Boozy COVID-19 Updates with Austin Eastciders: Changes in the Alcoholic Beverage Market

This is a transcript of one of the sessions from the UT Nutrition Institute's 2nd Annual Taste of Texas event that took place virtually on October 2nd, 2020 via a video conferencing software.

Session Description: COVID-19 has drastically changed how alcohol is sold and experienced across the US. Learn from the experts at Austin Eastciders on how they have adapted to the changes.

[Panel introductions]

Marissa Duswalt Epstein
So, Quentin—a little bit of biographical information before he kicks us off. Quentin is a longhorn alumni and McCombs graduate from 2018. And prior to coming to business school at UT, Quentin spent a decade in politics, so you can imagine he was really ready to make a pivot coming into the business world. While he was here at Texas, him and his co-founder realized that there was an opportunity to provide healthier food to students on campus and they started Ranch Hand, an incredibly delicious salad- and protein-based food truck, that led to insights in the alcoholic beverage market here in Austin that grew into Ranch Rider Spirits, which Quentin now cooperates with his co-founder. And so, we're delighted to have Quentin moderate our panel today. Quentin, I'll hand it over to you. Thank you.

Quentin Cantu
Thank you, Marissa. Appreciate it. Thrilled to be here. First, I'm gonna go ahead and introduce our panelists.

First, we have Arif Fazal. Arif is the founder, managing director of Blueberry Ventures, which is a CPG-focused VC firm. They've done deals with a lot of notable brands in the space, including Rhythm Superfoods, Austin Eastciders, and High Brew.

Next up, we have Clayton Christopher. Seasoned Austin entrepreneur and investor. Founded Sweet Leaf Tea, Deep Eddy Vodka, Waterloo, CAVU ventures, and many, many more.

And then we have Dave Rule who's the VP of marketing and Austin Eastciders who also comes to us from KIND snacks and Vermont Smoke & Cure.

[Before, during, and "after" COVID-19]

Quentin
I know we have a limited time, so I wanted to go ahead and jump right in. First off, you know, obviously no one could have foreseen what was to come in February 2020, right. Especially—no matter what category we were in. I wanted to talk to, specifically, what was happening at Eastciders kind of before, during, and after COVID kind of became an inescapable reality.

Maybe Dave you can kind of tell us what was in the works for South By and ACL, and Clayton and Arif you can kind of tell us from a 10,000-foot perspective on the business or expansion or distribution what was in the works. And then kind of how all those things got sidelined or repurposed kind of in late March or April.

[Dave muted]

Clayton Christopher
Sounds good. We have—is Dave with us or did we lose him?

Dave Rule
All right, sorry guys. I was on the mute. Classic zoom mistake.

So, yeah. Going into the year, it was super exciting because, you know, not only do we have South by Southwest, which is always a huge activation for us with our new products, we're actually launching a whole new line extension. Back when I started with the company in 2016, I think we had three flavors. And we really ramped up our new product development. Going into the year we had three new flavors and a full line extension with Austin Eastciders seltzers. So, that was really big news. In addition to that, we had already begun development on a restaurant, which ended up being one of the, you know, the toughest gigs in town with COVID, right. So, we were launching a brand-new line extension innovations into a pandemic, and we were also launching a restaurant into a pandemic.

So, that was kind of what was going on before, and then there was just a lot of reaction to it. I think it was right around, you know, March 12th or March 11th, 16th. That's when everybody sort of started battening down the hatches and where we started making all of our pivots. But yeah. it's been a wild ride. That's what we're doing before COVID. I mean, do you want to get right into, you know, what we did once it hit?

Quentin
Sure, yeah. I think it'd be fascinating for everyone to hear kind of once it hit and became an inescapable reality, like, what was the team talking about? How—you know, what was the immediate plan B? I think everyone was kind of panicking and didn't really know what came next, so I think a brief synopsis of what the conversations were like then would be really helpful.

Dave
Yeah, I think the highlights are that, you know, all our marketing strategy, go-to-market... a lot

of it has to do with retail. A lot of it has to do with driving trial. You drive trial through retail activities, events, and on-premise. And all three of those things became hugely impacted, right. To drive trial with new products.

Also, just, you know, 35% of our business goes to the on-premise. So, with that going away that really, you know, I think everybody, every industry that was impacted by COVID... the biggest thing was to preserve cash, control expenses, make it to the other side of the river. You know, "survive for the win" was sort of the rallying call, and that's what we did. And so, you know, we didn't shut down shop. What we did is we made a lot of smart changes to our strategy, just as far as, you know, cutting our expenses. We shut down our tap room, our first tap room that was running. 50 part-time folks that were out there doing demos for us at retail, there's no longer—they didn't have a job for them. We did actually put eight teammates on furlough, so we're really batting down the hatches. But with the remaining funds that we had, we got really smart and with our teammates—everybody, you know, we had a lot of sort of, like, rally meetings. It was a lot about just take your job description and take that business plan that we put together and work so hard for the last eight months, and just roll it up in a ball and throw it in the trash because we're gonna have to start from scratch here and play the hand that we're dealt.

So, there was a lot of creativity, I think, from, you know, how do we how do we drive trial and awareness around our products? How do we continue to develop this major investment—which was a restaurant? And then, how do we go to market with those things all during a very, you know, fluid situation. Especially that first month. It just seemed like every week it got exponentially worse. It's like when is that rate of decline gonna stop. It just felt like the sky was falling for a while, but our team kept it together. And, I think, since day one a great thing about Austin Eastciders has been our team's resiliency and the ability to adapt. So, I think those are a lot of the things. We could get deep on any of those of.

