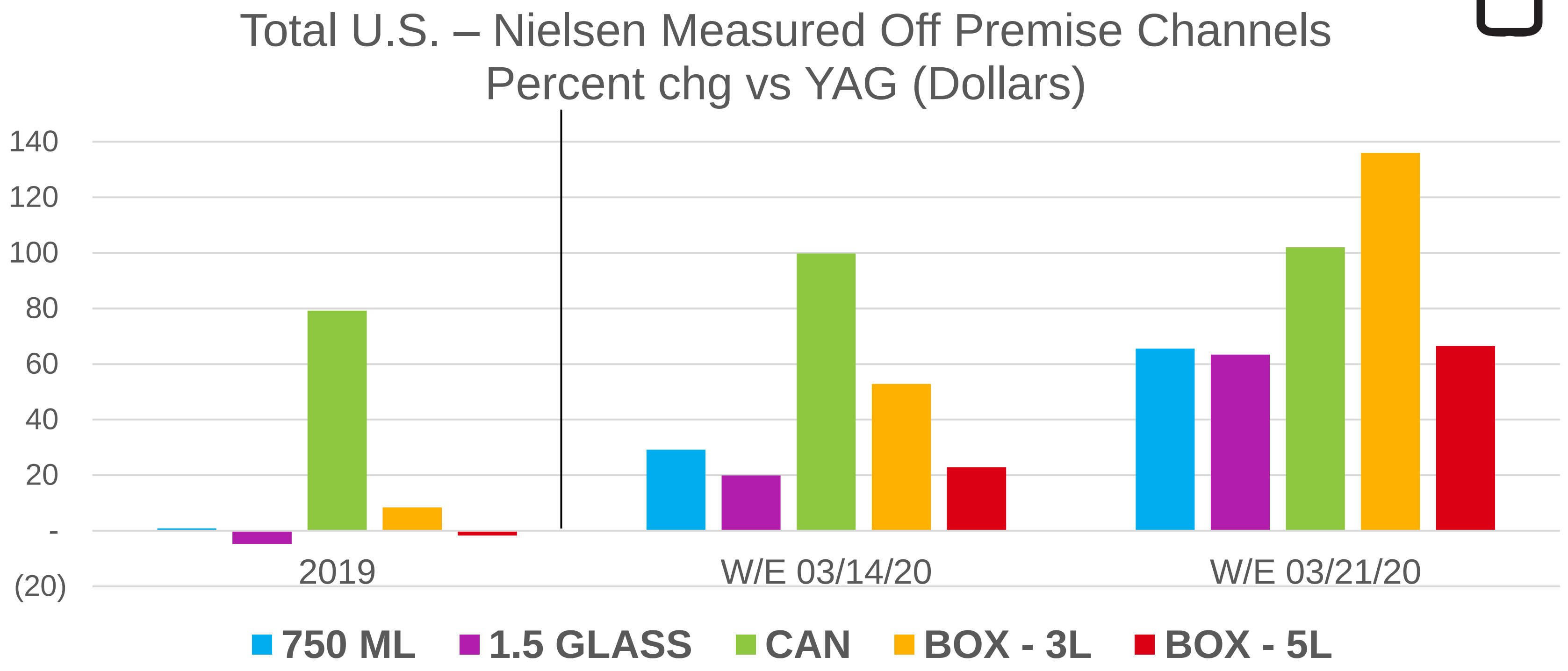
- **Geographies: Across 40 states within Nielsen measured channels, lowest % increase in w/e March 21, 2020 vs YAG was +40% (state mandates or not didn't matter too much)**

- **Channels: Online shopping up the most by far, but Liquor store and Food also up hugely; Convenience channel sales the least**

Source: Nielsen Measured Off Premise Channels; Total U.S. (Dollars)

Wine: Everything up, but clearly some shifting to larger size pack formats, and Cans still on a roll

