

Reimagining Retail: How different buying alcohol is online and how consumption habits are changing

Audio

On today's podcast episode, in our "Retail Me This, Retail Me That" segment, we discuss how buying alcohol online is different, what Uber's shutdown of Drizly means for its retail media business, and how consumption habits are changing. Then for "Red-Hot Retail," our analysts give us four spicy predictions about the future of alcohol. Join our analyst Sara Lebow as she hosts analyst Blake Driesch and director of Briefings Jeremy Goldman.

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Episode Transcript:

Sara Lebow:

Hello listeners. Today is Wednesday, February 14th. Happy Valentine's Day. Welcome to Behind the Numbers Reimagining Retail, an eMarketer podcast. This is the show where we talk about

how retail collides with every part of our lives. I'm your host, Sarah Lebow. Today's topic is alcohol, something that may or may not be relevant to Valentine's Day, depending on how you celebrate. Let's meet today's guests. Joining me for today's episode, we have Senior Analyst Blake Droesch. Hey Blake.

Blake Droesch:

Hey Sarah. Good to be here.

Sara Lebow:

Good to have you. Also with us is Senior Director of Briefings Jeremy Goldman. Hey Jeremy.

Jeremy Goldman:

Hey, really excited for this conversation even though we're doing it try.

Sara Lebow:

Yeah, we're doing a dry alcohol podcast. We got vetoed on drinking during well podcasting. Turns out you aren't supposed to do that at work. Okay, let's get started with free sample. Our did you know segment where I share a fun fact tidbit or question. I've got a question for you. We ran this in our retail newsletter. It's a quiz. The Super Bowl just happened on Sunday, which of the following is the top food and beverage choice for consumers Super Bowl celebrations this year? The options are for top food or beverage choice pizza, chips and dip, alcoholic beverages and fruits and vegetables.

Jeremy Goldman:

It's got to be fruits and vegetables. People love just eating blueberries on the Super Bowl. We all know that, right?

Sara Lebow:

That sounds great. I love blueberries.

Blake Droesch:

I'm going to go chips and dip because I'm pretty sure I heard that nachos were the most popular and that's the closest.

Sara Lebow:

Yeah, chips and dips. Nearly three quarters of people purchased chips and dips for the Super Bowl. That's according to 8451, which is Kroger's Retail Media Network. Before the Super Bowl, they said that 73% plan to purchase chips and dips for the Super Bowl, followed by pizza, followed by alcoholic beverages. Did you guys purchase chips and dip for the Super Bowl?

Jeremy Goldman:

I admittedly had so many chips that I still had to go through that I just got deals from months ago and I'm like, you know what, this is a pretty good moment to take them out so I can watch the ads and skip the football.

Sara Lebow:

It's a work expense. Blake, did you eat chips and dip?

Blake Droesch:

No, I actually just had a couple handfuls of blueberries and called it a day.

Sara Lebow:

Healthy. Healthy. Okay. Now it's time for our next segment retail me this, retail me that where we discuss an interesting retail topic.

Today's topic is alcoholic beverages. We are coming to this topic at an interesting time. Like I said, it's right after Super Bowl weekend, which I imagine many of our listeners had a few beverages during. We are also well past dry January now, which is a time when a lot of people opt out of drinking alcohol and we're on the tail of Uber announcing it was shutting down Drizly, its alcohol delivery service. Blake, I'm going to go to you first. Can you set the stage on what the trend is with online and in-store alcohol purchasing right now?

Blake Droesch:

Yeah, so I wrote a report last year back in the summer that looked at our alcohol Ecommerce forecast in comparison to food and beverage, our overall food and beverage forecast, and as you can imagine, the digital penetration numbers for the larger food and beverage category are much higher than they are for alcohol and there are a number of reasons as to why that is the case. The number one reason being the pandemic in which there was a demand for essentials like groceries that cause a lot of people to download these grocery apps like

Instacart and start getting their groceries delivered. This was primarily done for necessities of which alcohol for most people, for some people it's a necessity. For others it's not, but it didn't seem to get the same rate of adoption in terms of people using delivery as grocery did, but the other reason, which is a long-term prohibitor of digital growth in the alcohol industry is simply it's just a very, very highly regulated industry.