Quentin
Love that. Clayton, I know you come from Deep Eddy, and so, obviously, there's background experience, but there's no institutional precedent, right, from a business experience—at least for any of us for something like COVID. So curious how you were approaching it, if there was anything that you could lean on, at least in the alcohol perspective, from Deep Eddy experience or was it completely unprecedented?

Clayton
I mean, I think for all CPG businesses, most early-stage brands did not benefit from COVID. While there was a big surge in sales in grocery stores, you know, it was with established brands. You know, people aren't looking towards innovation and trying new products and spending the same amount of time reading labels that they were before. So, you know, it didn't necessarily help a lot of the smaller brands out there.

You know, a lot of the advice that I was giving to CEOs—and Dave and his team did a great job of this—but, you know, you got peace time CEOs: you're in growth mode, you're thinking creatively, innovation; you've got wartime CEOs. And it's really tough to pivot from a peacetime CEO to a wartime CEO because it's a very different skill set. It's a very different mentality. But Dave and team at Austin Eastciders, you know, I'd say we quickly battened it down the hatches. There's just so many unknowns when COVID first hit, you know. As Dave said, we have a about 35-37% of our revenue was coming from on-premise. On-premise was gone. Zero. Shut down. And, you know, thank god it was only 35 or so percent because there's a lot of smaller craft beer companies out there that on-premise is like 80%, 90% of their revenue.

And it's typically the smaller, the craft beer player the larger percentage of their revenue is on-premise or from their tap room. So, luckily, we weren't as exposed to it. And, you know, we were able to play defense so that we can now get back into to playing offense, which is a lot more fun.

Quentin
Awesome. And Arif, I know that Blueberry does a lot of other CPG non-alcohol brands, and I'm curious kind of what the compare/contrast is with Austin Eastciders being a booze brand? I think that, you know, overall, as a category booze has kind of seen a positive uptick in consumption, obviously, since COVID. People have been at home. People have been bored. So, curious how Eastciders has fared in contrast with some of the other brands that you've seen out there in the market?

Arif Fazal
Yeah, absolutely. And, in fact, we have a couple other alcohol investments as well so, I could talk to, you know, vis-a-vis other alcohol. But just more broadly, you know, Clayton nailed it when he said sort of broadly throughout CPG, you know, the smaller folks have been harder hit, at least out of the gate, with COVID as consumers sort of flocked to what I call familiarity.

And, you know, David's done an amazing job at Eastciders sort of taking this traditional, you know, concept of "liquid to lips" in store, on-premise, as a mechanism to get consumers into a brand, for Eastciders. And sort of translating that into: how do you do that digitally? Right. And Dave's team has done it incredibly well. So, you know, across CPG everybody was asking that question, right. "We can't go into...," "We can't sample at...," etc, etc. So, how do you then impart those same concepts and that same feeling to a consumer in a very, very different way? So, you know, as this industry is very creative and very resilient—you know, a lot has come to bear as a result of, you know, the necessity to shift.

And, you know, Clayton touched upon this concept of, you know, moving from defense to offense. And, you know, I think what we've seen sort of throughout the industry is, you know, once that, you know, everybody had kind of shored the ship, if you will, batten down the hatches. How do you then figure out what's the right course to navigate such that you can come out and find the sun and find the wind quicker, faster, and be stronger when you come out of things?

[How did you update your sales strategy?]

Arif
Quentin, you're on mute.

Quentin
That was great to kick off. So, talking about kind of what the actual strategy for adapting was, I'm curious—you know, a lot of alcohol brands saw COVID as an opportunity to really strengthen other channels that aren't necessarily often associated with alcohol, so I'm obviously referring to channels like D2C which is a little bit tricky given the fact that every category is dominated by a different regulatory framework, right.

But curious kind of for, you know, if the on-premise shut down, where did you redirect your sales channels to? Was there a newfound focus on channels like Drizly and delivery or potentially even direct-to-consumer—I know obviously that being a little bit tricky with the shutdown in on-premise, like you said, Clayton and Dave.

Curious, you know, obviously, for you guys that probably meant way less kegs and much more cans. Things like that. Dave, I'll let you go ahead and kick it off.

Dave
Yeah so, I mean, you got it right. Every everything moved to off-premise, and everybody started picking up or getting their groceries delivered—except for the brave souls that wanted to go shopping. And, you know, and actually retail merchandising and that whole game really changed a lot, too.

But to answer your question: we pivoted a lot of our—we're always prioritizing our resources, right. What's our greatest, you know, potential return on investment. And so, for us it's always been retail, demo program.

It's always focused around a potential intent to purchase, proximity to purchase to focus our funds. When this happened, we sort of gained some bandwidth from some teammates who used to be doing that work. You know, talk about take your job description, throw it away, and try to figure out what the best path forward is. And some of the things that we did, I guess, just from a top line perspective, we funneled more of as a percentage of our budget—our budget shrank greatly that's the best way to pivot your finances, you know, is to take away marketing dollars and be flexible with that.

And when we did that, the new shape of our budget we moved— originally 17% of our marketing spend was focused on digital and that through that transition we, that became 40% of our budget. And the way—so that, we also—so not only just our funds, but also our sweat sort of happened in digital. I can kind of like walk through that.

The first is, as far as like digital ad spend, you know, focusing on social media advertising and targeting all sort of within, you know, geographies and proximity to purchase. We also have a pretty sophisticated search engine marketing program, Google AdWords. We serve ads to people who are showing intent to purchase through their search. So, we put a little bit more funds there.

It's a pretty efficient impression device to sort of target consumers that are looking for "ciders" or looking for "ciders from Texas" and other sort of, like, great search terms like that. But what we also did was we attacked this monster we never had the bandwidth for which is: partner e-commerce merchandising. And so, that, you know, there's 22 focus retailers selling online that we want to make sure that are—and it's kind of a wily beast.

