COVID-19
LIQUOR ANALYSIS

March 2020
Foreword

☑ The following document provides a top line summary of key events, responses and impacts on the Australian Liquor industry of the current COVID-19 crisis.

☑ The document’s lack of scan data is due to its current unavailability but this will be updated when more extensive data becomes available.
**Key headlines**

**Consumers have extended their panic buying from Grocery to Liquor**
- Liquor panic buying commenced wk ending 22nd March in Australia
- Majority of states saw around a 30% Unit growth on YA in beer.
- Consumers have favoured brands they know and trust
- And they have favoured quantity over quality

**Retailers have taken steps to remain open and manage their supply chains**
- Retailers put in place measures to mitigate threat of closure
- They have taken steps to maintain their supply chains (stock limits, reduction of promotions)
- With peoples movement restricted there has been an increased focus on online channels
- From the crisis there’s an opportunity to solidify the online channel’s role in people lives.

**Manufacturers are having to redirect resources to focus on off-prem and online**
- Indy manufacturers who rely on their own on-premise offering must adapt to survive
- Unforeseen off-premise and online demand increases are placing pressure on Mfr supply chains
- There’s an opportunity to generate D2C learnings to strengthen offering in the long run
- Some brands are using their resources to do good and earn goodwill from consumers
It has been a **turbulent Q1 in Australia**…

**JANUARY:** Unprecedented bushfires

**FEBRUARY:** Record rainfall & floods

**MARCH:** Panic buying, equity crash

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Loss of income; relocation costs; health costs; reduced consumer confidence; destruction and cost of lost assets, environmental costs

Panic buying; supply chain disruption, quarantines and fear of public spaces

*IRI Independent analysis*
The increasing anxiety around the COVID-19 saw grocery shelves stripped as Australians rushed to stock up on essentials.
From a liquor perspective, impacts have been felt across the world

5-Feb Coronavirus impact on China consumption to last month-forecast

18-Feb China Beer, wine demand to drop one-fifth in Q1 – analyst

20-Feb Campari Group puts China Aperol push on hold

26-Feb Coronavirus to cut Diageo fiscal-2020 sales by up to US$422m

26-Feb Treasury Wine Estate issues fiscal 2020 warning

4-Mar Brown-Forman has “tempered expectations” for fiscal 2020

16-Mar China brewers face Q1 slump despite on-premise recovery – analysts

17-Mar Diageo makes UK on- & off-premise coronavirus offers

18-Mar We’ve got to keep our business running” – UK brewers react to coronavirus on-premise

23-Mar PepsiCo offers North American staff COVID-19 compensation

24-Mar Anheuser-Busch Inbev Scraps full-year outlook

24-Mar Pernod Richard prepares for profit slump in fiscal 2020

25-Mar CCA eyes COVID-19 with pledge to keep staff

26-Mar Alcohol production brought to a standstill in South Africa

27-Mar Corona Virus impact “temporary” – Campari Group
CONSUMERS
Liquor holds an **important place in consumer’s lives** and this is just as relevant at a time of crisis

Responsibly moderate liquor consumption is part of many Australians way of life

- **Celebrate Reward**
- **Distraction Pick-me-up**
- **Connect Belong**
- **Relax Switch off**

**STIMULATE**

**ALCOHOL**

**UNWIND**

- **75%** of Australians often or always connect with their family, partner every day
- **69%** agree having a few drinks with mates is a great Australian tradition

However the way we **connect and consume** will be forced to **change** for the immediate future

Source: IRI analysis, adapted from Drinkwise; www.oecdbetterlifeindex.org; Australian Psychological Society
As paranoia escalated and consumers feared liquor retailers would be next to close, panic buying kicked off week ending 22nd of March.
This saw all states experience **Beer units sales spike 20%-45%**

The week of the 22/03/20 marked the first significant spike of Beer sales across Australia

Majority of states saw 20-45% Unit growth on YA.

However, in context this spike is still 30-40% lower than the week leading up to Christmas.

Expect the week of the 29/03/20 to be a further strong week of sales.

