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## **CRAFT MARKET STRATEGIES**

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# MANY POSSIBLE DISCUSSION TOPICS IN STRATEGY CONTEXT FOR CRAFT SPIRITS

“Recession is over, trading-up is back”

“Large industrial alcohol producers as suppliers for craft?”

“Entrepreneurial innovation and craft boom”

“Distribution bottlenecks and distributor consolidation”

“The comeback of on-premise”

“Big-box retailers”

“Cuba embargo and could rum be the next bourbon?”

“Direct to consumer shipping”

“Sunday sales”

**Macro-economics**

**Demand**

“Demand shift from white to brown goods”

“Flavors – long term trend or fad?”

“Barrel shortages”

“Legalization of Marijuana”

“Natural vs organic and craft vs non-craft - authenticity and storytelling to sell brands”

“Growing importance of millennial, female and multi-cultural segments”

“Alcoholic beverage apps – convenience and customization”

“Technology disruption”

**Suppliers**



**New Entrants**

**Spirits Competitors**

**Substitutes**



**Distributors / ABC Boards**



**Retailers**



**Consumers**

**Regulation**

**Technology**

# SOME BACKGROUND FOR TODAY'S DISCUSSION

## **Today's discussion does not**

- **Provide a full tutorial on all opportunities for small and large craft spirits players**
- **Cover all nuances of each category: brown and white spirits**
- **Cover nuances of all type of states and accounts**
- **Provide a one-size-fits-all strategy**
- **Address global markets**
- **Offer advice on regulatory issues**
- **Provide any definition of craft**

## **Today's discussion does**

- **Offer a view on commercial and industry trends**
- **Focus on the US market**
- **Offer a tutorial on select key concepts that support strategy development and execution**
- **Provide insights into the market forces influencing strategy development**
- **Focus on growth-oriented craft distillers with national ambitions**

# ONE MORE THING – “CRAFT VS NON-CRAFT” OR “SMALLER VS BIGGER”

## **Craft definition elements**

- **Ethics code based on honesty and transparency (ACSA)**
- **Label specs, ownership of shares, production size (ADI)**
- **Location, ownership type, etc. etc. etc. (others)**



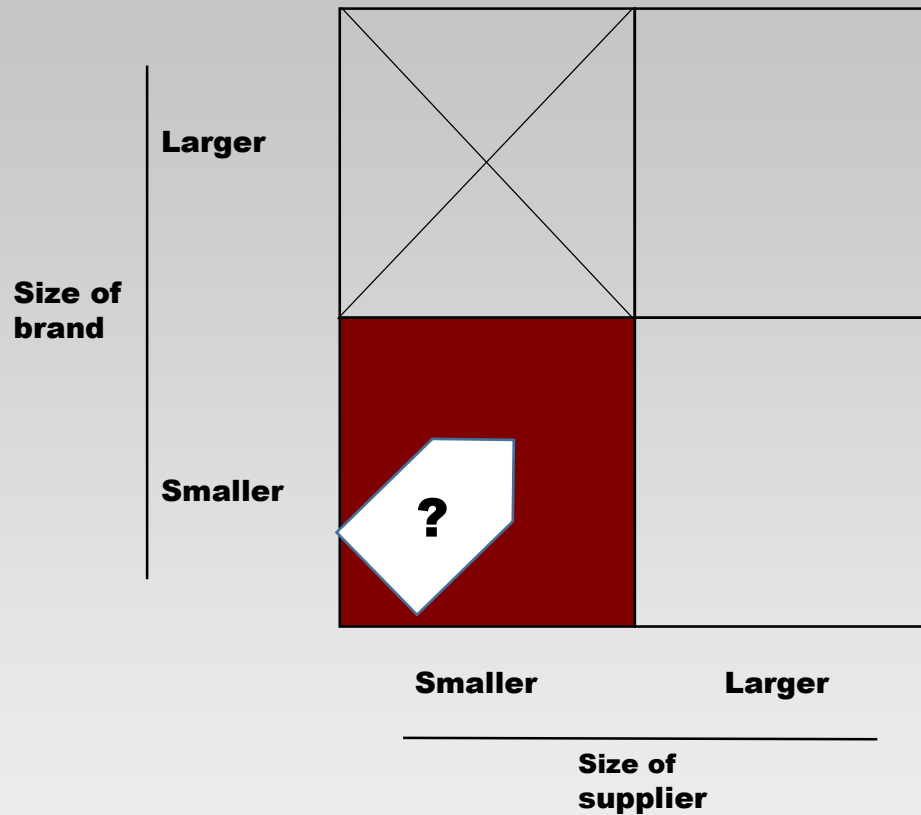
**Given the lack of a unified view on what craft is, and therefore the lack of “official” industry statistics, this presentation focuses on the differences between:**

- **Smaller vs larger**
- **Local vs non-local**
- **Entrepreneur vs multi-national**