Anyone who's been on, you know, Amazon platforms, you know, partner e-commerce platforms, you know, that your copy and your photography and your videos and your storytelling on your product pages is all super important to conversions. And so, we actually spent a lot of time working with all of those vendors to update those assets and make sure that—it actually took a lot of time to work with 22 vendors to make sure that we were merchandised correctly online. That was the big focus for us.

We also did talk to the people—the folks like Drizly. Because of the three-tier system, you can't... you know, it's interesting from a return-on-investment perspective, there's a lot of people that say they would stay away from Drizly. But Drizly just had a giant boom, so that kind of changed right through COVID because people are getting deliveries. And the way we attacked Drizly was to make sure that we were being distributed through all of the stores that service Drizly. So, running gap reports, distribution gap reports, and making sure that, you know, when you go on Drizly and you start making your purchase, the products that are served to you are the ones that are available at the store that services your location, right. So, if you're not in the store, you're not on Drizly to that specific consumer. So, distribution gaps for Drizly.

But then, we did also launch our own direct-to-consumer. You can actually buy Eastciders through our website now and have it shipped to your home, which was, again, something we never prioritized because of the size of the prize. But it gave us this great opportunity to get that off the ground. And I think the first weekend, we did $3,000 in Eastcider sales—

[Selling liquor D2C from a legal perspective]

Clayton
David. David, maybe for the viewers, you know, with the three-tier laws... how are we able to do that?

Dave
So, the biggest thing is if the retailer owns that sales channel, if it's not an in-between—so, like

Drizly... you could actually buy advertising with Drizly, it just might not be very efficient. You can buy—So you can do it with Drizly because Drizly is not the retailer. You can't give the retailer money for preferential display on those channels, right.

Clayton
For these liquor brands to be able to ship direct-to-consumer, like with us for Austin Eastciders when they go on our website to buy Austin Eastciders, kind of, legally how are we able to navigate that?

Dave
So, we're regulated as a wine. And so, wine has been shipping to consumers. So, each it's—actually, I couldn't tell you the nuance from category to category, state by state, because it does change, and if you just try to use logic of course that doesn't work because it's these crazy loopholes and legal standards.

So, the way that we did it, as a wine, and then also there's just these huge hoops each state you have to sort of be compliant in each state. And so, it's a mountain of paperwork and fees if you wanted to open up all of those states on your own. So, I think, for a wine-based, we worked with a partner called VinoShipper, and they work as our conduit to do all those legal hurdles, and in one swoop we give them a percentage, we give them points, of course, to use their platform. But they make us compliant in 39 states. So, in one swoop we were able to open up, distribute our direct-to-consumer shipments to 39 states through the VinoShipper platform.

Quentin
That's fascinating. So, it's fascinating to think about how, you know, pre-COVID... what distribution gap meant was, you know, a sales person being on the ground, going to check inventory at the store. What merchandising meant was going to the shelf and making sure that every Austin Eastciders can, the logo is facing outwards towards the customer. Whereas now you're trying to do that in a completely digital space.

[Do consumers now expect on-demand, delivery, D2C?]

Quentin
Curious to hear from you Clayton, Arif, do you think that, you know, maybe once there's a vaccine and on-premise starts to a much greater capacity, you know, upwards of 75-80% maybe sometime mid to late next year, do you see these channels like Drizly, direct-to-consumer—do you get them to maintain a share?

In other words, do you expect consumers to—do you think that consumer habits have permanently changed to expect this on-demand, delivery, D2C channel for alcohol? Or do you think that they'll kind of resume normalcy and again go back to the store and go to on-premise? Arif, you can kick it off.

Arif
Yeah, I'll take that, Clayton, first and then you can chime in. But I think the short answer to your question, Quentin, is absolutely, right. So, the consumer is going to want to consume the way that they want to consume.

And if anything, what COVID has done—and this is across CPG, not just specific to alcohol—but it's given the consumer yet another opportunity to procure and acquire. And done so in a way where, obviously, there's been a huge spike in e-commerce. And whether that's D2C or Amazon or other e-commerce channels, the consumer expects to be able to get it that way. And then specifically within alcohol obviously with the Drizly's and the BevMo!'s and delivering, you know, it is now... alcohol is now at a place where the rest of consumer was in terms of, "I want it. Now I can get it a few hours," type of thing. So, you know, Quentin, I definitely see a place for these types of, you know, "newer" models. And I sort of say new tongue-in-cheek because they're not that new, right, but they've just been accelerating the last six months. With that said, I mean, you mentioned sort of when things come back right—it's, you know, it's gonna be really interesting, right.

We've already seen in alcohol we've seen sort of a, you know, deceleration of craft breweries. A lot of stress there. There's going to be more stress. You know, even the Texas Craft Brewers alliance just came out and said, you know, 60% of Texas craft brewers will be gone in a year. And so, you know, I think what's going to happen is that there's going to be—and, you know, just generally sort of on-premise there's data out there that suggests 30 to 40% of restaurants won't come back, right.

So, you know, the folks that are going to come back will probably come back very strong because I do think there's going to be, on the flip side of all that, there's this pent-up consumer demand. I mean, we already saw a little bit in the summer. And this is, of course, state-specific, based upon, you know, reopening mandates in different states are different. But, you know, there's this pent-up demand. People are social, right. And alcohol is a—sort of helps us to bring people together in that social environment. So, you know, I think the folks that do come out of this, the tasting rooms, the on-premise restaurants, bars etc., you know, it's just going to matter of, you know, when can they get capacities up?

