

CONFERENCE SUMMARY

Tech Takeover: The Expanding Role of Technology in Beverage Alcohol



Vinexpo America | Drinks America
MARCH 10, 2022



INTRODUCTION

This is a recap of “Tech Takeover: The Expanding Role of Technology in Beverage Alcohol” presented at Vinexpo America | Drinks America on March 10, 2022.

GABE BARKLEY, as CEO, leads MHW's operations and strategy with a specific focus on building stronger partnerships with clients to help them realize their brand potential in the U.S. and EU beverage alcohol markets. Before joining MHW, Barkley held various roles in finance, technology, and consulting at Microsoft, Deloitte Consulting and Accenture, as well as holding leadership positions at two beverage alcohol companies. One was VinConnect, a start-up direct-to-consumer wine sales platform for top international wineries, where he helped connect more than 30 ultra-premium European wineries with over 2,000 U.S. consumers. The other was La Cave Warehouse, a wine retail and private storage firm based in Dallas, TX, where he led initiatives that resulted in substantial growth and operational optimizations. Barkley received his BA from The University of Dallas and an MBA with Honors from the University of Chicago Booth School of Business.

AARON SHERMAN is CEO of SevenFifty, an online platform for the beverage alcohol trade, which he co-founded in 2012. He brought more than a decade of industry experience to his role, having worked in a range of capacities, from sommelier at New York restaurants WD-50 and L'Artusi to beverage director at the SLS Hotel in Los Angeles, overseeing multiple outlets. At SevenFifty, Sherman plays the executive lead and oversees overall company vision and growth.

CATHY LEWENBERG serves as the Chief Operating Officer at Drizly, the world's largest alcohol marketplace. In her role, Lewenberg leads the day-to-day business operations while also helping position Drizly for the future. She and her team partner closely with retailers, suppliers, and wholesalers to meet rapidly evolving consumer expectations and deliver best-in-class shopping and delivery experiences.



MODERATOR:

Gabe Barkley
CEO,
MHW, Ltd.



PANELIST:

Aaron Sherman
CEO and Co-Founder,
SevenFifty



PANELIST:

Cathy Lewenberg
CEO,
Drizly



PANELIST:

Cheryl Durzy
CEO,
LibDib

Lewenberg most recently served as VP, Digital + Omnichannel Business at CVS Health where she led CVS's 'connected commerce' agenda. Lewenberg also spent several years in strategy consulting at Bain & Company where she specialized in retail and consumer products. Lewenberg's experience spans e-commerce, brick- and-mortar retailing, merchandising, marketing, omnichannel fulfillment, marketplaces, business development, and customer experience. She earned an A.B. in Politics from Princeton University and a MBA in Marketing and Global Strategic Management from The Wharton School, University of Pennsylvania.



Sherman said that his business had been building tools to create efficiency in the world of online, contactless ordering prior to the onset of the pandemic. They saw an uptick across every tier of the business. Having access online to a process that had previously been managed in person created efficient communication between both sides. This included price, availability, ordering, creating proposals, and more. Suppliers were able to replace in-person events with a digital channel where they could advertise and market in a targeted way to specific retailers. The pandemic sparked acceleration and adoption of tools and an eagerness for digital transformation that has flourished.

CHERYL MURPHY DURZY managed wholesale sales for her family's 80,000-case winery, Clos LaChance, for over 17 years. In June 2016, she started LibDib, the first alcohol distributor and technology company to offer a three-tier compliant web-based platform. Cheryl has a full understanding of the industry and issues regarding alcohol distribution in the U.S. She is passionate about evolving the current system by offering all small, family-owned wineries and distilleries an opportunity to sell their products to the businesses that want them. She is entrenched in the industry, sitting on several boards including the California Sustainable Wine Association and Free the Grapes.

Barkley asked Lewenberg to offer her perspective.

She said that it was fascinating for a business that has been around since 2012. Going into 2020, less than two percent of sales were going through digital channels, Lewenberg noted. The main barrier was awareness that alcohol delivery was legal – less than 50% of LDA consumers knew this. The pandemic changed that overnight. It's been on fire ever since.

Barkley launched the session by saying that today's conversation will be quite different from what it would have been pre-pandemic, based on the investment in and rapid adoption of technology over the past two years. It covers everything from analytics to education, from order management to customer service, along with the ubiquity of social media that has become a critical component of brand awareness development.

