

**What Happens Next – Sunday May 2, 2021**  
**Online Universities, the Rebirth of NYC, Wine, Bourbon, and Tequila**  
**Beverage Panel**

Larry Bernstein:

200 million followers on social media. The population of the United States is just 330 million. What does that mean? What are they following? How engaged are they with her? When she says, "I've got this tequila. It's so good. You've got to try it," what happens? How does that play itself out with the brand itself?

Mike Novy:

Clearly there's a large percentage of the US population that's following Kendall Jenner, which was a really big surprise to me, actually. I did not follow her on social media. I have never followed any of her family. I had not watched any of the family's shows. So this was actually a really big eye-opener for me. What's interesting about it is not just the breadth of followership or the pure number of people that are following, but you hit the nail on the head when you said engagement. They're highly engaged followers, and I think that's one of the really interesting elements of social media, if you can harness it properly.

What they're interested in is almost everything she does, and it's really interesting, right? That people are that excited to like, comment, repost, react, and really just have a dialogue with somebody like her. From a business perspective, it's wildly powerful as a platform to reach consumers and not just push communication out to them, but have a dialogue with them, people asking when can they have it, what's it going to taste like, all these things. It opens up a really important channel for us of communication with consumers.

Larry Bernstein:

Now, she's not the first celebrity to have her own brand, whether it be in tequila or alcohol or whatnot. How does that usually play itself out when a celebrity says, "I'm interested in this, and here's my brand"? How does the public normally respond to something like that?

Mike Novy:

Well, I can tell you what my experience has been, and I'll give you the most recent experience, which is the first time you tell them that you've got a brand and who's connected with it, they say, "Oh, great, another celebrity brand," right? Because to your point, there's been a lot of people who have done it. Now, the interesting thing is how people have done it. Again, as I mentioned at the start of my section, a lot of celebrity brand endorsement has come from a marketing manager in a large multinational spirits company looking for a way to get some

excitement around their brand. So it becomes a fairly inauthentic situation, right? Where somebody comes in and pretend like they love this tequila, they love this rum, they love this vodka.

That's one thing that is really critical, is the authenticity. Where did this come from? Where did the idea come from? Where does the passion come from? How legitimate and enduring is it? Then also, their involvement. There are plenty of celebrities and some very, very big name celebrities who have attached their name to something and then just expected that the paychecks would roll in without any further effort. So it really just comes down to, like in any business, are you willing to put in the hours and do the work, or are you just going to sit back and put your name on it and expect people to come to you? That second model doesn't work.

Larry Bernstein:

Let me give you a different example of a fake character. Take the Dos Equis The Most Interesting Man in the World routine that they had going on. How do you benefit by being a real person versus a fake and creating this image? What is the real benefit of that real Kendall to instill both engagement, interest? I'm going to combine this question with real person versus fake, and how does it connect with that 21-year-old woman who is going to hit the bar and order her drink from the bartender? How does that whole process work?

Mike Novy:

I think that we have better access to research, and I'll use that term, research, loosely, but being able to do our homework on what's real and what's not. I think we have as consumers become more cynical and probing in terms of what we're going to accept, because celebrity spokespeople have been promoting categories, all kinds of categories, forever, as long as there've been celebrities, as long as there've been products. Then within the idea of a character, I think back, and you mentioned wine coolers when you were opening up this section of the conversation. You had Frank and Ed, right? They were a couple of characters who were made up, but we loved them, right? Then there's The Most Interesting Man in the World. He's actually a pretty entertaining guy to watch in commercials.

But there was depth that was missing. You cannot have that shallowness today, because people are going to see right through it. As we're experiencing, even when you are a real person, they're going to push and probe and try to see how authentic your commitment and your participation is. I just don't think you can get away with it as easily now as you could even a few years back.

Larry Bernstein:

Let me bring David Epstein into the conversation. David, we've just heard about branding around a character. This is a young, fashion model, TV reality star. You spent, I think, two or three minutes of your six minutes trying to establish our own connection with Tom Pendergast, a 100-year old Kansas City bootlegger. Why did you decide to go with Pendergast, versus someone currently living? Why did you think that that was a way to brand something? Then as a follow-up, and you spent hardly any time talking about the taste or the originality of the craft bourbon itself. Why do you want to brand with a person, versus with taste or craftsmanship?

David Epstein:

I think in a word-it's authenticity. What Mike is talking about also, I could be wrong, but is the enormous shift in celebrity culture. 10 years ago, if Julia Roberts was wearing a watch, you wanted that watch. Now it really is the social media stars, and Kendall Jenner is to somebody in craft, let alone the fact that Mike's going to be in basically 50 states in about an hour. That is not accessible to 99.9% of the population. So for someone like us or anyone in craft, and there's 2,000 craft distilleries in the United States at last count, a little bit less than that, you have to really find what your personality will be.