Because, I think, that they're—well, right now consumers are still pretty reluctant, right. We've seen it tapering off, frankly, in the last three months in terms of consumers' willingness to get out there. They started getting out there in June and July, but, you know, that will come back, Quentin, to your point, when there's a little bit more of a halo of safety as it relates to COVID with respect to a vaccine.

Clayton
Yeah, and to build on that, there's a lot of experts in our industry that feels like on-premise bars and restaurants will never be back to where it was. Who knows if that's the case. I wouldn't want to bet my business that we're going to be back to where we were a year from now. You know, what I can tell you is it takes, you know, humans... it takes us a long time to

acquire a habit, and it takes us just as long to break a habit. And we are in the midst of new habits being formed.

You know, as the vaccine comes out next year, you know, that the folks on this on this Zoom call will not be the ones getting the vaccine in the first half of the year. You know, it's going to be the first response workers. It's going to be elderly, people that are most sick. So, you know, expect for the kind of the new normal to continue well through next year and into 2022.

So, I think that's really, you know, from an advice perspective and from a business perspective, the way that we look at it is: we've got to adapt to a new norm. You know, there's been a massive shift to online—that's across CPG, but with alcohol as well. And that's not going away, you know. There's new ways of purchasing products and new habits, new patterns that've emerged. And people have gotten used to it. And that's going to continue so, you know, you've got to adapt to that or you're gonna get left behind. And so, you know, yeah, we're—that's the advice that I'm trying to give folks is these new habits, whether it's working virtually or whether it's the huge surge in e-com, they're here to stay.

Quentin
Awesome.

[Austin Eastciders and the industry can shortage]

Quentin
And then, at the risk of boring a lot of our viewers, I'd be remiss if I didn't ask this question given the fact that I co-founded a canned cocktail company and Austin Eastciders is now in cans, and I think you guys know what I'm about to ask, but one of the things that COVID did was it accelerated this can shortage that was already looming for a lot of beverage producers that were in cans, right. Already you were seeing a lot of consumers gravitate towards consuming things in cans. People that were in bottles, were gravitating towards using cans as vessel, right.

Before COVID, I think the only corporation that correctly predicted the can shortage was A-B, and so they immediately bought a ton of cans that were slated to be produced for the rest of the year thereby accelerating the canned shortage for everyone else. Curious to hear if Eastciders has experienced any problems during—due to the can shortage. If any of our viewers just simply google "can shortage" it's become a massive problem for every beverage company in the space.

Dave
It's been a—I can answer real quick, and the quick answer is it has not impacted us, it's only impacted our practices. We work with a broker between us and the can manufacturers, so sometimes we get things made by Crown, sometimes by Ball.

We use a broker in between, and I think the purchasing power that they have and the leverage that we have with them being a partner with them for a long time gives us some insulation to this point. What we're doing is we're providing forecasts ahead of time. We're providing artwork much earlier than we used to, and we're just being careful on our orders and ordering up and trying to stay fat without being irresponsible with our cash. So, thus far, we have not had any concerns.

Clayton
Yeah. I think it—

Dave
We're keeping our eye on the ball.

Clayton
Yeah, I think it's really, Quentin, been more challenging for the smaller brands, for the really early-stage brands because any of these suppliers know that they're taking a risk and they're largely taking a bet when they start to do business with a lot of these early-stage brands, which is why most of them pay up front COD versus getting, you know, 15- or 30-day credit terms.

So, for the more established brands like Austin Eastciders, even though we're not a big brand we've just been around for a while, we tend to have better, more long-standing relationships, you know, with these suppliers. Where it's really—my heart goes out to these earlier stage brands like, you know, Ranch Rider, it sounds like you've been scrappy and then I've been able to secure the inventory that you need, but it's not the case with a lot of them because these suppliers see those brands is the biggest risk, and, you know, they're playing defense during these times as well. How's it been for you, Quentin? Have you been able to supply—get the cans that you need for Ranch Rider?

Quentin
We have. We've been a lot more fortunate than a lot of other startup brands in the space who we've heard directly from them that they have to sit on production because there's a lack of cans, right. But we've employed almost dozens of people to literally scour the ends of the earth because Ball and Crown have been allocated. Not only through the rest of this year, but also next year, so. It's been an adventure but, you know, we're going to a degree that I think is attracting a little bit more attention from the brokers and the main companies. But we've been able to procure what we needed up, you know, thus far.

Clayton
Well, if you get short and you have some Ranch Rider—the stickers, you can come over to Austin Eastciders. We'll give you some cans. You can just you put your sticker right on the front.

Quentin
This is what this is recording Clayton so, I might have to [inaudible].

[laughing]

[COVID-19, venture capitalists, and "willingness to invest"]

Quentin
Awesome. And, you know, kind of getting to a little bit more broad topics, like, curious to hear from you Clayton and you Arif about, you know, there's been a lot of literature—obviously we've been talking about how startups are, you know, emerging brands or beginning brands, young brands are having a little bit more trouble capturing the attention of consumers during COVID because people that are in the grocery store want to get in and get out.

But curious to hear from you on a venture capital perspective, have you been signing many deals given COVID? Would you be signing more or less, you know, in a non-COVID environment? Is this kind of what you expected from a deal signing or investment environment for this year, or kind of how has that changed throughout the year? Clayton, you can go ahead and kick it off.

Clayton
Sure, you know, I think everybody kind of right when COVID hit in March, you know, most investors, you know, I saw a decrease in deals getting closed. I think a lot of folks kind of put pencils down for a bit just not knowing, you know, what was in front of us. I think that people—we've adjusted to that. You know, we're certainly seeing plenty of deals getting done.