Barkley asked Durzy how the pandemic affected her company's distribution strategy.

Barkley asked Sherman to detail the changes and shifts in his business and more broadly.

Durzy said that distribution accelerated as brands needed to get to market via e-commerce channels. Her company went from distributing in four states to nine and has seen steady increases in makers and buyers signing up. While some buyers were resistant to change the way they had done business, the pandemic forced them to, and they began to discover the advantage of having a tool to learn of brands from all over the world. They had to adapt given that sales reps were unable to physically be in market for almost a year.

Sherman added that one of the benefits of a marketplace platform for the retailer is that they have all the wholesaler information available in one place. They can discover items across distributors to enter the categories they are looking for. They also have easy order guides with all information needed to buy.

How Platforms Add Value

Barkley asked panelists how their platforms are adding value to brands with the data they can capture.

Lewenberg said that her company has invested in building out marketing and advertising products. Because they address all three tiers, they are set up to help suppliers reach the consumer and, through reports, understand what is trending in certain markets. Retailers can get data that helps them understand where they should invest.

Durzy said that data is helping to understand the buyer's journey and how to use AI to make recommendations based on what the buyer is doing on the site. It also informs recommendations to the makers based on buyer behavior. It's helping buyers and makers make better business decisions.

Sherman added that what is being captured is first-party data from retailers engaging in the marketplace. It covers what they are searching for and what they are buying. The information can enhance the experience of the retailer because recommendations can be personalized. It also helps the distributor reps who are armed with better information about what a given customer might be interested in. Suppliers have access to real ROI as opposed to the in-person marketing activity whose results are hard to track. Across the board, analytics on ad spend, pinpoint targeting, and optimization through AI creates value across



all three tiers as engagement increases among retailers, distributors, and suppliers.

Lewenberg cautioned audience members to avoid getting left behind in the technology push. She recommended working on a strategy and getting schooled on technology. For some retailers, this can be intimidating because the focus has been on the brick-and-mortar space, the physical world. Yet there are tremendous solutions – platforms with which to connect to the consumer. It's a great first step forward. They should understand the role digital is playing, not just in buying but in influencing in-store purchases. At Drizly, 40% of customers say that they use the platform to research an in-store purchase.

Sherman reinforced that technology is here to stay and it offers enormous leverage for those who find the right set of tools. The good news is that technology is so much more intuitive and easier to get set up on. Though the barriers may seem daunting up front for anyone who has not engaged in the past, the path to getting to a high leverage point is much lower than ever.

Barkley acknowledged that point, adding that Gen Z has been using technology their whole lives and are getting into LDA in the millions every month. Other generations are also adopting technology. So, it behooves the industry to embrace it.

Pandemic-Fueled Surprises

He asked the group for anything that has surprised them vis a vis technology over the past two years.

Durzy noted the extraordinary dissolution of barriers that existed before and the fact that it is so much easier to get to the consumer today due to the relaxation of rules during the pandemic.

Sherman affirmed Barkley's earlier comment about the digitally native generation that is coming into the industry. They expect that the tools they will engage with at work will be of a similar level of ease and sophistication as what they experience in their consumer life. The companies building intuitive solutions have proliferated over the past two years. It's been amazing to see.

Barkley asked Lewenberg to elaborate on Drizly's recent partnership with Uber.

Lewenberg noted that the partnership, which just closed in October 2021, was a product of a strategic discussion early in the pandemic. Given Drizly's ground-up attention to compliance and its 5,000-plus store network already set up, it proved to be what she called "the best marriage of both worlds." They are off to a solid start.

A Look Ahead and Suggested Improvements

Barkley asked the panel to look ahead and predict what changes may be coming over the next two years.

Durzy offered that there will be more retail, restaurant, bar, and hotel buyers going online for search and discovery buying. In turn, more data will

be provided to both buyers and suppliers on how to better run their businesses. While this industry has been behind, it is happening and exciting to see.

Sherman agrees. While the foundation was laid over the past few years, there is a proliferation of new companies coming into the space which will result in more customized experiences. Distributor reps will have more time for education and suppliers and importers are going to get the benefit of all that data insights available.

