


Rabobank

Why Santa Can't Send You Christmas Spirit

Far.rabobank.com

RaboResearch

Food & Agribusiness
far.rabobank.com

[Bourcard Nesin](#)

Beverage Analyst
+1 212 808 6846

[Stephen Rannekleiv](#)

Global Strategist -
Beverages
+1 212 808 6823

Introduction

In a world where consumers can get anything they want, however they want, the spirits industry is at a real disadvantage. Direct-to-consumer (DtC) shipments and e-commerce have driven growth in the wine category, but spirits face restrictive rules around shipping and retail that limit distillers' ability to operate online. As we approach the holiday season – the most important time of year for wine and spirits sales – we want to highlight the structural challenges facing spirits in a world increasingly defined by e-commerce.

Distillers Can't Ship Directly to Consumers

In 2018, wine shipped DtC will represent 7 percent of the total US wine market – more than USD 3 bn. About 95 percent of US consumers can go online to buy and ship wine DtC across state lines. The laws for shipping spirits DtC are, however, much more restrictive: Only five states allow DtC spirits shipments, with 5 percent of the US population having access to the channel. In fact, shipping laws are so complex and the market so small that common carriers won't even ship spirits in states that do permit distilleries to ship DtC.

If the spirits industry had the same access to consumers as wine, they could build a market worth billions of dollars. Recognizing the opportunity, distillers are pushing state legislatures to change their shipping laws, and believe it or not, they are making progress. Kentucky, perhaps aspiring to its state slogan 'unbridled spirit', passed a law to legalize DtC spirit shipping in 2018. Other states will likely follow. As Eric Gregory, president of the Kentucky Distiller's Association, told Insider Louisville "... once other states realize Kentucky has broken the ice... we're going to see a lot of movement with other states coming on board."

Spirits Have Limited Retail Channels Online

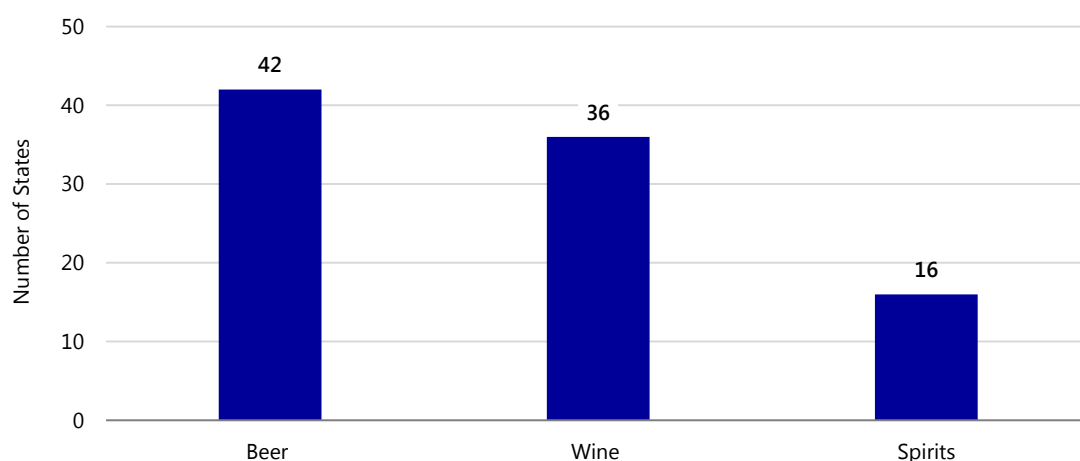
Online wine retail is experiencing a boom moment for innovation. Wine.com just raised USD 32.5m and can ship wine into 43 states. Vivino, the wine rating app with 30 million users, offers online wine sales and shipping in all 50 states. When it comes to retail, there are hundreds of online wine retailers, and an uncountable number of wine clubs (Wine Awesomeness, NPR wine club, Wine of the Month Club... you get the point).

For a variety of reasons, including shipping regulations, an equivalent explosion of innovative start-ups isn't happening for spirits. Drizly, an online platform that partners with local retailers, is the only place most consumers can legally buy spirits online. Drizly is a fantastic company offering on-demand delivery to 27 states and just this week landed USD 34.5m in series C funding, but it is still only one company.

Supermarkets Have 'Deprioritized' Online Spirits Sales

Online grocery will likely become the largest source of online alcohol sales. Through this channel, delivery is typically executed at a local level, so spirits shipping is not as large a problem. Most states, however, don't allow supermarkets to sell spirits. And in an interesting twist, even in states that allow spirits sales, most grocery stores don't offer the category online.

Figure 1: How many states allow beer, wine and spirits sales in grocery.



Source: state statutes; Rabobank, 2018

So, why aren't supermarkets selling spirits? The spirit category has limited availability in supermarkets (*see Figure 1*), and it is a highly regulated category. Each state, or even county, has its own rules on retail, which can create headaches for teams trying to automate pricing, payments and fulfilment. [Supermarkets are still trying master the basics of e-commerce](#). At the moment, grocery retailers see the spirit category as too complicated to merit resources. They will eventually bring spirits sales online, but they need to figure out how to sell diapers and carrots first.

Can Distillers Ignore E-commerce?

The whole point of this article is to show that the spirits industry does not have as many e-commerce opportunities as wine or beer. But that is no excuse to ignore the digital world. To the contrary, we encourage distillers to invest heavily in their digital teams. Online spirit sales are growing much faster than brick-and-mortar sales, so while the pie may be smaller, distillers should still be fighting for the biggest piece. [As we wrote in a report earlier this year](#), "Each day a brand is not building contacts and specialized knowledge to operate online, it is ceding territory and sales to its more enlightened competitors."

Imprint

RaboResearch

Food & Agribusiness
far.rabobank.com

Bourcard Nesin	Beverage Analyst	bourcard.nesin@rabobank.com +1 212 808 6846
Stephen Rannekleiv	Global Strategist - Beverages	stephen.rannekleiv@rabobank.com +1 212 808 6823

© 2018 – All rights reserved

This document is meant exclusively for you and does not carry any right of publication or disclosure other than to Coöperatieve Rabobank U.A. ("Rabobank"), registered in Amsterdam. Neither this document nor any of its contents may be distributed, reproduced, or used for any other purpose without the prior written consent of Rabobank. The information in this document reflects prevailing market conditions and our judgement as of this date, all of which may be subject to change. This document is based on public information. The information and opinions contained in this document have been compiled or derived from sources believed to be reliable; however, Rabobank does not guarantee the correctness or completeness of this document, and does not accept any liability in this respect. The information and opinions contained in this document are indicative and for discussion purposes only. No rights may be derived from any potential offers, transactions, commercial ideas, et cetera contained in this document. This document does not constitute an offer, invitation, or recommendation. This document shall not form the basis of, or cannot be relied upon in connection with, any contract or commitment whatsoever. The information in this document is not intended, and may not be understood, as an advice (including, without limitation, an advice within the meaning of article 1:1 and article 4:23 of the Dutch Financial Supervision Act). This document is governed by Dutch law. The competent court in Amsterdam, the Netherlands has exclusive jurisdiction to settle any dispute which may arise out of, or in connection with, this document and/or any discussions or negotiations based on it. This report has been published in line with Rabobank's long-term commitment to international food and agribusiness. It is one of a series of publications undertaken by the global department of RaboResearch Food & Agribusiness.