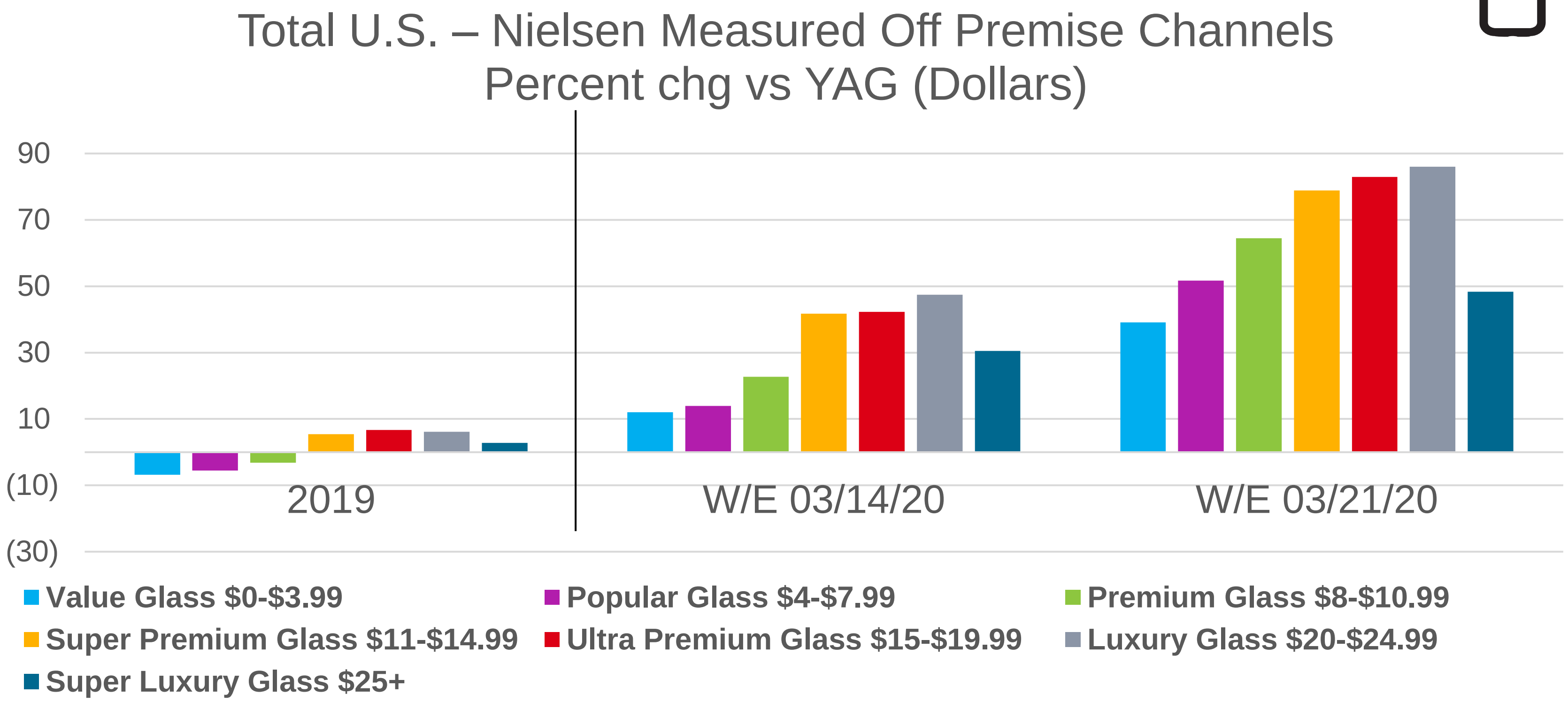
Wine Pack Size/format



Source: Nielsen Measured Off Premise Channels; Total U.S. (Dollars)

Wine still premiumizing, but something to watch going forward as economic impacts widen

Table Wine (Glass) Price Tier



Source: Nielsen Measured Off Premise Channels; Total U.S. (Dollars)