Lewenberg added that while less than two percent of off premise sales were going through digital channels previously, it's now up to seven percent, with a forecast of upwards of 20% over the next few years. Some of the supplier teams that Drizly has partnered with previously had five or six e-commerce people and now have 50-75. Also, the ability to recruit technology talent has gone up tremendously. The industry is now being taken seriously.

Barkley asked where improvements are needed.

Sherman noted that on the logistics side, for wholesale, he'd like to see more integration between physical logistics—the warehousing and shipping—to be built into the experience of purchasing from a distributor, noting that innovation is underway.



Lewenberg noted that while regulations were eased during the pandemic, there is still a long way to go. She hopes for regulations that are more favorable to e-commerce.

Durzy said there has been access to many more products than consumers had in the past. For producers, there has been much more room for innovation when it comes to brands to packaging to flavors – think Frito-Lay Vodka. It's been great to see innovation happening.

Sherman noted the massive SKU proliferation and the consumer's curiosity to know more about products – where they come from, regulations around how they are made, the people behind the products, and the variety of channels where people are consuming content. It is encouraging to see how excited people are.

Drizly, according to Lewenberg, saw people using the platform to send gifts to friends they could not be with in person. It helped them be connected. E-commerce has become so much more than about convenience.

Q&A

Q. I would love to know what you are seeing in terms of opportunities or challenges with Web3 blockchain.

A. Durzy reported what she sees as a huge opportunity for brands. They can offer different offerings and it all lives in the blockchain. Not everyone knows quite what to do with it yet. It's an opportunity for distributors to bring those tokens—or whatever they may be—into the retail market who can then give it to the consumer. There's not quite enough structure around it yet, but the industry is getting there.

Sherman added that the incentives that are built into Web3 are interesting for technology platforms to think about and for brands to consider. Like Gary Vaynerchuk brought wine into the video streaming age, he is doing similar things with NFTs where he's showing one

can get real value, not just buying a piece of an NFT, but what are the additional things one can get from a community or educational perspective because of holding it?

Barkley affirmed Sherman's point, adding that companies should be deliberate and strategic, approaching it with value to the consumer in mind.

Q. Historically, sales messaging for brands has always been around taste. How has that adjusted with people buying online when they do not have an opportunity to taste—buying a \$100 bottle of wine without tasting it?

A. Lewenberg said that consumers benefit from producers bringing the tasting profiles to life online. Brands are doubling down on doing that and it helps with the discovery. People tend to go with what they know, but if platforms can bring comparisons to life, curating for personalization, they can help consumers navigate to related products they may like.

Sherman noted that there is an eagerness on the part of consumers for content. It's possible to drive them to content that enriches the experience, going beyond what they might get in a traditional tasting. With data, one can start to optimize and get a better sense of what works for specific targets or market segments.

Q&A

Durzy added that on the wholesale side, there is still an in-person component, and they still must be out there building relationships, talking to buyers to build a brand.

Barkley agreed noting that when someone tastes something and likes it, they may buy on the spot.

Sherman countered that this is where a digital channel can play a huge role. Given the breadth of what is available online, at different price points, they gain a broader awareness of what's potentially out there for them. Sherman also offered that he sees technology as something that supplies more leverage for the other activities that one may be doing. It gives all information in one place cutting the need to track it down. It saves time. It is also good for customer support providing a smoother, more streamlined way to communicate with the customer, leaving more time for other activities.

Durzy noted that her company's customer support is both online and with human interaction. On the maker side, portfolio managers will help guide them through the process. And there is excellent online content that describes distribution from A to Z. So, there is robust online content and real people behind the scenes to assist.

Barkley noted that his company works to provide brands with access to information about how to get to market and what platforms are available to do so. It's a consultative approach.

Q. Do you find any pushback from distributor reps? Or are you working with them in tandem?

A. Sherman said it is the latter. The primary value for the rep from the online ordering experience is that they do not have to receive text messages, phone calls, scribbling notes in person, etc. Once they get an order, it is either an integrated order that goes to their handheld device that they can process with a click of the button, or they receive a structured email that gives them item number and all the detailed product information so they can input the order accurately. The baseline is efficiency.

There is also a suite of tools that provides reps with ways to create collateral and sales material and make proposals, tracking activity with the retail customer.

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