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<table>
<thead>
<tr>
<th>Units (000s)</th>
<th>Growth % YA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Beer</strong></td>
<td></td>
</tr>
<tr>
<td>NSW</td>
<td>NT</td>
</tr>
<tr>
<td>22/03/20</td>
<td>40.5</td>
</tr>
</tbody>
</table>

Source: Liquor Outlook MAT To 22/03/20.
With similar uplifts across all major liquor categories

Units Growth % YA
WK. Ending 22/03/20

+36% MAT 0.1%
+39% MAT 2.0%
+30% MAT 7.1%
+26% MAT 4.3%
+26% MAT -5.5%

Source: Liquor Outlook MAT To 22/03/20.
And we saw **similar spikes in the US** in the lead up to their own lockdown, with the spike commencing a week earlier than Australia.

**Units Growth % YA**

Wk. Ending 15/03/20

- **+10%** MAT 3.7%
- **+35%** MAT -0.5%
- **+26%** MAT 12.5%
- **+34%** MAT 6.8%

Source: Total US – Multi Outlet + Conv
Aussie consumers have favoured **quantity over quality**

### Beer

<table>
<thead>
<tr>
<th></th>
<th>22/03/20</th>
<th>MAT 22/03/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Label</td>
<td>+21%</td>
<td>-8.1%</td>
</tr>
<tr>
<td>Case</td>
<td>+45%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Multiples</td>
<td>+27%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

**Units Growth % YA**

Source: Liquor Outlook MAT To 22/03/20.
Further evident with an increase in Beer volume sold **below $6.50 per Litre**

**SHARE OF BEER**

![Diagram showing Beer volume sold below $6.50 per Litre](image)

- $6.50+ $/L: 16% (+21%)
- <$6.49 $/L: 84% (+79%)

**Can you focus production on your core mainstream brands for a limited time?**

Source: Liquor Outlook MAT To 22/03/20.
At times of crisis people **experiment less** and stick to brands they know and trust.

### Top 5 Unit Actual Growth brands in beer

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand</th>
<th>Units Growth % YA</th>
<th>Units Growth % YA</th>
<th>Share of Unit Growth of Beer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Corona</td>
<td>+102%</td>
<td>+3.1%</td>
<td>91.2%</td>
</tr>
<tr>
<td>2</td>
<td>Great Northern</td>
<td>+62%</td>
<td>+16%</td>
<td>0.9%</td>
</tr>
<tr>
<td>3</td>
<td>Asahi</td>
<td>+178%</td>
<td>+32%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>4</td>
<td>Lashes</td>
<td>+190%</td>
<td>+4.4%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>XXXX Gold</td>
<td>+22%</td>
<td>-5.5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Liquor Outlook MAT To 22/03/20.

**Can promotions be pulled on major brands for the next 2 months?**
Despite isolation, friends are still finding ways to catch-up for drinks…Online.

- #Whatsapero
- #DialInDrinks
- #Facetimefizz
- #SkypeSips

Can you reference this activity in your communication or can your brand be part of this activity?
Consumer Summary

✓ Liquor panic buying commenced wk ending 22\textsuperscript{nd} March in Aus
✓ In a crisis people buy brands they know and trust
✓ And they favour quantity over quality
RETAILERS
As the crisis progressed on-premise venues (Clubs, Pubs, Restaurants, Cafes and gaming venues) were forced to close

FINANCIAL REVIEW

Coastal pub calls last drinks with free beer for those sacked

At the Settlement Inn it was free beer on Monday morning for anyone who lost their job, as Port Macquarie publican Adrian Elmes laid down the challenge to drink his hops dry.

While still practising social distancing, Mr Elmes threw open the doors of his NSW pub and watched patrons drink free beer until the required shutdown of non-essential services at noon.

Last drinks: Patrons enjoy their final beers at pubs and clubs before they shut their doors indefinitely from TODAY - as some accuse the PM of 'overreacting'

- Scott Morrison has ordered all pubs and licensed venues to shut from Monday
- Revellers took to Sydney’s Pyrmont Bridge Hotel for a final drink before the ban
- Some patrons thought Mr Morrison’s tough restrictions were an ‘overreaction’
- Clubs, cinemas, gyms, nightclubs, casinos, places of worship will also close
- Mr Morrison said restrictions were necessary to stop the spread of coronavirus
- Coronavirus symptoms: what are they and should you see a doctor?

Patrons down last beers at Riverina Hotel as pubs enter coronavirus shutdown

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There have been many arguments put forward as to why Liquor manufacturers and retailers should be considered ‘essential services’ and allowed to stay open.