Early on I thought valuations were going to come down quite a bit, but they seem to have returned. You know, the trickle down from the stock market that everyone's scratching their head about as it continues to stay at record levels. You know, never bet against the fed. Money's really cheap right now in terms of debt, so I think that's fueling a lot of transactions, a lot of deals.

So, no it's... I mean it's a robust market right now. There is a lot of brands raising capital and getting deals done and getting them done at a good valuation. I think that's all super positive for our industry. Arif, what were you seeing?

Arif
Yeah, no, I mean Clayton nailed it. Just a lot of the same. You know, maybe, Quentin, I'll address the first part of your question in terms of... you alluded to smaller companies coming out of the gates.

One of the things that we've seen is that, you know, it's interesting right the smaller the company, the less dependent the company was presumably on the disruption, the dislocation that came in early March as it related to any sort of on-premise consumption, on the one hand, and then retail on the other hand.

So, you know, a handful of companies that we've been getting close to and the like, you know, came into this year saying they were gonna go, you know, the first thousand doors, if you will, and sort of prove a bit and see what velocities look like. And that just wasn't there, right, come March. And whether they had been authorized and what their resets weren't happening or whether they had, frankly, been already put in line they weren't able to effectuate much at the store level, for obvious reasons.

But what they were able to do is because they were small, they were able to be small which is one of the tenets of being small was a pivot, right. And so, immediately sort of focusing attention to where they could focus attention, and we've seen a number of stellar results associated with that type of pivot. And so, a lot of smaller guys, you know, being scrappy, you know, women and men entrepreneurs out there that are leading their businesses to say, "Hey we're gonna things exclusively online and get the most we can get out of..." whether it be direct-to-consumer through, you know, building their own Shopify websites and really hammering social media, or Amazon.

And there's been some pretty amazing stories for those who've done that because, you know, customer acquisition costs have, you know, were in Q2 at an all-time low. Consumers were obviously at home, and they had a little extra time on their devices, so, you know, it was sort of this perfect storm, if you will, to not only accelerate D2C and e-com, which we spoke about earlier, but also for brands to be able to find another outlet which could also drive, you know, meaningful, meaningful commerce. So, that was, you know... that was a, you know, pretty exciting silver lining for a lot of earlier stage companies. You know, the story's a little different with the later stage companies which we can get into if you like, but just wanted to kind of share that given that I think most of the audience is probably on the startup-y the end of things.

Quentin
Yeah, exactly.

[Founding a company during COVID-19, appealing to investors]

Quentin
And Arif, you know, to your point, just a follow-up question—so, obviously the venture capital environment, the investing environment, that's been covered. The early brand environment, that's been covered. Just to touch on the actual startup founder, you know, Clayton mentioned the wartime CEO. I think that there's also a lot of founders out there that are wartime founders, right.

There was an article in the Wall Street Journal the other day about how the number of LLC filings and applications is actually higher this year than it was last year. And it's because a lot of people are looking at this environment thinking about new ideas and beginning to execute them and put them into practice, and so, they're going to start starting their own businesses.

But I'm curious, you know, what's your 10,000 foot take on what it looks like to create a startup in this kind of environment? Has anything crossed your desk that's obviously super early-stage that you find intriguing that, obviously, would not have, you know, come to pass if it were not for, you know, entrepreneurs getting creative thinking about COVID?

Arif
Yeah I think, you know, downturns, you know—if we are truly in a downturn. You know, by some regards we're in a recession, but if you look at the stock market we're not. But, you know, downturns tend to catalyze and they tend to bring out, like you said, sort of wartime founders, right. Sort of the scrappiest of the scrappiest. And, you know, lots of great brands and businesses will be built in this time.

You know, taking the disruption and thinking in an orthogonal way of how things have been done before, I think there's tons of different opportunities there. Yes, I mean from a deal flow—Quentin, you alluded to—yeah, we're sort of... things haven't really slowed down, maybe a tick. But frankly, you know, a tick isn't much, and who knows if that's as a result of COVID.

And Clayton mentioned this earlier, but, like, it's crazy to me in a lot of regards to see how many deals are still getting done and the valuations that they're getting done around. It's, you know, there's just a lot of capital. And to what you said Quentin, there's a ton of great entrepreneurs out there. And we've got so much green field in food, beverage, and nutrition. And then within that specifically alcohol, I mean. we've made three alcohol investments. Have a huge forward look on, kind of, the evolution and the next generation of alcohol. So, long answer to your short question. Yeah, I think it's going to be a, you know, it's a bumpier time to go out—and, you know, those that can navigate the challenges that exist now will come out ahead and come out ahead stronger.

Clayton
I completely agree. And to build on Arif's point a bit, I would say something that is... that I've seen dramatically change—broadly, but certainly for me personally in investing—is it was different pre-COVID to a certain degree. But it's like, I wouldn't even think about investing in a brand now if they didn't have a strong e-com strategy. And the companies that I've been looking hardest at, talking most to on potential investments, are digitally native. Literally—outside the spirits space. Obviously, spirit is a little unique. But within traditional CPG, you know, most of these... we're just seeing more and more brands that have started online, have grown their companies profitably—that used to not be the MO.

It used to be like, okay, quality of revenue but, you know, we're fine with them losing money as long as they're building strong quality top line growth, and that's just not the case anymore. Profitability is a lot more important. And while it may not happen right out of the gate, it's easier to have—you're going to have much higher margins and the ability to be profitable if you've built a good online business, first.

So, I'd say that's a new criteria that's kind of entered the marketplace that I think is pretty ubiquitous, you know, for any VC out there looking at brands.