There are a lot of laws on state by state that prohibit brands from selling directly to consumers. They need to go through a distributor. There are also a fair amount of states that do not allow third parties like DoorDash or Uber Eats to deliver alcohol because of the point of sale regulations in order to prevent underage drinking. So those are kind of the two main reasons, but we are still seeing some growth and I do predict that over time, particularly as these big companies like Amazon and DoorDash are lobbying for more lax regulations around deliveries that we're going to see the alcohol Ecommerce penetration tick up over time. It might not ever catch up with the larger food and beverage category, but there's definitely still an opportunity for digital growth in this space.

Jeremy Goldman:

By the way, one thing I would just quickly add, because I was just checking out our numbers. I admittedly did not know them by heart, but just in terms of CPG ad spending is going to be up 15.5% this year. Alcohol is going to lag behind at 11.5%. This is for the US and then non-alcoholic is growing at 13% and it's about twice as big as alcohol and so as Blake was saying, there's a lot of reasons for that.

Sara Lebow:

Yeah, that's interesting, alcohol off-premise retail sales are going to go up by three and a half percent this year for Ecommerce that's around eight and a 5%, so going up slower than ad spend is going up in both of those categories, which I think is probably the case for a lot of industries. That's sort of how ad spend works. I want to talk about Uber shutting down Drizly really quick as well because I think that a lot of reports sort of made that look like Uber maybe had a misstep of alcohol delivery, but it's really just folding alcohol delivery into its core business. It doesn't need a separate business for that. You can do it on the Uber Eats platform?

Jeremy Goldman:

That's basically, I mean I think that the whole entire idea with this is yeah, you want to have one major super app rather than representing a whole bunch of different brands. It doesn't make it really as much sense. Uber has done this in the past with certain other things such as Corner Shop for instance, which is another.

Sara Lebow:

I don't remember Corner Shop.

Jeremy Goldman:

Yeah, a smaller player tied to grocery and then folding that into the main Uber interface because again, Uber Eats is now delivery for groceries and for liquor and for everything else that you'd know and love it for and then they even promoted it during the Super Bowl as we just saw. So I mean I think the idea is you want all of your ad spending to be focused on supporting one brand instead of a whole bunch of different affiliate brands if you will.

Sara Lebow:

Yeah, I mean you don't want people bouncing from platform to platform to make purchases. We already in a lot of states have to go to different stores to buy alcohol. An advantage of the platforms is that you don't have to do that.

Blake Drosch:

Yeah, I think it's important to remember too that Drizly's operating model and their business model is very different from Uber Eats. The Drizly platform was basically just an interface for liquor stores and they fulfilled the deliveries themselves, which is different from Uber Eats obviously where an Uber driver will go to the restaurant or the retailer and pick up the order so it's delivered from a third party intermediary. There are I think two reasons why they ultimately decided to adopt the Uber Eats model and go away from Drizly. One is that there was an advantage for Drizly because there are certain states, there still are certain states where you are not allowed to have a third party deliver alcohol, like I said, so in a place like Colorado or South Carolina or until recently New Jersey, Drizly could operate because the liquor store was still doing the main order, they were the point of sale, they were doing the delivery, so they were allowed to operate in states where Uber and DoorDash could not deliver alcohol.

There has been some lax regulations particularly in states like New Jersey and Nevada where third parties can now deliver. So I think Uber is banking on those regulations further easing and them not having to use that business model. The other side of it is Drizly had liquor stores and other retailers pay a monthly fee to be on the platform rather than taking a percentage, it was unclear what exactly. I mean it tended to fluctuate greatly based on demand, but it could go from anywhere from hundred bucks a month to \$10,000 a month. So it's just depending on who and where they were doing business with. For Uber Eats, they take between 15 and 30% of each individual order, whereas they weren't taking any percentage of the orders on Drizly and I think they just probably realized that A, it more fits their model for how they do grocery and restaurants and other retailers. So it's just easier to bring it all in on the back end, but it's also potentially more lucrative to be taking that percentage on individual orders rather than charging a monthly subscription to be on the platform.

