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Covid-19's Impact on Beverages in the Off-Premise and On-Premise

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Summary

In this article we break down how coronavirus so far has impacted the US beverage landscape by channel: off-premise and on-premise. We have also released a companion article, "Initial Impacts of Covid-19 on the US Beverage Industry" that offers more detail on the unique challenges that each beverage category is facing in the US.

Off-Premise: The Storm Before the Quiet?

The most up-to-date IRI data (through March 8) shows that consumers started to boost food and beverage spending as early as mid-February (see *Table 1*). Our sources, however, indicate that there was a drastic shift in consumer behavior starting on March 11 and March 12, at which time consumers really started stocking up on essentials (in fact, the CDC recommends having at least a two-week supply of "essentials"). Reportedly, one major supermarket chain saw record, single-day sales on March 12, with nationwide sales increasing nearly 200% YOY. Interviews with industry leaders indicate that consumers have so far maintained high-levels of food and beverage purchasing, forcing retailers to reduce their hours in order to sanitize and restock their shelves.

Interestingly, the CDC also recommends that households "know how to get food delivered if possible." Thus, Covid-19 has led to a huge increase in interest from consumers looking to buy their food and beverages online, and also an increase in retailers looking to expand their e-commerce offerings. Demand has risen so quickly that many consumers using services like Amazon Prime Now and Instacart are unable to reserve delivery windows. E-commerce operators that have been able to overcome constraints to fulfillment are seeing truly eye-popping growth. Drizly, an alcohol marketplace, has sustained a triple-digit increase in sales since the rush began last week. Similarly, Wine.com saw sales triple last weekend.

Table 1: Pantry-stocking started early – mostly in non-alcoholic beverages

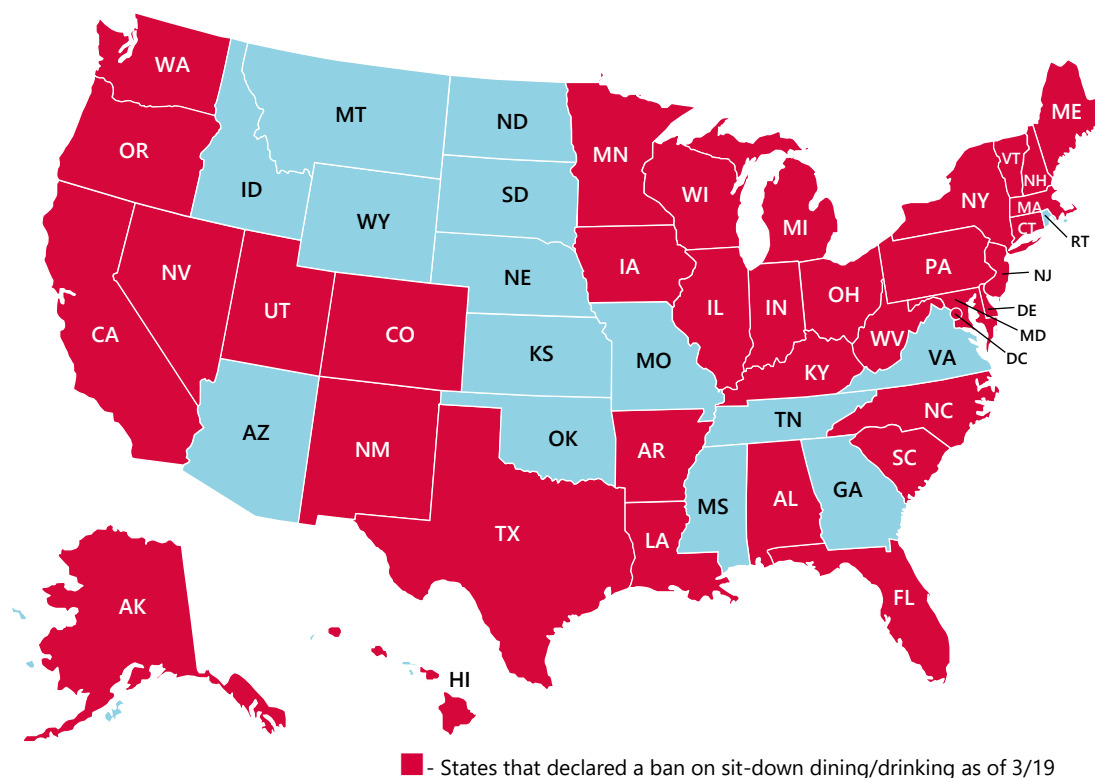
	1 week ending:				4 weeks	3/8 increase
	3/8	3/1	2/23	2/16	ending 2/9	over 2/9
<i>Bottled Water</i>	36.0%	13.8%	7.2%	6.4%	4.5%	31.5%
<i>Sports Drinks</i>	26.4%	11.7%	15.1%	13.1%	9.6%	16.8%
<i>Hot Coffee</i>	5.8%	-2.1%	-1.7%	-1.6%	-3.1%	8.9%
<i>Wine</i>	4.7%	-0.7%	0.1%	2.6%	-2.2%	6.9%
<i>Beer</i>	12.2%	7.0%	8.4%	8.2%	5.9%	6.3%
<i>Bottled Juice</i>	1.8%	-2.8%	-2.2%	1.1%	-4.4%	6.2%
<i>Spirits</i>	6.5%	0.6%	2.4%	3.5%	0.9%	5.6%
<i>CSDs</i>	6.2%	-0.5%	4.2%	5.0%	0.6%	5.6%
<i>Energy Drinks</i>	12.1%	9.1%	13.5%	15.9%	8.3%	3.8%
<i>Milk</i>	6.6%	3.1%	4.2%	4.4%	3.2%	3.4%

Source: IRI, Rabobank 2020

The On-Premise: “Hopefully it’s only two months!”