Quentin
Absolutely. The need to go digital or at least have a digital presence has become imperative, whereas before I guess it was maybe a little bit more optional.

[Marketing strategies to tap-in to home consumption]

Quentin
I'm gonna start fielding questions from the audience now. People that are generally interested in hearing from the panelists. We've got one for you, Dave. Obviously getting to how marketing strategies have changed, you know, now people are—less people are, obviously, going out to bars, even though they're opening up.

There's a lot of people that, you know, the next time they go to a bar they have no idea when that's going to be, so. The question is: how can you use marketing strategies to tap into home consumption? By, you know, a couple people that live together, or by small groups of people who get together in their backyard. You know, how do you market to those people when, you know, they're not, like you said, there is no liquid to lips, there's no on-premise presence, they want to stay away from on-premise if they even want to go into off-premise, right. Like, what is the challenging part about marketing with those people, and what does that strategy look like for Eastciders?

Dave
Well, retail is still super important, right. I think a lot of the things that we did to change are the quality of our merchandising on partner e-commerce website, so—when I say partner e-commerce, I'm saying like H-E-B direct, H-E-B curbside, Kroger, places like that. Making sure that we look good there. Also making sure that we still look good in stores. There's a lot of people still going into stores and shopping.

You know, the grocery workers are actually pretty stressed during this time. There's a limitation of how many vendors can come in and help them with things like merchandising. They used to actually augment their human resources as far as like pulling stocks forward, so.

Safely, if you can get in there and be impactful at retail and help those buyers and those category managers, you might be able to get more display activity. And displays definitely drive trial. Of course, we have a restaurant now and we are operating a restaurant. And it's going well considering that we're opening during COVID. We're actually happy with how things are progressing, and, of course, trying to get better all the time. But that's a huge trial driver for us. It's a great piece of media on a highly trafficked road. It actually makes a pretty big splash and an impression there. So, I think that's really big.

And then our, you know, our field marketing folks... we have a very small team that's pretty savvy and— or actually very savvy—and they are finding opportunities to scale trial activities. So, we did some interesting things. Right in the beginning, we were doing complementary six-packs to unemployed service workers which actually drove a lot of people for to-go business at our tap room. So, caring platform work. We have donated a lot of product to first responders and frontline folks through organizations. We worked with a social influencer, Taste of Koko, to do complimentary lunches and Eastciders for unemployed service industry folks as well. And, of course, those guys eventually are going to go back, and so you're helping people who really deserve it and it goes right back to our values. People are actually also going to be recommending beverages to people when on-premise opens back up, right. So, it's a great virtuous circle. But, of course, you know, social advertising, smart targeting, good content, all those things.

It's just, of course, the number one behavior we want to drive is a purchase, right. The second-best behavior we can drive is trial and taste. And, of course, that's great to do in a one-to-one experience, but you can pique curiosity and you can kind of drive people down the funnel through some smart digital advertising as well.

On the event front, there's also interesting things that are emerging. Like, I believe in Cedar Park there's going to be with some local musicians, Wild Child and some other folks, where it's a drive-in concert. So, we're starting to see event innovation and how we execute and have social distancing and being safe while also having experiential events. There's another place that was doing sort of pre-fee picnic dinners, you know, so, things—Our big focus now is trying to find those activities that are scalable. So, you know, another great one I'll give you, Quentin, is, you know, donating product to food trucks. They can give that to consumers, right. And a lot of people are buying food from food trucks right now.

Quentin
I love that.

Dave
There's ways, there's ways.

Quentin
I endorse, I endorse that.

Dave
Yeah, we used to give a lot of product to La Barbecue, kegs and cases, and people come up and buy their barbecue and have an Eastcider, and when they finally moved into the Quickie Pickie after years of doing that, the next week 70% of all alcohol sales at the Quickie Pickie was Eastciders. You see that behavior; you drive that behavior. You know, that's just a good little anecdotal case study on, you know, driving that behavior.

Quentin
Absolutely.

Arif
Yeah, I mean, dovetail onto that it's, you know, Dave and his team have really been that entrepreneurial scrappiness that we've been talking about as it relates to.. okay, what can we do now and how can we drive things?

And, you know, just taking a step back for a second because so much of the alcohol world—in terms of how it's regulated—is predicated on, you know, age-old et cetera, right. So, you know, some of that was broken down through COVID, and as a... you know, frankly to allow commerce to continue, right. To allow consumers to continue.

[Distorted audio:] You know, it'll be interesting to see how the disruption in the ability of the consumer, you know, for example, just being able to take something together right now. How simple of a concept is that [inaudible]... as I understand, not being in Austin. But, I think there's going to be a lot of that from a behavioral, structural [inaudible] that will change and will evolve, as it should, frankly.

Quentin
Awesome. Love it.

[Experiences with D2C, to-go, and delivery]

Quentin
All right, I'm glad you spoke about regulations, Arif, because I think we've got a lot of questions from the audience about regulatory changes. I know that the TABC has been kind of, you know, regularly updating their guidance, not only towards on-premise establishments but, you know, distilleries, tasting rooms.

Clayton, I know that Deep Eddy has been affected. Curious if you can kind of speak about how, you know, maybe one or two of those regulatory changes have affected Eastciders? Dave, I know you were talking about to-go earlier, and I know that there was some unclear guidance really early on. What constituted to-go? How much it could be to-go?

But I think that while the three-tier system is here to stay—I think that that's pretty, you know, you can make an undoubted statement such as that—I think that there's definitely room now, you know, to kind of preserve these little holes that, you know, different channels that you can go through. But I'm curious to hear how, you know, maybe one or two experiences from you Dave about either the restaurant or to-go or direct-to-consumer? Kind of what it was like when it happened, and, you know, was it unclear? What was the experience?