**Arguments why the Liquor industry should stay open:**

- Alcohol is part of many Australians everyday lives and **part of our culture**
- Helps us maintain some semblance of **normality**
- May aid **compliance with isolation** measures
- Will **protect of thousands of jobs** within manufacturing, retail, logistics and primary producers
- Restrictions on access to liquor could **promote black market** production
With the movement of people restricted the **importance of online** will increase, with contactless delivery being promoted.
This should drive a re-think of marketing and resourcing priorities with an increased focus on online comms and e-commerce.

- **Opportunity for Manufacturers to grow Direct to Consumer channel**
- **Divert portion marketing budget to digital comms**
- **Opportunity for retailers to deliver positive online experience to build long-term loyal online consumer base**
- **How could this change the liquor market in the future?**

Source: IRI Independent Analysis
Retailer Summary

✅ The closure of on-prem may lead to a boost to off-premise

✅ Many arguments have been put forward to keep liquor retailers open

✅ The crisis may grow the online channel into the future
MANUFACTURERS
Independent craft producers and small wine producers who rely on cellar door and taproom sales may be hardest hit

The lockdown will cause significant challenges for independent distillers, brewers and wine producers who rely on consumers engaging with the brand in the on-premise.

Below are some strategies that could be used to mitigate the down-turn.

- Utilise the ‘drink local’ ethos with personalised home delivery.
- Quickly add an e-commerce store to your website.
- Partner with local restaurants for meal packages.
- Offer gift cards for future purchases.

Source: IRI Independent Analysis
While major liquor manufacturers will also be impacted by on-premise closures. However this may be offset by increased demand in the off-premise.

Many major liquor manufacturers sell between 10-30% of their volume on premise.
Unforeseen off-premise and online demand increases are placing pressure on liquor retailers supply chains.

Some manufactures are experiencing up to an 800% increase in demand between retail & D2C.

Challenges:
- Overwhelming increase in demand through own websites and other online players.
- Stressing stock levels.
- Speed at moving product through supply chain.
- Re-deploying staff servicing on-prem to off-prem/online fulfillment.
- Understanding and tweaking product mix based on altered buying behaviour.
- Warehousing being equipped for large scale volume in low quantity sales.

Opportunity:
- Generate learnings to be able to strengthen D2C channel in the future and reduce reliance on traditional retail.
- Create a positive customer experience via online channel so consumers continue to use the channel post crisis.

Source: IRI Independent Analysis and discussions with multiple industry manufacturers.
Post the initial short-term spike, if consumption levels don’t increase dramatically we may see a drop in baseline unit sales. However, closure of on-prem may offset this.

Hong Kong Toilet paper sales demonstrate that once people are fully stocked, baselines may drop
Some manufacturers have taken the opportunity to use their resources to do good.

**DIAGEO**

Diageo pledges more than eight million bottles of sanitiser for frontline healthcare workers

- World’s largest distiller in unprecedented global response in the UK, Ireland, Italy, the USA, Brazil, Kenya, India and Australia
- Pledge aimed at overcoming shortages to protect frontline healthcare workers
- Donation of alcohol is enough to produce more than eight million bottles of hand sanitiser

“We have now allocated our **spirits production capacity** to hand sanitiser, with approximately 4,500 x 500ml bottles available to purchase… $20 each”

How can your brand help consumers and the community during the crisis?
While Lion used their resources to **spread the message to stay home**

*National campaign using a relevant brand per state*
Manufacturer Summary

- Indy manufacturers must adapt their offering to survive
- Generate D2C learnings to strengthen offering in the long run
- Do good and earn goodwill from consumers
Recommendations

**FOCUS ON CORE BRANDS AND BULK PACKS**
- Focus production on core brands
- Where possible reduce promotions
- Focus production on larger pack sizes

**DIVERT RESOURCES FROM ON-PREM TO OFF-PREM AND ONLINE**
- Divert larger portion of marketing budget to digital
- Can you increase your direct to consumer capability
- Make it easier for retailers to sell and ship your products online

**DO GOOD**
- As a brand be perceived as genuine, sympathetic & do good
- Activate your brand in a way that can benefits people’s lives in isolation
- Give back and be seen to give back to the community
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