As of midday on March 19, we are able to identify 35 states (~80% of the US population) that have implemented a widespread ban on dine-in services from foodservice (see Figure 1). We expect this policy to become universal in a matter of days. Though most state bans are set at 2 to 4 weeks, they are likely to be extended further – the CDC recommends banning gatherings of more than 50 people for at least two months.

Figure 1: States with widespread bans on dine-in service



Source: various outlets, Rabobank 2020

Note: Florida only closed bars and nightclubs state-wide and Hawaii closed service on the island of Oahu, which represents 70% of the state's population

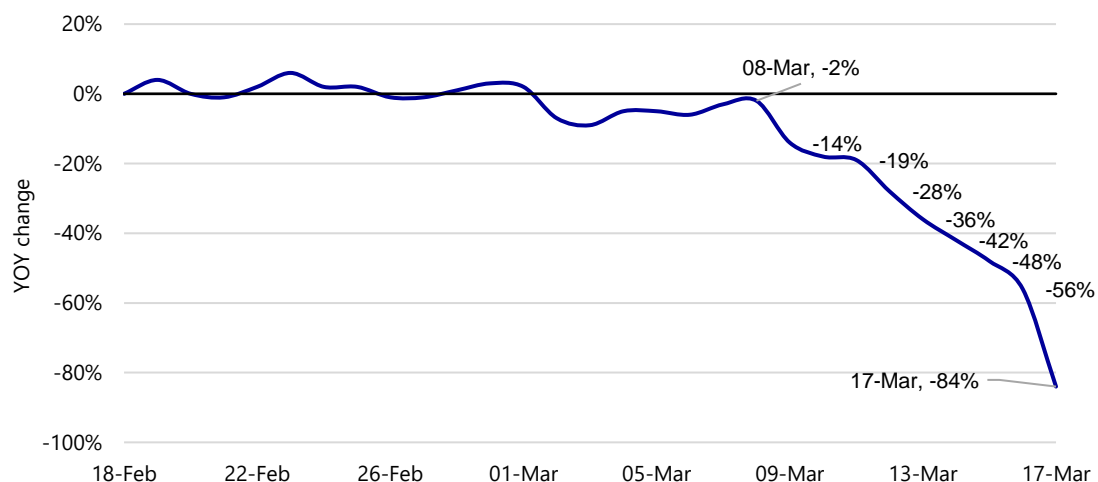
Not surprisingly, social distancing and bans on on-site dining and drinking are having a dramatic effect on seated dining, though the scale of the shift is hard to believe. OpenTable, a reservation and seating management service, shows that the number of seated diners (comprising online and phone reservations as well as walk-ins) has dropped dramatically across the country (see Figure 2). While take-out and/or delivery will be allowed in most jurisdictions, there is no doubt that there will be profound ramifications for bars, restaurants, and the beverage industry as a result of these changes. Our sources indicate that only 5% to 10% of restaurant sales are made online. While many consumers will undoubtedly move to ordering takeout, there will almost certainly be a massive loss in occasions, and for beverages, the impacts are likely even greater.

Bars and restaurants will likely lose nearly USD 10b in alcohol sales per month during the ban on sit-down dining and drinking

Alcohol, for example, represents 29% of restaurant and bar revenues nationwide (if you exclude limited-service restaurants), according to data provided by Technomic. It is easily one of the highest margin categories. Consumers ordering from restaurants for off-premise consumption are rarely willing to pay a premium for a beverage they may already have in the fridge or can pick up

from the grocery store, which is true for non-alcoholic categories as well. Many states restrict restaurants' ability to sell alcohol for off-premise consumption (especially spirits and cocktails), though regulators in many states are carving out exceptions in response to this crisis.

Figure 2: YOY change in seated diners in the US, Feb 18 – Mar 17



Source: OpenTable, Rabobank

The on-premise channel sells about USD 10b of alcohol per month. That is expected to all but disappear during the ban on on-site dining and drinking. Over two months, the channel would likely see at least USD 15b in lost sales for alcohol alone due to the Covid-19 pandemic. A similar loss in revenues (as a share of total) will almost certainly be experienced by for taprooms across the country.

In talking to suppliers and distributors, we are seeing a massive switch to the off-premise right now, with off-premise volumes moving well above the norm for this time of year. But, even if consumers maintain the same levels of consumption, the average retail value of a serving alcohol in the on-premise channel is 4 to 5 times higher than it is off-premise, according to data from Bw166. This channel shift will blunt the short-term impact on revenues for suppliers, but does little to help on-premise operators.

Given the crisis facing the on-premise channel in the current context, and the importance of this channel to food & beverage sales, the focus of the industry is, and must remain, on finding ways to support the survival of bars and restaurants through this difficult moment.

Taproom-focused craft brewers, wineries, and craft distillers reliant on tasting rooms as well as coffee shops are also going to face challenges as foot traffic and visitors approaches zero. The hope for many beverage manufactures is that consumers will simply shift consumption to off-premise consumption. For many, this will be a test of their direct-to-consumer business, ecommerce capabilities and their distribution into traditional retail channels like grocery. Strength in these areas will no doubt help manufactures survive the profound challenges to come.

What's Next?

Once again, we strongly recommend that you consider reading our companion article, "Initial impacts of Covid-19 on the US beverage Industry", which offers more detail on the unique challenges that each beverage category is facing in the US.

Given the unprecedented nature of this crisis, we will continue to provide updates as often as necessary to help readers stay abreast with evolving government responses, key shifts in consumer behavior, and share best practices and valuable insights on how beverage companies can mitigate the impact this crisis might have on their business, their employees and the public.

Imprint

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