Dave
Well, we actually drove pretty decent to-go sales. Wasn't necessarily our intent with the program, but when we did do the six-pack program to unemployed service industry folks, that was actually pretty high demand. And people were making purchases, additional purchases while they're getting their six-pack.

Honestly, I think from a tap room perspective that to-go business... if you're just to-go, it's just cute. You know, it's really not super scalable. We're trying to make those cart sizes bigger, like incentivize case purchases and things like that. But really the tap rooms you really want to have the dine-in or the drink-in experience to really drive your revenue there. So, it's good to do them. And everything counts, so you do it. But that was our experience is that the to-go hasn't been... you know, it's no replacement to having dine-in and drink-in.

With Barton Springs, it's a huge part of it because it's a restaurant. We make pizza, so pizza is a fantastic thing to sell to-go. So, that really isn't a change. It's something we anticipated. But I think the rules that change that are kind of interesting and maybe didn't impact us as much is the ability for some of these restaurants now can sell all of their alcohol to-go. They can give you bottles of wine for your food that you're taking home with you. And they can actually mix cocktails and put it in a sealed container and give you a negroni, which they didn't—they weren't able to do before.

So, I think all that's been interesting. And we're still navigating it, but none of it has been a... you know, for like purely to-go, it hasn't been a huge driver of sales. I mean the on-premise gap, sure. We're selling some product now to on-premise that is then, in return, selling that product to-go. But it's just no replacement.

Quentin
Got it.

Clayton
One thing I'd also mention is, you know, for any early-stage brand—or product brand launching new flavors, but especially for earlier-stage brands—it is all about liquid to lips or getting your product past people's lips.

And David gave a great example of kind of scrappy ways to navigate the, you know, some of the regulatory hurdles that are out there. But, you know, I think the main point there is you've got to get creative. You have to figure out ways to get creative and get your brand and your product in the hands of your core consumer. You know, who you think your core consumer is.

Whether that's having to give some away to a barbecue truck so that they give it out for free. But, you know, listen, there's a lot of regulations with TABC and with liquor and alcohol. If you're not getting your hands slapped a little bit, you know, if you're not skiing a little bit on the edge, you're probably not doing a good job at being a scrappy, risk-embracing entrepreneur.

I mean... Deep Eddy we got our hands slapped a lot. And sometimes there was some fines associated with it. We just tried to really know the regulations so that we could kind of point to the regulations in the actual rule book because we know them as well as a lot of the people enforcing them. Then, you know, you just—the rules were created by the big guys to keep the little guys little. So, you got to be willing to break the rules sometime. You just have to do it in a smart sort of way.

But, you know, this is—this whole COVID environment has certainly created a lot more challenges to get product past people's lips. Because at the end of the day it's got to be a great tasting product. Packaging can get them there once. You know, price may get them there once. We're never going to be a low-cost provider, any of these brands on this call, but it's got to be great—[Clayton muted]

Quentin
Clayton, I believe you went on mute at the end there.

Clayton
Sorry about that. But yeah, y'all get my—you gotta get the product past people's lips. And especially if you can do it in a way that helps create, you know, kind of a love affair. Like, I'd much rather people taste Austin Eastciders for the first time when they're having some phenomenal barbecue then, you know, at some Walmart. Nothing against Walmart, we love

them. But like, you know, passing out a little sample... you know, some 80-year-old lady in a hair net, you know, in Walmart. Like, you know, we're gonna be able to create a love affair much better when we sample to our core consumer in the right environment. So, just, you know, I encourage everybody to put that thought into it.

Quentin
Absolutely. So, we always say at Ranch Rider that the cheapest, most effective form of marketing is just free product, right.

[The future of the alcoholic beverage market]

Quentin
So, kind of a little bit wrapping up—maybe second to last question. Arif, interested to hear from you, but now that the on-premise has collapsed—and to Clayton's point earlier, there's no really telling when it's going to come back—there's a lot of other kind of momentum in CPG, especially within alcohol, right. All alcohol consumption has increased. Off-premise has obviously shot through the roof.

Do you think that, you know, is off-premise now the new playing field for brands? Is it going to become more saturated now that everyone is going to the cans and, you know, canned beverages are exploding and alcohol consumption is significantly increasing... whereas before, on-premise—like consumers discovered brands on-premise before, right, that was kind of the conventional wisdom? Is now off-premise the name of the game, you know, to the indefinite future? Do you see it getting a lot more saturated in every category? Kind of, what do you see the landscape looking like now that COVID is here to stay for an indefinite amount of time?

Arif
Yeah, I mean, I think, look, what happened first with COVID is consumers were at home more and they drank more, right? So, we saw alcohol sales rise. And they rose as a result of consumers flocking to what they know, right. The brands that are out there that are the bigger brands. So, it wasn't—unfortunately the smaller, high-growth brands that were where consumers spent on.

Now, let's pull that forward since we're six months into things now. You know, if we call that the first four, eight, maybe 12 weeks, subsequent to that there's been more diversity, right. But there's still pretty strong, you know, top line increases for those legacy products that have historically, you know, been decreasing on a top-line basis year over year. So, you know, with that said, right, what does off-premise mean from the consumer's mind? It's, you know, unfortunately, you know, they're still not going into store and shopping, right. They're still going in the store and checklist buying. And so, as a result, it's just harder to discover. And if you're new, you know, the objective is to get discovered.