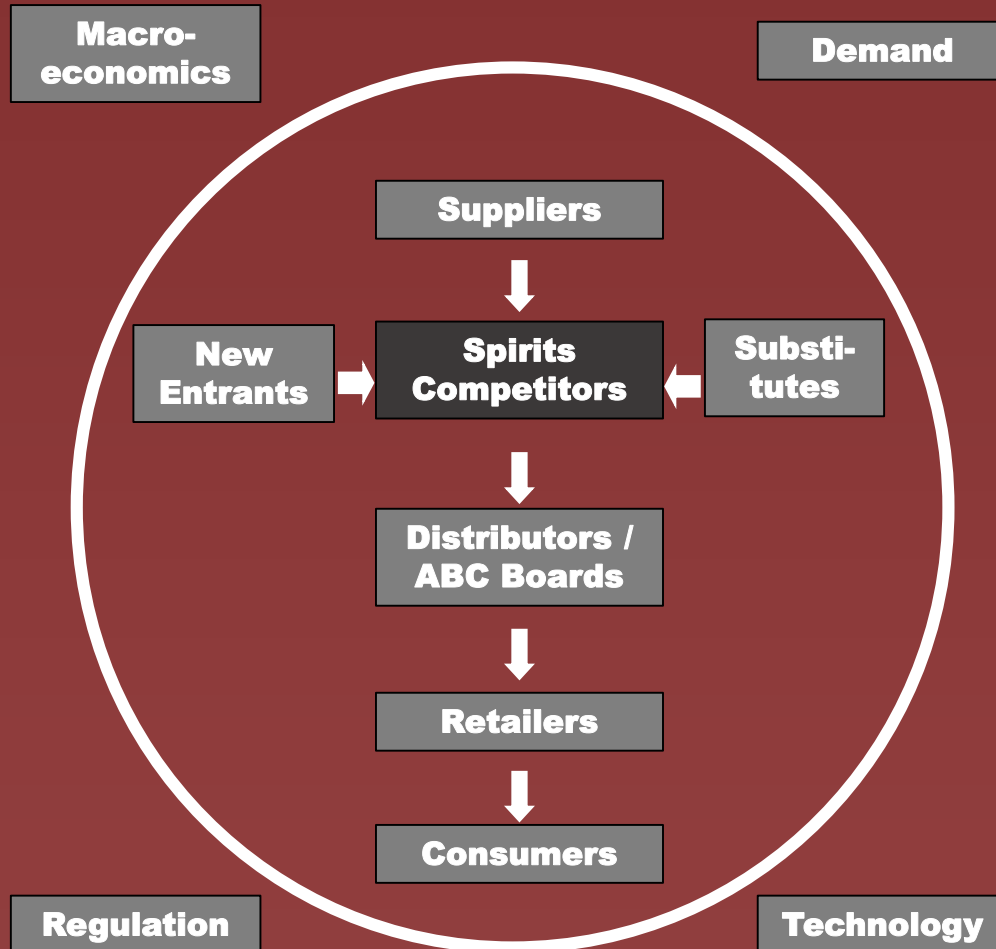
- **This is not an attempt to define craft. However, from a strategy development perspective, it takes into account certain challenges that are shared among many craft players as a result of their position as smaller underdogs in a consolidated industry heavily influenced by large multinationals**
- **Only future will tell, but it is likely that many of the successful craft players of today will at one point be one of the large multinationals themselves or be owned by one of the current ones**