Sara Lebow:

Yeah. I do want to before we move on, get into consumption habits because we are coming off of dry January where a lot of people were not drinking for the month of January, particularly younger people. My question for both of you is, is this something that alcohol brands, retailers and the like should be paying attention to both during January and the rest of the year?

Jeremy Goldman:

I think that the overall, looking at the trend of mocktails essentially and things that can be high margin products but don't actually contain any alcohol, it's a very interesting to see alcohol free alcohol that is being sold for \$30 and the margins on it are just immense in relation to the quote unquote "real thing," you are going to probably see a lot more brands that are going to look to essentially vertically integrate and start to sell that type of stuff too and make some acquisitions in that space., But in terms of is this a trend to watch that are people going to get less into alcohol like younger consumers?

I think some of the data kind of suggests yes and as a result of course it's a trend that we have to watch closely. Alcohol is obviously not going away, but if you look in the macro sense over a longer period of time it does interest and it does kind of wax and wane to a certain degree if you look at a large enough data set.

Sara Lebow:

Sure.

Blake Droesch:

I think it's definitely something that they should be paying attention to. Any shift in consumer behavior is important to keep your eye on, but particularly when a younger generation that is going to have considerably more buying power is really leading the charge here and I think it's just all about diversifying your product offering in order to meet the consumer for what they want at the moment. It doesn't mean that it's all going to change, but I think when White Claw, I just saw introduced a non-alcoholic version of white Claw, which is basically just seltzer, it really shows that they've gone full circle and it just shows that when you're building a brand, which all alcohol is, it's all about the brand.

You just need to have a diversity in options so your brand loyal customers can enjoy your products no matter where they are, no matter where they are in their current drinking preference moment, whether it's dry January or they are drinking or they want something in between. So that's just going to continue to be important.

Sara Lebow:

Yeah and dry January doesn't exist outside of other trends, right? It is tied into a lot of other things we're seeing and emphasis on wellness is a big one, diversification of canned cocktails, which have been huge over the last at this five years and I'm now including the non-alcoholic cocktails in that because if you can sell something that's essentially juice, and I know it's not juice, there's actually a lot of engineering that goes into some of these alcohol-free spirits, but if you can sell something that's way less expensive to produce than alcohol at alcohol or near alcohol prices, then you can make a lot of money and you can really expand your audience as well.

And some of these brands are really strong. I mean Athletic Brewing, very strong brand or even Liquid Death, which is different but it's canned water with a really strong brand that you can drink at a bar. There's a lot of room for growth here. Okay, that is all we have time for in the first half, so let's keep moving to our next segment, Red Hot Retail.

This is our guests' opportunity to give their very specific and potentially risky predictions on a topic. The predictions can be mild, they can be medium, they can be spicy or they can be extra hot. The higher the spice level, the riskier their prediction is. Blake and Jeremy will each give

me two predictions for the future of alcohol, the near future of alcohol. Jeremy, why don't you start us off with our first spice level and our first prediction.

Jeremy Goldman:

So I think this is kind of more like a chocolate habanero which is higher up on the Scoville Scale. I think one thing that we have to be a little bit mindful of is that there is such a thing as lobbying. Blake touched on all of the state-by-state regulations that a lot of these platforms have to deal with and I do expect that some of these platforms will find ways both within their ability right now as well as through legislation to have a little bit more of a consistent playing field so that they can execute more of a frictionless experience for customers across state lines.

That's something that's not necessarily easy to do, that's why I say it's a little bit harder and it's not automatically going to happen, but there's a lot of money in getting this solved and I think more and more the need to have consistency in terms of how different states regulate themselves. It's ultimately up to the states, but there's a lot of money in trying to solve this and put pressure on legislatures to normalize if you will, how we treat alcohol.

Sara Lebow:

So is your prediction that alcohol companies or delivery services are going to be lobbying for looser or I guess more specific regulations or is it that alcohol and delivery companies are going to look to the most common denominator like the strictest regulations and work with those?