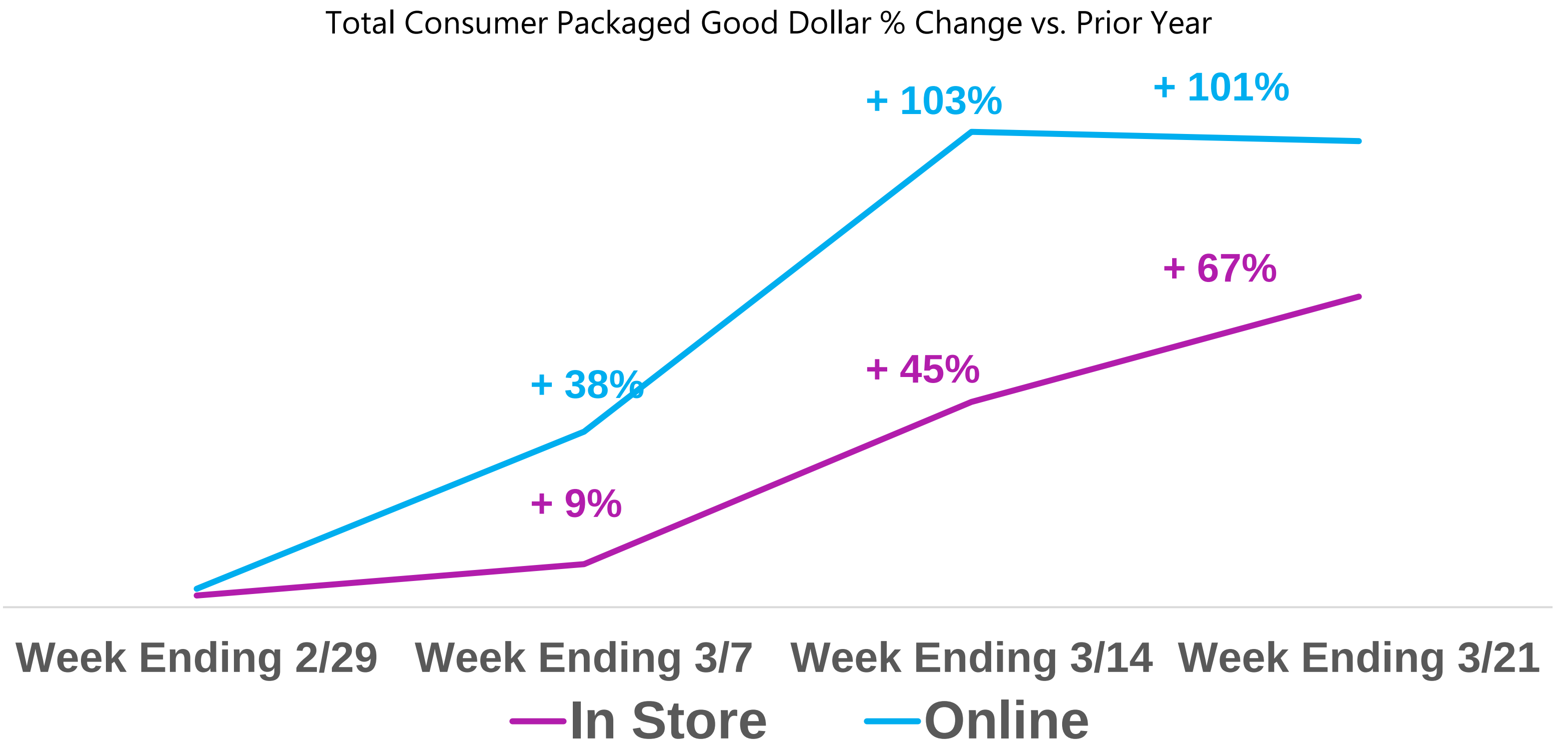
Big, widely recognizable and distributed brands certainly benefiting

- Top 10 brands share up from 23.2% of Wine pre COVID-19 to 24.5% in last 3 w/e March 21, 2020; each share point represents $171MM in sales in Nielsen channels

- All top 10 brands grew double digits over last 3 weeks
  - 1 between +10-+20%
  - 4 between +20-+30%
  - 2 between +30-+40%
  - 1 between +40-+50%
  - 2 over +50%