# THE FOCUS IS ON SMALLER BRANDS AND SMALLER SUPPLIERS OR IN SHORT: DAVID VS GOLIATH





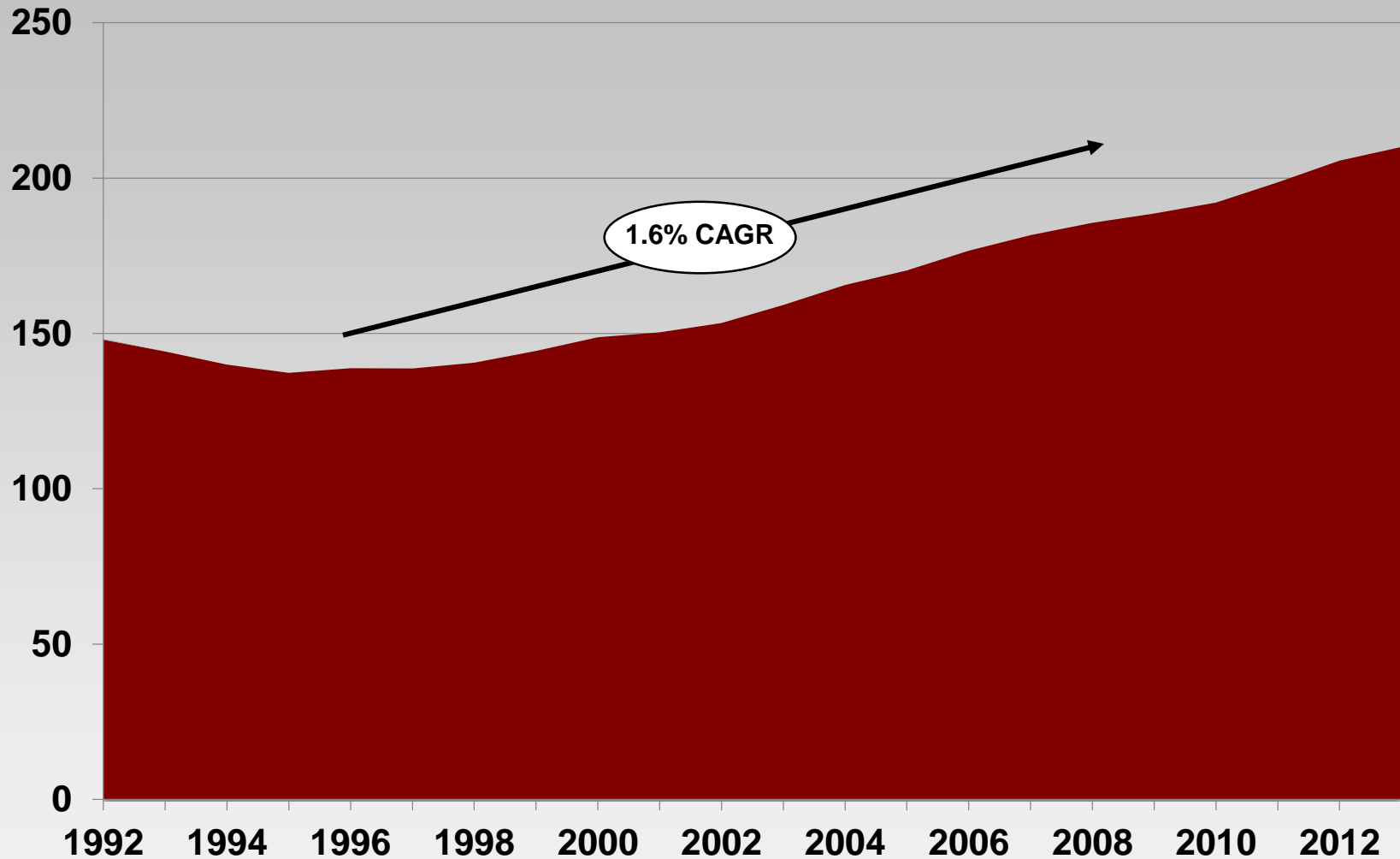
# DISCUSSION TOPICS



- **“Goliath is vulnerable, and David is winning, not necessarily alone but as a group”**
- **“Relevant differentiation and badge value for the brand – on top of the category”**
- **“Use the home field advantage, focus on battles that one can win and help out on the battlefield”**
- **“The concept of fair share of attention or there is no silver bullet for distribution”**
- **“Combining an above fair share of attention and economies of scale for an efficient and effective route to market”**

# SPIRITS MARKET HAS BEEN GROWING STEADILY

Consumption of Spirits in the U.S. 1992 - 2014 (in millions of 9-L cases)



# SUPPLIER TIER IN SPIRITS: THE TOP 5 SPIRITS SUPPLIERS GENERATE ~60% OF THE INDUSTRY REVENUE AND THE TOP 10 GENERATE CLOSE TO 80%

## U.S. Spirits Suppliers, by Wholesale Revenue (2013)

## Spirits Market Share (2013) %

## Largest Brands, by Volume (and Category)

Billions, USD

Diageo	\$6.1	24.6%	<ul style="list-style-type: none"> <li>Smirnoff (vodka); Crown Royal (whisky), Captain Morgan (rum); Ciroc (vodka)</li> </ul>
Bacardi USA	\$2.4	9.9%	<ul style="list-style-type: none"> <li>Bacardi (rum); Grey Goose (vodka); Dewar's (whisky); Bombay Sapphire (gin); House of Cazadores (tequila)</li> </ul>
Beam Inc.	\$2.3	9.5%	<ul style="list-style-type: none"> <li>Jim Beam (whisky); Sauza (tequila); Makers Mark (whisky); Pinnacle (vodka)</li> </ul>
Pernod Ricard USA	\$2.3	9.3%	<ul style="list-style-type: none"> <li>Absolut (vodka); Jameson (whisky); Malibu (rum); Seagram's Gin (gin)</li> </ul>
Brown-Forman	\$1.6	6.4%	<ul style="list-style-type: none"> <li>Jack Daniel's (whisky); Southern Comfort (cordial); Jack Daniel's Tennessee Honey (liqueur); Canadian Mist (whisky)</li> </ul>
Sazerac	\$1.1	4.6%	<ul style="list-style-type: none"> <li>Fireball (whisky); Skol (vodka); Barton (vodka); Fleischmann's Royal (vodka); Platinum 7X (vodka)</li> </ul>
Proximo Spirits	\$0.99	4.0%	<ul style="list-style-type: none"> <li>Jose Cuervo (tequila); Three Olives (vodka); 1800 (tequila)</li> </ul>
Moet Hennessy USA	\$0.88	3.6%	<ul style="list-style-type: none"> <li>Hennessy (cognac); Grand Marnier (liqueur); Belvedere (vodka); Glenmorangie (whisky)</li> </ul>
Patron Spirits Company	\$0.71	2.9%	<ul style="list-style-type: none"> <li>Patron (tequila); Patron XO Café (liqueur); Citronge Orange (liqueur)</li> </ul>
Heaven Hill Distilleries	\$0.67	2.7%	<ul style="list-style-type: none"> <li>Evan Williams (whisky); Burnett's (vodka); Christian Bros. (brandy); Admiral Nelson (rum)</li> </ul>
Other	\$5.6	22.5%	



# LARGE PLAYERS ARE NOT DOING THAT GREAT THESE DAYS...



**DIAGEO**

**Diageo Profit Drops 18% on Weak North American Sales; spirits sales in North America were down by 1%.  
*WSJ, January 2015***



  
**Pernod Ricard**

**Challenging business environment in the U.S....2% decline in U.S. sales in the first half of the fiscal year  
*Shanken News Daily, February 2015***