There is such a desire, even pre-pandemic, for that authenticity of someone real. I think I told you that when I used to live in New York City, I lived next to the president of Proximo, and I kept telling him this story about Pendergast. At first, he thought it was fake. Finally, after telling him this for about six months, he finally said to me, "I have to tell you, if you don't do this, I will, because there just are so few authentic American stories that are left in this world."

We then shift pretty quickly to our spirits. Our craft vodka has won the most gold medals of any craft vodka in the United States, and the gin has won just about every double gold there is in the category. So it starts with a beautiful bottle, then an amazing product, and then you have to grab them with the story. If you don't have Kendall Jenner, you may as well reach back to what your grandpa did, which was bootlegging.

Larry Bernstein:

How does that relate to mixology, how we use these crafts to make something, a cocktail, that's very special, either its uniqueness or it combines a sense of taste, maybe going back to what Carlton was talking about before, something that's sweet, something that's carbonated, and something that gets you drunk. How do you place that craft bourbon, for example, into something to make it extra special?

David Epstein:

Well, since we have leaned so heavily into the Roaring Twenties and that era, people are really fascinated. Right now, currently, during this podcast, especially whenever Todd Benson is chiming in, I've been drinking a Last Word, which is gin and chartreuse and a little bit of lime. Those are all Prohibition, Aviation, Bee's Knees, all those classic cocktails, even a martini. These are really even pre-Prohibition cocktails that people just get such a kick out of doing. Now, like what Carlton was talking about and even Carol a little bit.. So I wasn't supposed to announce this, but Larry, you got it out of me. But in another month, we will be launching our own canned cocktails, something I never thought we would do five years ago, but it's just too irresistible. The way that people are drinking has changed so much post-pandemic, we simply had to do it.

Larry Bernstein:

What does that mean? What kind of canned beverage are you going to provide? Is it a mixed drink?

David Epstein:

It's in association with the Chiefs. We have four gin craft cocktails that will be in cans. It's not exactly seltzer. These are not low calorie. It's all flavor-forward. So this will be a cocktail in a can and kind of the premiumization of that. We call it kind of the Fever-Tree of canned cocktails. I don't want, "We are premium," where you're priced premium accordingly. I don't want to throw all that energy out that we've worked for the last five years on. So these will be kind of a higher priced for the market, kind of a premium canned cocktail, if there can be such a thing.

Larry Bernstein:

Going back to branding a second, you've mentioned now the Kansas City Chiefs a couple of times. You're the official cocktail of the Kansas City Chiefs. Why does anybody care?

David Epstein:

They are the most beloved for every Q score. You can try every one. Really, they're the most popular NFL team right now in America, and it just had such a resonance. They came to us, quite frankly. The NFL is really putting an emphasis on reuniting themselves with the communities that they are in. In this case, with the Chiefs, they have the rights in about four states, Oklahoma, Kansas, Missouri, and Nebraska. It was just a great way for us to play much bigger than we really are very quickly in this regionally. For most distilleries that are aspiring to grow, at least nationally, you have to begin with a regional presence. That's how some of these guys that got bought always start with regional, unless you happen to be like Ryan Reynolds and two years later are bought for \$650 million in a nice little deal. But it really does start with regional.

Larry Bernstein:

I'm a Chicago guy. In Chicago, we've got three types of institutions, restaurants, bars, that relate to sports. We've got Harry Caray's. Michael Jordan had a restaurant, and just think Ditka. Ditka is just a bigger than life type of a person. But there's nothing related to the Cubs, or the Bears, or the Bulls. It's individuals. Why is yours so team-oriented and isn't specific to, say, McCombs or whoever the great leader of the Kansas City Chiefs is? What's motivating the team versus having a face behind it?

David Epstein:

Cash. We will be the only gin sponsor in the NFL. So the Chiefs are very proud of dipping their toes into this category. As I say, they came to us. There is simply no way that we could have gotten Mahomes or Travis Kelce or something like that. But let's be honest. There's a dark side to that as well, not just on the sports thing, but I can address that from what I've been living for the last two months. Mike maybe hopefully will never have to live this. We had a coach, happened to be the son of a coach, who got in a very bad car wreck. It was alcohol-related. So sure enough, it's all those things that everybody that associates themselves with this celebrity and everybody always warns people about. I'm anxious to hear how Mike's going to get around this, but it's terrifying. We thought the whole deal would be a potentially scrubbed. It's not scrubbed, but it's been not without every day, loads and loads of trials and tribulations on that. It's a real risk.