So, you know, with a finite amount of space, you know, in retail and off-premise, and an infinite amount of brands that are trying to get into that finite space, absolutely there's a squeeze. I mean, the other piece of this that I think will be unfortunately challenging for, you know, smaller companies, is that—and there's two pieces—one, you know, retailers as a result of COVID are rethinking their strategies, right. Are they air-quote, "over-SKUed" in certain categories given some of the supply chain challenges they had? You know, do they want to reduce complexity? Does 70,000 SKUs in the grocery store make sense? You know, maybe it doesn't and so, you know, I don't think that's going to serve well the diverse landscape that the consumer desires. And frankly, you know, should have. So, there's that piece.

And then, the second piece is, you know, how is regionality going to play into things? And so, I kind of see... you know, Quentin, yes, you know, retail and off-premise matters. It's always mattered, right. So, I don't think that's changed. But from a discovery standpoint, I think, where it's really going to... the lever is going to be pulled is on a regional basis. I do think that even if the retailers are to SKU down, they're still going to ensure that they're including regional players and—in categories where regional players make sense—and alcohol is certainly one of them.

[Spiced cider and spiked seltzer]

Quentin
Got it. Love it. A couple more questions from the audience before we come to a close. This one's a little bit of a soft ball, so I'm going to combine it with a little bit more of a hard ball. Dave, I'll let you go ahead and answer it. One is: are you bringing the spiced cider back? The other question that I would be interested in knowing is, how has the seltzer line been performing? Is it, you know, what does that kind of wear look like? Because obviously cider is a beer alternative, right. And so is spiked seltzer. And I feel like it's a... spiked seltzer, obviously, it's a growing category, but increasingly cutthroat. So, we would be curious to hear how the Austin Eastciders' experience has been competing in the seltzer realm.

Dave
Yeah so, spiced? Yeah, we can bring anything back. It's had a couple years. And what's really cool with our new Barton Springs restaurant is that we have a three-tank system there to do more sort of small batch and unique ciders there. And so, you can see things come back and you can see a lot of a lot of new things be produced out of there as well.

So, spiced... we love it. It's very reminiscent of the holidays and sort of like wintry, you know, apple pie kind of experience. So, we appreciate the support. Sounds like that came from a fan. The—on the seltzer front, you know, again, I think it's interesting—

Arif
Before you go there, an unabashed plug. If you like the spiced, you should try the cranberry.

Dave
Oh yeah, absolutely. Yeah. Again, another... yeah. You can make a Cape Cod cocktail with the cranberry.

Arif
Sorry, go ahead on seltzer.

Dave
It's actually the perfect pairing for your thanksgiving dinner, so. [laughing] But on the seltzer front, yeah, right it's, you know, we talked to buyers, we talked to the H-E-B buyer a couple weeks ago and he's just got seltzer's coming out of his ears right. So, what he's looking for—and even the Whole Foods buyer who came in also kind of made a similar comment—they're looking for somebody in that space with a hook, right.

And, in particular, you know, how is it different, you know? And what we see as being different with the seltzer is that it's made with real fruit. It's a real fruit expression for it. It's also made with a cider base versus like a cold-brewed sugar or a malt base. So, we do think we have something that's really got a hook. And we're—right now, it's the number three craft seltzer in Texas.

And it's interesting for us, because we feel like we haven't had enough time in market. We think the potential is actually much greater than that. Going into COVID and shrinking, getting really small—which is like the name of the been the name of the game through COVID–it's really restricted sort of our education and our trial activities and all of that. So, it is going well, and we think that there's a lot of room for growth. Where it's being sold—

Clayton
Launching in February wasn't ideal.

Dave
Yeah, exactly. Yeah.

Clayton
But, no, I'd say... I mean, Dave you've touched on it, but it's exceeded expectations. You know,

we're just getting out there, getting launched. But the biggest thing and the main reason that we launched the seltzer is we wanted to do something different, and, as Dave said, all these other seltzers out there... they're made with fermented sugar water. We played around with fermented sugar water. It's really tough to make it taste good.

And when you think about adding flavor or fruit juice to that using really good apple juice from bittersweet apples, cider apples—which is what we use—from northern France and from the UK... they're specifically designed for it. It is just such a cleaner base to work with. So, our seltzer is really an extra dry cider that's only 100 calories. And so, when we look at that as like a canvas to work with to bring these flavors to life, I mean, you know, we started tasting ours against White Claw and some of the other ones... and yeah, I'm kind of plugging our product here, but it's the whole reason why we launched it. It just has such a cleaner taste, I mean... yeah, cider is just a much cleaner base of alcohol than fermented sugar water. Yeah, so.

Dave
That's the feedback that we get from consumers. They say, "Oh wow, this–it doesn't have to taste like those other ones." You know, like, "Oh I would, I'm converted." We haven't been able to maybe proactively convert as many people as we would like, you know, through marketing.

Marissa
Well guys, jumping in here with the unfortunate task of closing out our session with you all. Really robust discussion. I feel that it's brunch time right now, right, in Austin so, it's appropriate to go ahead and pull out some Eastciders? Arif, maybe a little early for you on the west coast, but I think I have some of the champagne cider that came out specialty that I'd like to request you bring back too, Dave.

Dave
Oh, Brut's out there. You can find Brut 100-calorie, yeah, champagne expression of Eastciders.

Marissa
Yeah so, I'll just put a little bit of orange juice in that right now and then continue on with my day. Thank you guys so much for being with us. I've gotten lots of votes in here for bringing the cider back, so Quentin, appreciate you teeing that up. It is a very critically important last point to make. Learn so much with you every time I'm with you. We're so lucky to have you guys as part of this community and then working together on such a fantastic product. So, thanks again for being part of Taste of Texas this year, you guys. Appreciate you.

Arif
Thank you.

Quentin
Thanks, Marissa

Dave
Great time. Thank you so much.

Clayton
Bye, Quentin.