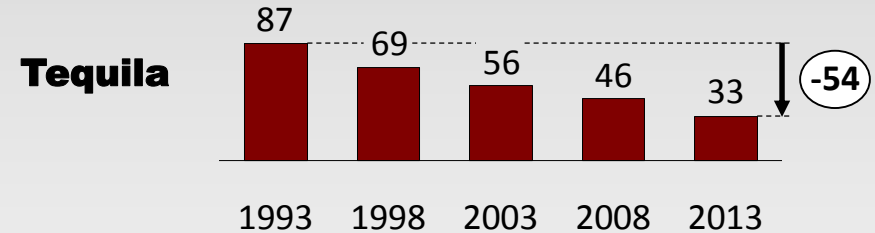
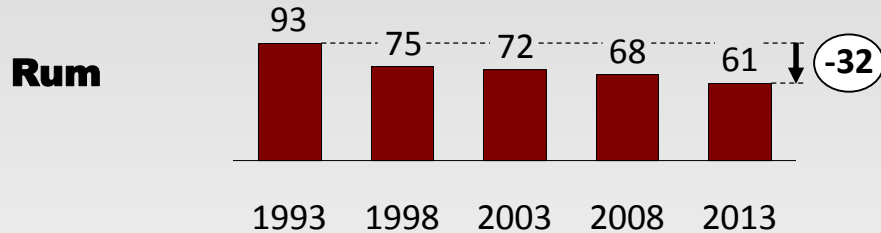
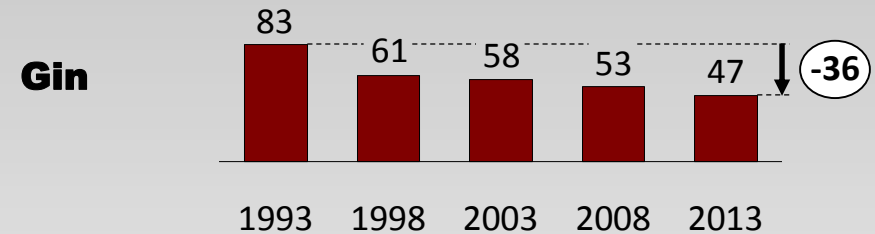
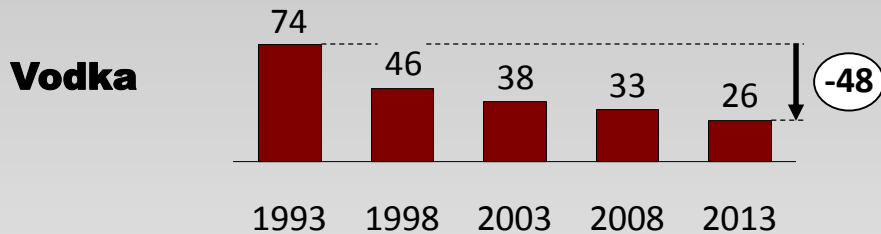
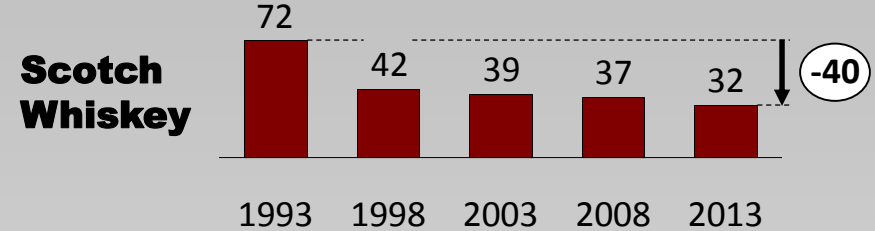
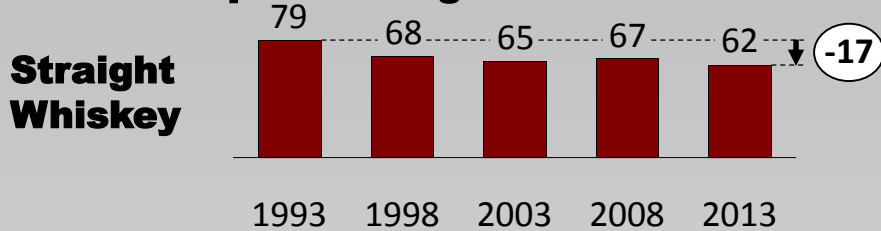


  
**BACARDI LIMITED**

**Bacardi's top selling brands have lagged behind the competition over the past few years. The flagship Bacardi rum brand down by 5.7% and Grey Goose down by 4.9% last year.  
*Shanken News Daily, August 2014***

# TOP SPIRITS BRANDS STRUGGLE TO MAINTAIN MARKET SHARE

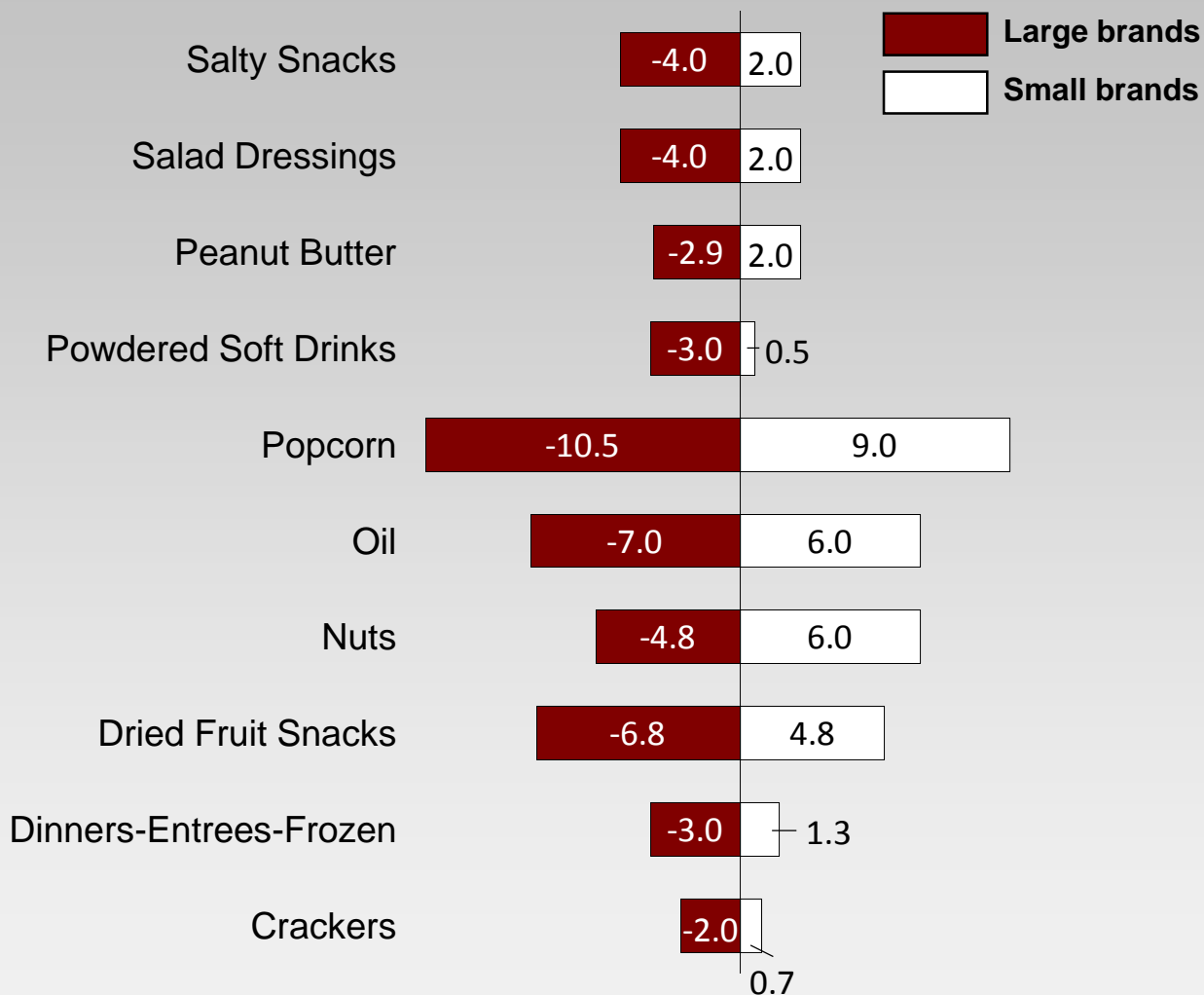
**Market share of top 5 spirits brands of 1993 over 20 year period (in % of category) in selected spirits categories**