Larry Bernstein:

So you're saying, for example, Hertz's decision to go with OJ as their chief spokesman or Jeep you had this last Super Bowl advertisement campaign with Bruce Springsteen and that leaves themselves open for just destroying that specific marketing campaign. Is that where you're driving at?

David Epstein:

Exactly. Todd and I are both personal friends with Paul Rudd, and Paul Rudd has these huge Kansas City connections. In fact, his mom still lives here and his sister, and that would have made a fantastic brand investor for Tom's Town. And as we talked further with Paul, it became pretty obvious, he does not participate at all in social media, none, no social media presence. So you have so many factors. One is that OJ, Bruce Springsteen factor, what's the risk of their behavior? And the other is you really need them, like Kendall Jenner, to figure out what's that voice to the audience and how is that going to play out with every post that they make? How is that going to resonate to your brand?

Larry Bernstein:

Let's bring Carlton in the conversation. Carlton, before we get into distribution and transactions. What are your thoughts on brand management, as David and Mike have been talking about, the role of the celebrity and sports teams, et cetera?

Carlton Fowler:

Well, I think that because we have the investor view and typically quite a bit of a longer time horizon, you're going to find us asking why a lot more to some of these things that seem like they're rules of thumb. So you heard David say, "Oh, well one of the big levers we can pull is getting on menu placements, and that drives adoption, or craft grows regionally. And that's the strategy that we're going after." And it's not at all that I disagree with those statements. As much as we spend an awful lot of time saying, "Okay, why is that important?" Because at the end of the day, our job is to invest in brands that we think are going to grow in scale. And it keeps coming back to me to a very simple consumer journey path wards.

First, you must be aware, then you can try, then you can repeat, and then you can potentially evangelize. And as long as you keep that fairly simple framework in place, then you can start to fill in the rest of the puzzle, which is, this is how distributors have historically acted. And this is what historically motivates them. Therefore, we must do this. Or in a brave new digital world where there's significantly less friction to drive awareness and therefore trial, then all of a sudden, having a celebrity behind you can do this. So I think from our standpoint, it's much more thinking through, not driving a necessarily distinction between craft versus large or craft versus scale, which is how do you take whatever the limitations are of a brand where it's starting and figure out how to scale it faster. And almost exclusively, we come to this notion of: the more friction you can take out of the system, as far as communication via digital, the faster these things are going to be able to scale.

Larry Bernstein:

The 1,000 pound gorilla in the room is Amazon on logistics? Are they just going to win this thing if it opens up? Because they already have these distribution centers on the ground, they probably can get the product to the consumer in the same day, the website's going to be so easy to use. They deliver on Sundays. Like how does Amazon not win this?

Carlton Fowler:

Well in the same way that Shopify is the head of the anti-Amazon coalition. Going back to this major distinction between craft and large. Yes, absolutely, the big, last miles are going to have something to say here, Amazon being one of them. But goPuff, which is a company that most people hadn't even heard of three years ago, but all of a sudden took in \$3 billion of SoftBank money. They're now piloting the launch of Travis Scott's seltzer. All of these things are going to have a big stick in this arena, but consumers still want choice. They still want to have discovery. So it'll always be balanced out by platforms that help enable discovery and an interesting consumer journey. Software will eat the world, but there'll be enough competing types of software that I think the consumer experience will actually be better five years from now, not worse.

Larry Bernstein:

Well, just talking about choice for a second. So, let's start with the bookstore as an analogy. So the bookstore, the small town bookstore is like your small town liquor store. They got some choices, it seems like there's a ton of stuff, but Amazon will be able to have everything. Just like you can get any book from Amazon, where the bookstore only has, whatever, 1000 SQUs or whatever it does. And the same is true of your typical liquor store has a limited number, but may not cover the Pendergast brand. What do you think of the long tail benefits as it relates to this logistics problem?

Carlton Fowler:

The way I try and break that world out is intention versus attention. Yes, Amazon provided, certain regulatory issues change. They'll be able to carry everything because the digital shelf is infinite, but what is above the fold? What is paying for placement within that store will still be limited. And so there will always be a role for a separate kind of platform to orient towards true segmentation of consumers and trying to find the consumer that you know will like Tom's Town.

And that's why we focus just as much on really big providers like Amazon. We spend equally as much time on what are going to empower all these craft brands, which are the super long tail and have tremendous amount of consumer loyalty within the subset of consumers that follow them, how do we power their shopping carts? How do we make sure they're getting the proper piece of the pie on e-comm ads? Who's giving them the toolkit to go out and actually compete with the major suppliers of the world? And that's, to me, where a lot of the opportunity is, is making the Tom's Towns of the world more efficient at grabbing their piece of the consumer

pie.