Jeremy Goldman:

More so that they're going to, and they're doing this already right now by the way, so it's a matter of for instance, do you have to show your ID when you have something that is delivered to you? Does the person who shows the ID is that, can I give my ID to somebody else to just pick it up from me. These are things that you have to deal with from a delivery standpoint. There are obviously as Blake alluded to different regulations, not just in terms of what's sold, but there's a certain amount that can be sold in certain states and other states don't have anything on the books and that's just like if you're running a delivery platform, that's really frustrating to deal with so they have a major incentive to work on this.

Sara Lebow:

Yeah, I mean you have states like Utah where beer literally has a different alcohol content. Do you know this? That beer is like 3% in Utah and then I spent a number of my adult years drinking years in Wisconsin where anything goes. So huge discrepancy there. Blake, can you give us another spice level and another prediction?

Blake Droesch:

Yeah, and I'm going to, I think this is pretty high on the spice odometer because-

Sara Lebow:

Spice odometer?

Blake Droesch:

It's something that is going to be, is a trend that we've been seeing for a number of years, but I'm actually going to go ahead and say that this is going to have a permanent impact that's really going to reshape the alcohol industry and this is just sort of the falling out in the middle when it comes to the types of brands and alcohol and spirits that consumers are going to be drinking long term. So over the last couple of years we've obviously seen two really big trends in the industry on the lower end you've seen sort of this explosion in hard seltzers and other types of alcohol products that aren't really meant to taste like traditional alcoholic beverages. Those have become very popular much to the detriment of things like light beer. And then on the other end of the spectrum you're seeing increased interest in more premium offerings.

So I'm thinking craft beer has been really big for a while, organic wines are continuing to get more popular, particularly with younger people now as well as premium spirits, things like age and single-barrel whiskies and what this is really I think doing is there's less of a market now for the Heineken's of the world, the Miller's of the world, and these were primarily some of the biggest selling products in the alcohol industry. And what I think is really happening is you have the sort of enthusiasts who are, for lack of a better word, above drinking those types of more basic alcoholic beverages.

And then you have for people who aren't big drinkers and don't particularly like the taste of beer or stronger stuff that are gravitating towards things like hard seltzers, hard spiked kombuchas, all of the really innovative product offerings and I think that's going to have a pretty permanent impact on things like the sales of light beer going forward, particularly as the older generations which are really propping up these industries start to make less of an

impact and younger generations, particularly Gen Z where there's not a ton of interest in these products become a larger percentage of the market, I think it's going to be a major shift that's going to last. It's going to have a pretty permanent impact.

Sara Lebow:

Very important follow up for both of you, contentious question, what is the best spiked seltzer?

Jeremy Goldman:

That's really hard because my answer is I'm going to give mine to Blake and have something else personally.

Sara Lebow:

Blake might give his to me.

Blake Droesch:

Not really a big fan, but I do like those, what is the one, the High Noon. So they have actual vodka in them and they don't taste like super-

Sara Lebow:

Yeah, Victoria's nodding clearly a fan.

Blake Droesch:

Yeah, those are not bad, but Jeremy, those are usually, I'm usually a pass on those.

Jeremy Goldman:

But I would say a Mamitas if you ask me to say so.

Sara Lebow:

I'm a Spindrift fan.

Jeremy Goldman:

But is that spiked?

Sara Lebow:

Yeah, the spiked version is.

Jeremy Goldman:

I did not know not know they had a spiked one.

Sara Lebow:

And it's really good. And if you want to spend your life savings at the bodega on it, you can because it is not cheap.

Jeremy Goldman:

All right.

Sara Lebow:

Jeremy, give me another spice level and another prediction.

Jeremy Goldman:

So I think this might be a black cobra actually.

Sara Lebow:

No one knows what that is.