- Large brands struggle to maintain market share
- Some of this long term trend can be attributable to premiumization during this period as brands in some categories have been topped by more premium offerings

# THIS IS NOT A SPIRITS ONLY PHENOMENON – SIMILAR DATA FOR OTHER FAST MOVING CONSUMER GOODS CATEGORIES

**Revenue share change of large and small brands in selected food categories 2009 – 2013 in %**

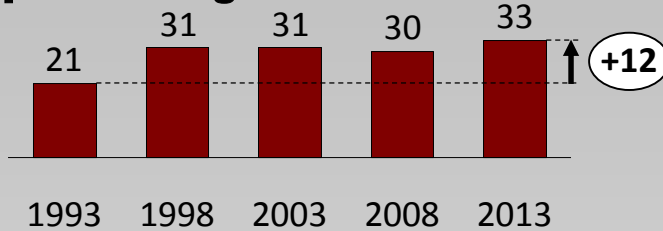


- **Smaller brands taking share of larger brands is a phenomenon across many FMCG (fast moving consumer goods) categories**
- **Factors often cited as reasons include:**
  - **Shortening life cycles of brands in general**
  - **Entrepreneurial innovation wave**
  - **Liberalization and de-concentration of marketing avenues (e.g., Internet)**
  - **Premiumization**
  - **Desire of consumers to differentiate themselves**