David Epstein:

This is David. So, Carlton, reading between the lines, it sounds to me like you expect a pretty dramatic change in the next three years. So are you fairly bullish then, for the craft distilleries?

Carlton Fowler:

Extremely. What I expect to happen in the next three years, is that actually you can use judicial routes to potentially erode a piece of the three-tiered system before legislation will move there, but even holding that aside, what truly makes craft unique and the thousands of craft distillers that are members of DISCUS is actually, the consumer affinity for those brands. So I am more bullish than just about anything else on investing in companies that are building toolkits to allow your craft distillery to compete on a digital e-commerce footprint with the largest brands in the world. And in fact, because you have probably narrower and shallower corporate structures, than a Diageo, for example, you might even be able to be better than they are, provided you can find the right voice and positioning. I am hugely bullish on craft going forward, because I think digital strips friction from the overall GODA market in a way that's only positive for the supplier and the consumer.

Larry Bernstein:

Let's bring Carol in. Carol?

Carol Reber:

Consumers will always want something that other people can't have easy access to. People shop in boutiques, people look for finer luxury handbags, shoes, jewelry. All of us are looking for that scarce thing that we value or distinguishes us from others. You see this in infrastructure and entertainment, there are big studio films, there are lots of independent studios. That has been the case for years and years, and doesn't seem to be waning. So Amazon will continue to make inroads, but what they've never been able to do is provide a curated selection. A super example of this is if you walk into an Ulta beauty store, they're a huge retail success story, you have curated selection on the right-hand side of an Ulta beauty store, where cosmetics are organized by brand. So you've got Benefit, Clinique, Bare Essentials, all of their products in one place.

And you go to the left-hand side of the store, and it's organized like a drug store, where it's all of the mascaras, all of the face creams, all of the brushes, et cetera. And we, as shoppers, decide in that case and in general and other industries, how we want to shop. Do I just need a utility bottle of wine or spirits for the evenings? I can grab that from the regular store, but when I'm looking for something special in meats, seafood, chocolate, whatever luxury goods, I'm going to go someplace special for that. So Amazon will eat up some of the market, but they'll never dominate all of it just because of the way we work.

Carlton Fowler:

Carol, I could not possibly agree more. The place where experience matters and curation

matters and even assistance in the form of personnel matters, I don't think we will ever get fully desegregated. I'm actually actively looking for who's going to make the Apple store of liquor stores, whether it's like a Wally's, or something like that, where people are basically making palaces of consumer choice. That is very well-insulated.

Carol Reber:

I think the smartest marketers will go in the opposite direction and come up with incredible scarcity models. We've got a particular wine or two with our Kosta Browne Winery, that people, when they join our list, they wait two years for the appellation series wines. And then it's another 10 years before they get to our four barrel \$200 bottle pinnacle wine. And people love that wait. That wait is part of the badge of the value of, "this is how long I had to wait for this incredible triumph in wine-making". Lots of us will need things delivered in an hour, but those things that you really savor and value, you're willing to wait for and pay more for.

Todd Benson

That's super interesting. This is Todd, I've got a question. This, really any of you could answer. What happened to beer? You had 100 year runs of a lot of these beers. And then craft came along and then now, we don't have somebody on this panel talking about beer. You're talking about White Claw, not about beer. It's just sort of interesting. What happened?

Carlton Fowler:

Well, I think that the broader answer to this question is for some reason, and a very interesting reason across all beverage alcohol, you seem to have these, what I would almost call mega cycles. We're at the end of a mega cycle of US domestic light beer ending. Craft beers were ascendant for a while, but has now reached its level. White Claw is coming in. If you look at it from a spirit standpoint, you had a 20 year mega cycle for vodka that had a flavored explosion packed in, we're in the middle of a 20 year mega cycle for whiskey. Don't know if we're in the seventh inning or the eighth inning, but we're closer to the beginning of the end.

Carlton Fowler:

And we're at the beginning of a mega cycle for gin. And these things just end up moving in these big almost epochal ranges, but there's not a whole lot of true innovation within there. So I wouldn't be surprised, Todd, if three or four years from now, session IPAs, which are one of the fastest growing aspects of craft beer, all they really are is a move back to what domestic lagers gave us. So there's not a whole lot of newness under the sun. There were just these large trends that consumers get on one side or the other until the teeter totter is too full on one side and then they start to walk to the other end.

Todd:

Interesting. Any of the others on the panel have a different view?