Jeremy Goldman:

Yeah, that's true. It's a little bit less than the cayenne pepper, so that's like high, medium to high. One of the things that we're following very closely this year is the enormous rise in political ad spending. Why am I bringing this up now? Because there's something happening I heard in November, and depending on the outcome of that, I think that people are going to be either drinking in an essentially celebratory way or the opposite depending on how they feel about the outcome. That to me is a really interesting thing.

I'm also very intrigued if essentially states that are in play, if you will, that are kind of like the purple states, if that's a place where people, you do see more of a rise in drinking. I'm kind of convinced that that is going to happen at least in the short term. So expect a spike, no pun intended, the last three weeks of November.

Sara Lebow:

It's funny is some of those purple states are also where alcohol is a little less regulated. I lived in Michigan, I lived in Wisconsin, easy places to buy alcohol in the grocery store.

Jeremy Goldman:

That's a good point and expect those sales to even go up higher.

Sara Lebow:

New Hampshire as well. Blake, round us out. Give us a spice level, give us a prediction?

Blake Droesch:

This is going to be kind of a mild to spicy, it's not super spicy, but I think it's worth having a conversation because there has been a lot of data that we've seen and a lot of conversation that we've been having on this podcast around Gen Z drinking habits and how that this younger generation as of this point is drinking considerably less than older generations. I don't think that that's going to continue. I think that Gen Z is definitely going to up their alcohol consumption as they get older as a generation. I think it's probably going to come from gravitating towards the premium market. I see that, well, Gen Z as of right now, many of them on the younger end do not have the purchasing power and can't afford or maybe don't have an interest in premium alcohol, but as they get older, I think it does sort of match with the generation's penchant for seeking out things that are made with high quality and that can be a way for premium spirits brands and higher cost alcoholic beverages to start to court Gen Z as they get a little bit more money.

I also think that something that we haven't talked about is the legalization of cannabis, which people have said is impacting Gen Z's interest in alcohol because they're opting towards cannabis use. I think it's no secret with older generations as we've seen that cannabis use tends to be at its highest when people are younger, in their 20s and it generally tapers off over time. And I think that that's even with the sort of social acceptance growing and the legalization of cannabis, I think we're still going to see that trend. And I think that alcohol consumption will probably compensate a little bit as the preferences change as people get older.

Jeremy Goldman:

Cannabis infused alcohol, I think Blake is calling a new category right here.

Sara Lebow:

Well, okay, I get that you're saying-

Blake Droesch:

That already exists.

Sara Lebow:

As a joke, but it is interesting because more high-end cannabis products are increasingly a market as they're legal or somewhat legal. You are seeing cannabis infused beverages and higher-end edible marijuana. And so there is a question also of if that becomes its own premium market.

Blake Droesch:

Yeah, I think definitely it will be, but I don't think that cannabis is going to be legalized at a federal level for a very long time, if not ever. And in order for things like a major, a brand to have a major national footprint, that's going to need to happen because there is a lot of money being poured into that industry right now, but it's never going to get the big bucks like the alcohol industry gets if it's still illegal federally because it's just not a good enough investment.

Sara Lebow:

Yeah. I think that's a good place to wrap up. So thank you for being here, Blake.

Blake Droesch:

Thanks for having me.

Sara Lebow:

And thanks for being here Jeremy.

Jeremy Goldman:

This was terrific. Thank you.

Sara Lebow:

Happy Valentine's Day to you both. Please give us a rating and review wherever you listen to podcasts and follow us on Instagram at Insider Intelligence. Thank you to our listeners and to Victoria who edits the podcast and always serves it up neat, is what I wrote. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast, and tomorrow join Marcus for another episode of the Behind the Numbers Daily.

Join Insider Intelligence at the 2024 Commerce Next Growth Show on June 11th through 13th in the heart of commerce, New York City. Speakers for this year's show. Include execs from J.Crew, Estee Lauder, and Tapestry. Connect with us at the show while learning from over 150 industry leading speakers across more than 60 sessions covering Omni-channel marketing, consumer acquisition, loyalty, and more. Scaled retailers and brands. Get free admission. Go to commercenext.com/conference and use code Insider to register for your complimentary ticket today. We hope to see you there. Check out the link in the show notes to learn more.