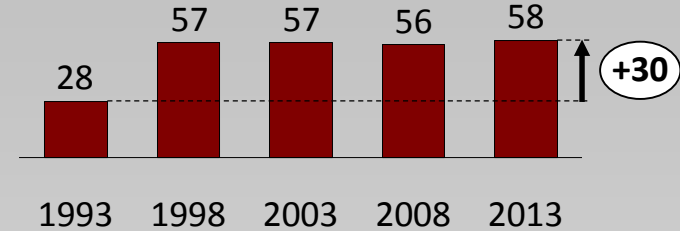
# MARKET IS GETTING MORE FRAGMENTED – SMALLER BRANDS HAVE BEEN GAINING SHARE

**Market share of non-top 5 spirits brands over 20 year period (in % of category) in selected spirits categories**

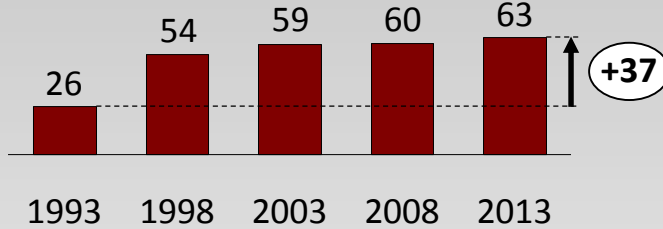
## **Straight Whiskey**



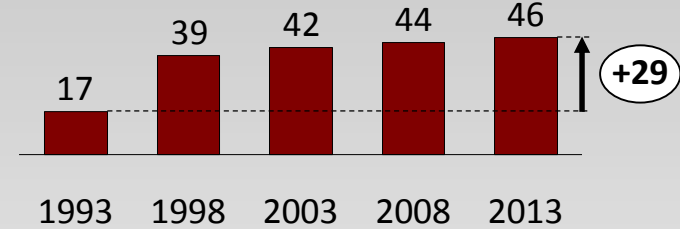
## **Scotch Whiskey**



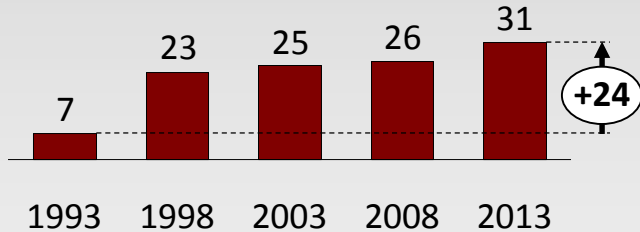
## **Vodka**



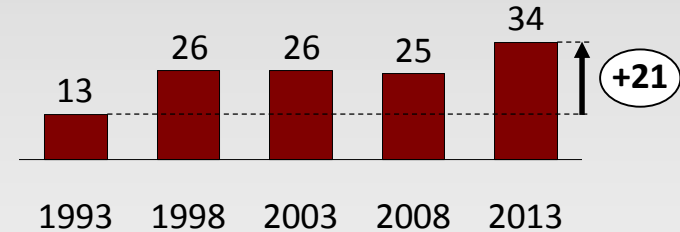
## **Gin**



## **Rum**



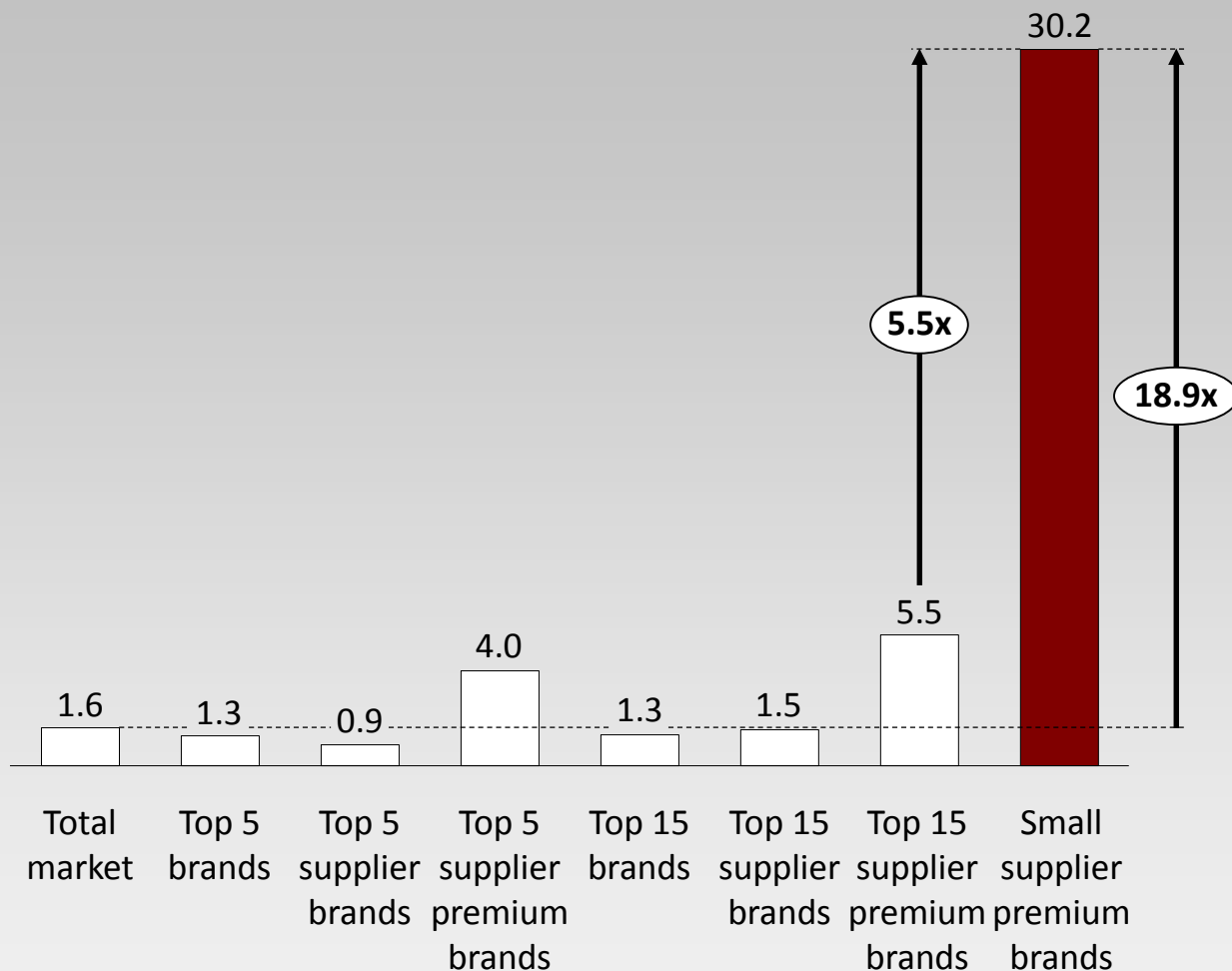
## **Tequila**



- Smaller brands have been gaining share
- The non-top 5 brands gained between 12 and 37 percentage points over a 20 year period and between 2 and 9 percentage points in the last 5 years

# SMALLER BRANDS GROWING FAST – EXAMPLE GIN CATEGORY

**Growth of Gin sales (U.S.) LTM January 2015 vs LTM January 2014, in %**

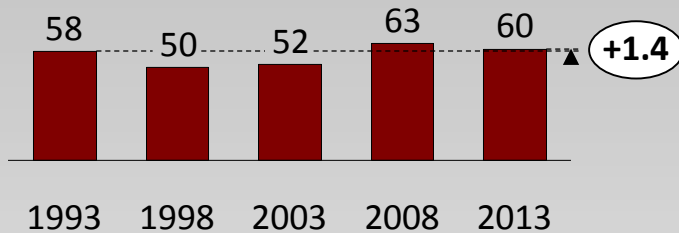


- **Small premium brands outgrew large supplier premium brands by a factor of 5.5x and the overall market by 18.9x**
- **Approximately 45% of the category growth is coming from small supplier brands**
- **This is remarkable, especially given that the account selection (e.g., no on-premise) and data availability typically provides a bias towards national and larger brands**