David Epstein:

Well, Todd, it's interesting. I've been doing a speech, the last five years with our local rabbi



here, Rabbi Glickman, called Jews and Booze. And we do this little speech in front of audiences and it's really about the history of how Jews were relegated by the czar and the Kaiser to just deal with the spirit side because that was considered the dirty side, and the gentiles got all the licenses for the beer, especially Germany and Russia. And it is fascinating in the five years that I've been doing this speech with the rabbi, they're usually to younger audiences and the questions about beer have virtually disappeared. So it just is so fascinating to watch because, of course, you and I grew up in an era where all we drank in college.

And now it's almost foreign to them, whether it started a gluten free product or women didn't want all the calories, and then men copied that. But it is absolutely fascinating to see. I fought for three years against the city of Kansas City, Missouri, because they were not going to allow us to serve any product other than what we make. And I thought, my God, I have to be able to serve beer because people are going to want to have a beer. We ended up getting that, after three years of legalities, I sell probably about \$300 a week in beer. It's just nothing, it's a rounding error. It was a complete waste of time.

Todd Benson

There are all these things that popped up, whether it's Drizly, or WTSO, or direct from the winery from the consumer standpoint, where's the best place to shop and to get the best price value on the wines or spirits, or what are among the best places as a consumer?

Carol Reber:

Direct from the maker. You are getting a guaranteed, absolutely highest integrity product. Alcohol shipping by rail and truck across the desert can be tough on its way to the store. Restaurant storage can sometimes be rough, but any sale of any one of our products is a terrific sale, but that direct relationship is a great place to start. And of course, when you're out dining and out shopping away from home, from your local purveyors, that's awesome. There are an endless number of great purveyors, but that direct purchase is perfect.

Todd Benson:

How's Cannabis going to impact the industry?

David Epstein:

I worried about that a lot. Now I don't. I have determined that cannabis is an isolating drug and alcohol is very social. And in fact, at what it may end up looking like is a marriage. We're asked a lot at the tasting room, "Do you do cannabis or something in the cocktails?" We do not, but I don't think it's going to have an effect on alcohol at all. I could be wrong.

Mike Novy:

I agree with that. I think that they're going to be complimentary in some odd way, industries, or else we would have seen more immediate negative impact on markets that have legalized

cannabis. And even where people are trying to get CBD infused drinks into either regular retail or on premise, it hasn't seemed to have tremendous amount of impact. It seems to be something that's more isolating, less communal, less social. And it may provide a physiological or emotional benefit similar to alcohol. But I think the overall ritual and experience of wine, spirits, and even beer is quite different than popping open a can of a THC infused drink or popping a gummy or something like that. I think it's a very different world, a very different experience.

Carlton Fowler:

As far as the actual numbers, underneath a certain price point, it seems that they are not substitutes for each other at all. The spend on both raised, if you're looking at Colorado and California as markets, for a short amount of time, it did seem at the higher end, so if we're talking pricier spirits, pricier wine, pricier beer, they seemed to be a little bit interactive -- if spending went up in cannabis, it went down in alcohol. But that relationship has stabilized over time to the point where I generally agree with what all those folks just said. The only thing I'd add is from a business model standpoint, the overall prize is large enough that big alcohol, as a supplier contingent, is very much going after it. And you can see it through Constellation's investment in Canopy.

And it tends to look like the way it's going to shake out. It's going to take a long time because there's so little infrastructure available in the US in the federal prohibition. But the cannabis beverage, and what I call the alc-bev operating system of one glass of wine does this to me, one beer does this to me, one shot does this to me, seems to be the way that consumers are trained. So I think when we look back five or 10 years from now, cannabis beverage and other edibles are going to be a much larger part of the market than they are now. And that will be because of the way that people are trained to consume those from an alcohol standpoint. So I do think that you're going to see a lot of investment from the major alcohol suppliers into this space over the next 10 years.

David Epstein:

It's about consumer training. I will tell you now that I live in flyover country in the middle of America, some of the digitization of alcohol delivery, like Drizly, has had zero effect here. And I was hyped into it, we have to get on board and eventually we will, but I will tell you, outside of New York, Chicago, San Francisco, and Los Angeles, it is not a part of the dialogue here. I'm well aware of the dollars that are going into it, but I'm very interested to see if the consumer is trained to order that.

Remember, from where I stand in second tier market, you go to the grocery store every day and you have a huge car that takes you to that grocery store. And the grocery stores in the Midwest have huge liquor departments. So it's going to be really interesting to see what delivery mechanisms actually do to change consumer's behavior in this area. Maybe Larry, you

can host another one of these in a year that talks exclusively about that.