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 April 9, 2020

## Are Consumers Actually Trading Down?

Dear Client:

We are in the midst of unprecedented times. As such it's important to keep the conversation going to better understand the impact and potential future impact of COVID-19 on the bev alc industry.

As part of that effort, last week our publisher Harry Schuhmacher and your editor hosted a virtual panel with Mario Zeponi and Kevin O'Brien from M&A advisory firm Zeponi & Company, along with Credit Suisse analysts Kaumil Gajrawala, and Sanjeet Aujla.

Below are some highlights and major themes from the conversation.

**WHAT WE LEARNED FROM 2008.** To get a better handle on potential consumer behavior changes in the next few months and beyond, it helps to take a look at the 2008 recession.

"Take a look back at 2008-2010, it was widely reported during that time that you could not move wine that was above \$20," said Mario, adding "If you're in that \$20 and below range, you're probably going to benefit" in the current environment.

"I think you're going to see the same trends play out here," he said. "Where that dividing line is in term of price points, no one really knows, but it feels like it won't be too different from that last downturn," but "keep in mind that as we came out of that downturn, the premiumization trend came back with a vengeance."

**ARE CONSUMERS ACTUALLY TRADING DOWN?** Kaumil was quick to point out that we "have to be careful about 'trading down,' because there's trading down on a per bottle basis, but massive trading up on a dollar spending basis." People are buying in bulk and stockpiling "but that doesn't necessarily mean trading down," said Kaumil.

On the other hand, “just because what we’re seeing in the US with layoffs, [you] can’t help but think you’re just going to naturally see that trade down,” said Mario, but it’s all “going to have a lot do with how quickly we rebound.”

Premiumization “was linked to the on-trade,” particularly for spirits, added Sanjeet. “If that channel is just nonexistent and the second derivative of that is the impact on consumer demand even when the restrictions ease, people just go out less...people are just going to down trade from the virtue of channel mix.”

Sanjeet added the trend could continue over the next 2-3 quarters. But on a brighter note, what we saw in the recovery from the 2008 recession was that “down trading was really just a one year phenomenon and people did start to trade back up.”

“I’m not sure it’s going to change behavior permanently, but for the next 12 months, for sure,” he said.

**SIMPLIFYING SKUS.** One of the things they’re seeing in other CPG categories as well is that retailers don’t want the tail of SKUs anymore, said Kaumil. “There was this build of SKUs across categories, and now it’s going the opposite way,” he said, adding, “You kind of need that.”

“I think this is going to be one of those clearing mechanisms that cuts a lot of those tails off,” Kaumil added.

“I think that hits to the core of the value of brands,” said Mario. “The cleaner, the more simplistic the branding, the greater the value.” This “might be a benefit to people who have cluttered portfolios.”

Indeed, this gives brands that already have shelf placements at big box retailers a leg up, according to Kevin. “You kind of had a golden ticket if you already had distribution at these big box retail stores that are outperforming versus those [brands] that are trying to get in.”

Watch/ listen to the full conversation [here](#).

### **WINE.COM REVENUES UP 25%, GROWING 3X LAST YEAR'S RATE**

Wine.com revenues were up 25% to \$165 million for its fiscal year ended March 31. The online retailer experienced a surge in demand and new customers as consumers gravitate more towards e-commerce in the wake of COVID-19.

Just in March, sales on the platform more than doubled, and are growing at 3x last year's pace, with consumers purchasing 21,000 different wines and 1,700 spirits for the month.

Currently, Wine.com is shipping more than \$1 million of wine and spirits (about 50,000 bottles) per day.

They're also getting a lot of new users, with new customers giving the online retailer a try at 5x the normal pace and joining the retailer's annual free shipping membership, called StewardShip, at 10x the normal rate.

For fiscal 2021, the name of the game is flexibility, according to Wine.com ceo Rich Bergsund. "We are increasing capacity to handle the increased demand, while staying flexible in case demand drops. When the country opens back up, we will have lots of new customers and StewardShip members for our CRM efforts," says Rich.

## **DIAGEO WITHDRAWS FISCAL 2020 GUIDANCE**

Diageo is the latest global drinks company to issue updated guidance, taking into account the impact of the COVID-19 pandemic.

Due to the uncertainty around COVID-19, the company is withdrawing its guidance on organic net sales growth and organic operating profit growth for fiscal 2020.

In the short term, Diageo plans to reduce discretionary expenditure and reallocate resources, per announcement. As such, "we are stopping A&P spending that will not be effective in the current environment."

In addition, Diageo is "tightly managing working capital and deferring discretionary capital expenditures projects."

"During this challenging time, our top priority is to safeguard the health and well-being of our people, while taking necessary action to protect our business," says chief Ivan Menezes. "I am confident in Diageo's long-term strategy and our ability to move quickly in this difficult environment."

You may recall, Pernod Ricard and Remy Cointreau estimated operating profit decreases of about 20% to 25% globally due to the impact of COVID-19.

## **WSD BRIEFS:**

RABBIT HOLE DRIVES FOR NATIONAL DISTRIBUTION. Kentucky-based Rabbit Hole has begun a drive towards national distribution on its range of American whiskeys by harnessing Pernod Ricard's Preferred Distribution Network, per a release. The Rabbit Hole range includes Cavehill Kentucky Straight Bourbon Whiskey, Boxergrail Kentucky Straight Rye Whiskey, Dareringer Straight Bourbon Whiskey Finished in PX Sherry Casks and Heigold Kentucky Straight Bourbon Whiskey.

WE'LL BE BACK IN YOUR INBOX MONDAY. Due to the Easter and Passover holidays, we're taking a break tomorrow and — barring any breaking news — will resume publication on Monday. Enjoy the long weekend, and remember to stay six feet apart and keep washing your hands.

Until Monday,  
Sarah

"Life is but thought." – Sara Teasdale

——— *Sell Day Calendar* ———

*Today's Sell Day: 7*

*Sell days this month: 22*

*Sell days this month last year: 22*

*This month ends on a: Thurs.*

*This month last year ended on a: Tues.*

*YTD sell days Over/Under: +1*

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