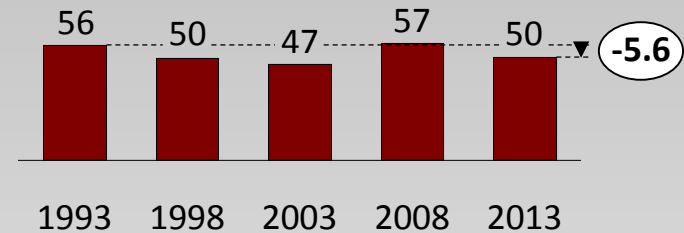
# TOP SUPPLIERS STILL GAINED REVENUE SHARE AS A GROUP OVER THE LONG HAUL

**Market share of top 5 spirits suppliers over 20 year period (in % of spirits category)**

## Revenue



## Volume



- **Concentration in the industry from a supplier perspective has increased over the last 20 years**
- **Brand development and M&A activities have helped the group of top suppliers to maintain and extend their market position, while the market has gone through premiumization**



# LARGE SUPPLIERS HAVE SHIFTED ACTIVITIES FROM BRAND BUILDING TO BRAND EXTENDING – M&A IS THE NEW BRAND DEVELOPMENT

## New Brand Development

OXLEY

ORONOCO

CORZO  
TEQUILA

TÜRI

QREAM

Reduced  
focus

New brand development (NBD) of large suppliers with lower success rate, especially in the high premium space – shift of in-house resources to brand extension development given higher success rate

## Acquisitions

DOMAINE  
DE  
CANTON

PINNACLE  
VODKA

AVIÓN  
TEQUILA

SVEDKA

GREY GOOSE  
VODKA

HUDSON  
WHISKEY

ST-GERMAIN

2 GINGERS  
IRISH WHISKEY

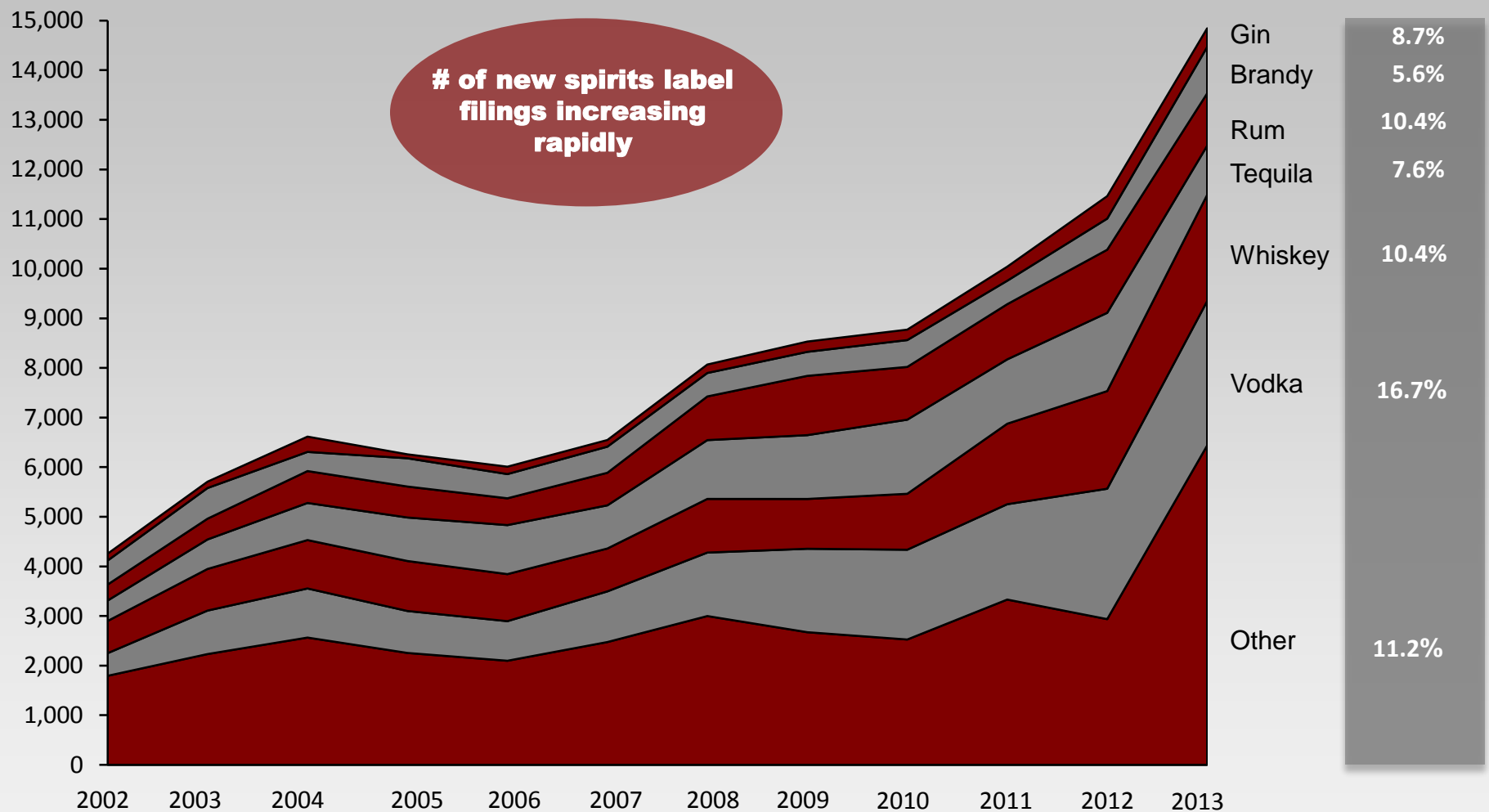
DELEÓN  
TEQUILA

Increased  
focus

- Entrepreneurs seen as more successful in new brand development
- Acquisitions also seen as more favorable for new brand additions as they do not have full negative P&L impact of internal brand development, which is especially relevant for publicly traded suppliers