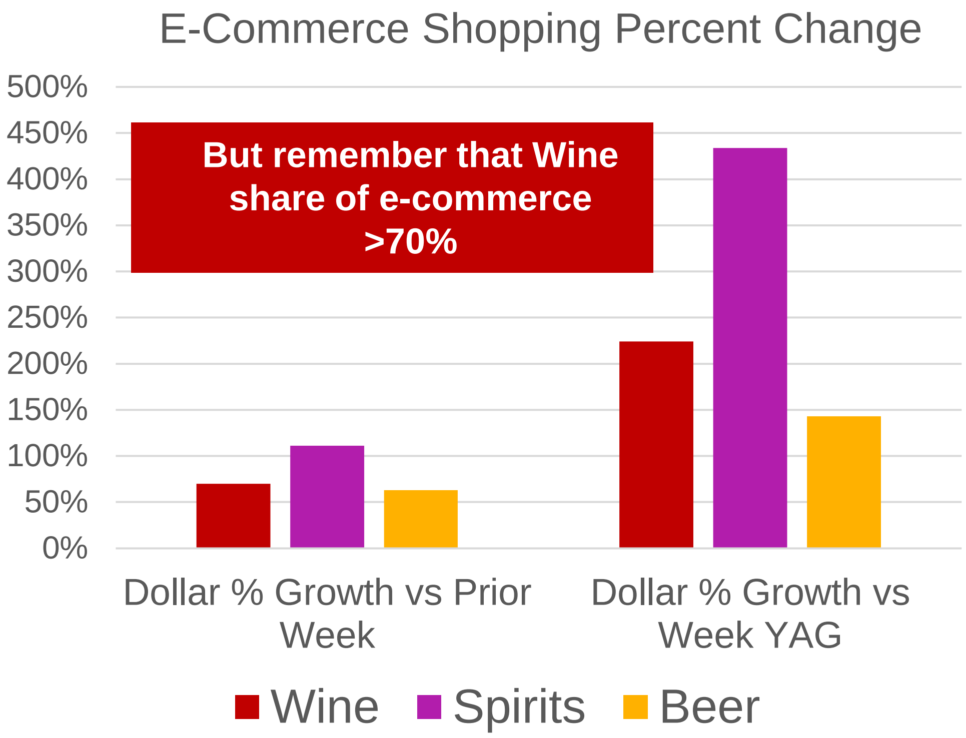
Source: Nielsen Measured Off Premise Channels; Total U.S. (Dollars)

Arguably the greatest, and fastest change in shopper behavior…ever



Source: Nielsen Total US xAOC; Nielsen Ecommerce measurement powered by Rakuten Intelligence

E-commerce Alcohol sales +243% vs 1 YAG; largest increase of any department



Number of E-Commerce Alcohol buyers in w/e March 21, 2020 is **2x** the average 52 week number

Overall (not specific to Alcohol)…

- 72% increase in new buyers
  - Large increase in seniors
  - Once buyers go online for the first time, they tend to repeat
- 36% increase in online trips
- 13% lower basket values
- Home delivery up the most, while in-store pick up strong but well behind

Nielsen Total US xAOC; Nielsen Ecommerce measurement powered by Rakuten Intelligence

- Sales increases over the last couple of weeks (through w/e March 21, 2020) are stunning.. very large, and very broad extending across almost everything

- Overall increases taking into account both in-store and online purchasing are well in excess of just a shift from on premise to off premise, and likely well ahead of consumption – i.e. a lot of stocking up

- What remains to be seen looking forward is the rate of consumption and re-purchase

Bigger Picture Shifting Consumer Behavior

Accelerators will fast track changes in consumer behavior

Critical Accelerators	
Quality and Efficacy	Consumers seeking assurances that products and supply chains they depend upon are safe & sanitary (Quality credentials; Safety standards)
Local Origin	Consumers seeking complete transparency from farm to factory to distribution. Brands with local credentials well placed to mitigate concerns as consumers seek products than can identify & trust
Technology Catalyst	Consumer seeking efficient non-communal forms of purchasing. Accelerated adoption of technology may dislodge typical shopping behavior as consumer benefits outweigh barriers in both the immediate, and longer term
Health Stimulus	Even more important to be seen as part of a healthy lifestyle

How Can We Help?

- **General Nielsen Global COVID-19 site: www.nielsen.com/covid-19**
- **Nielsen CGA On-Premise BevAl COVID-19 site http://nielsencga.com/covid-19/**
- **For high level category updates and commentary updated weekly (Total FMCG, Wine, Beer, Spirits),** contact your Nielsen representative or danny.brager@nielsen.com
- **Further analyses available specific to Bev Alc and Wine**
  - Wine Segment sales tracker (package size/format, price tier, origin, table vs sparkling, off-premise channel types, state geographies) updated every week
  - Other weekly sales data (ad hoc); brands, retailers, geographies, etc
  - Consumer purchasing shopping behavior – e.g. buyers/penetration, trips, basket sizes, etc
  - Consumer survey in field – changes in purchasing behavior pre & during COVID-19, tied to ongoing household consumer panel for deeper views of buying groups

Questions

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