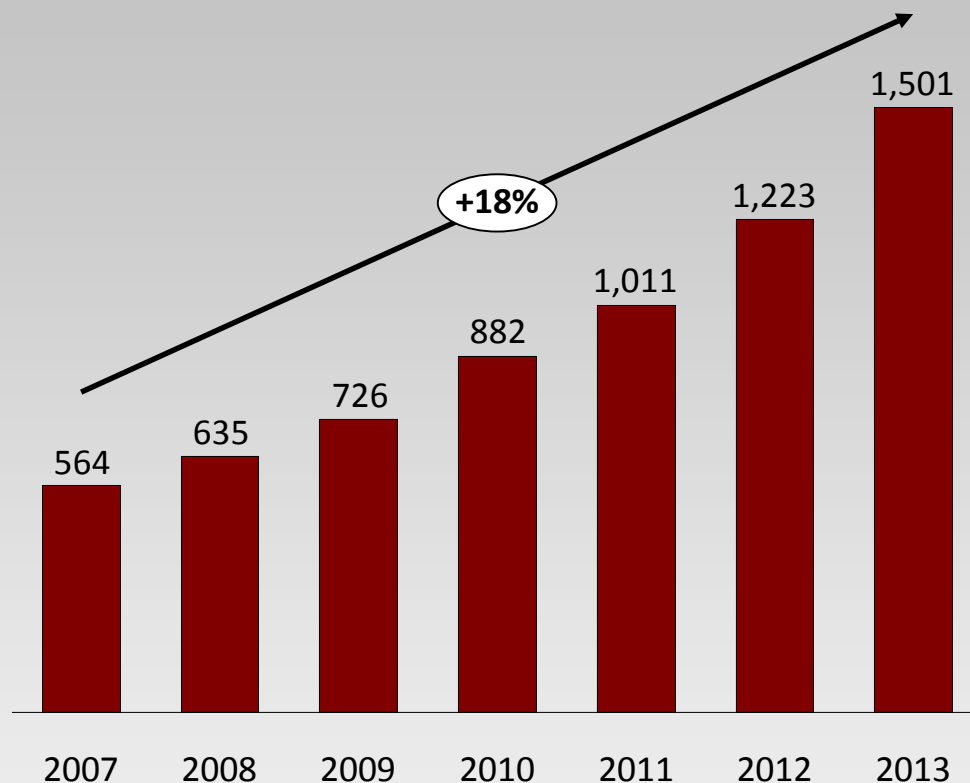
# THE NUMBER OF NEW PRODUCT INTRODUCTIONS HAS BEEN INCREASING

**Number of spirits label filings per year by sub-category (2002-2013)**



# MANY PRODUCERS HAVE ENTERED THE MARKET RECENTLY...

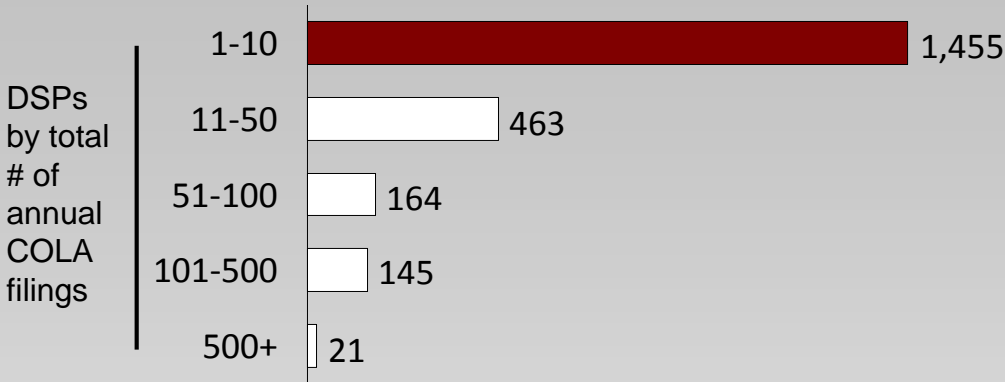
## Number of active distilleries in the U.S. (2007-2013)



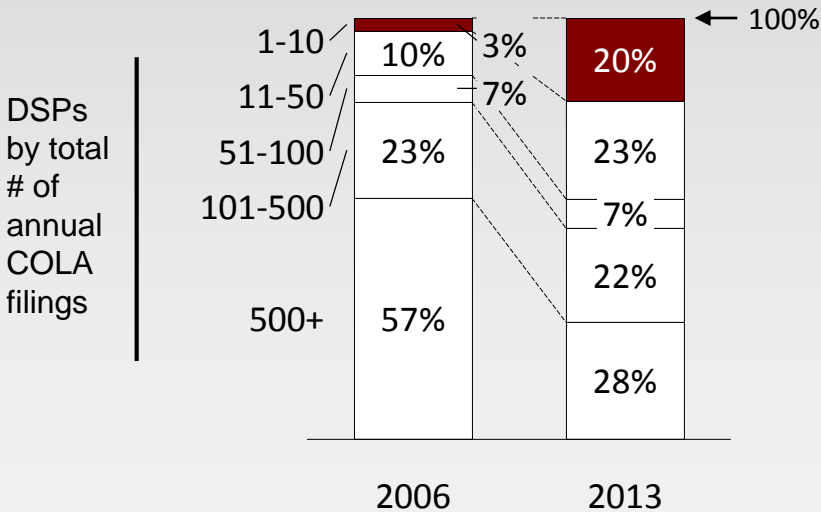
- The number of production facilities in the U.S. has almost tripled since 2007, growing at a CAGR of 18%
- The overall number is currently estimated to be at a post-prohibition high and expected to increase even further

# ...WITH THE SHARE OF NEW LABEL FILINGS BY SMALLER PRODUCERS INCREASING RAPIDLY

**Changes in number of COLA filings by DSP size (measured in number of annual filings) 2006 vs 2013 in %**



**Share of COLA filings by DSP size (measured in number of annual filings) 2006 vs 2013 in %**

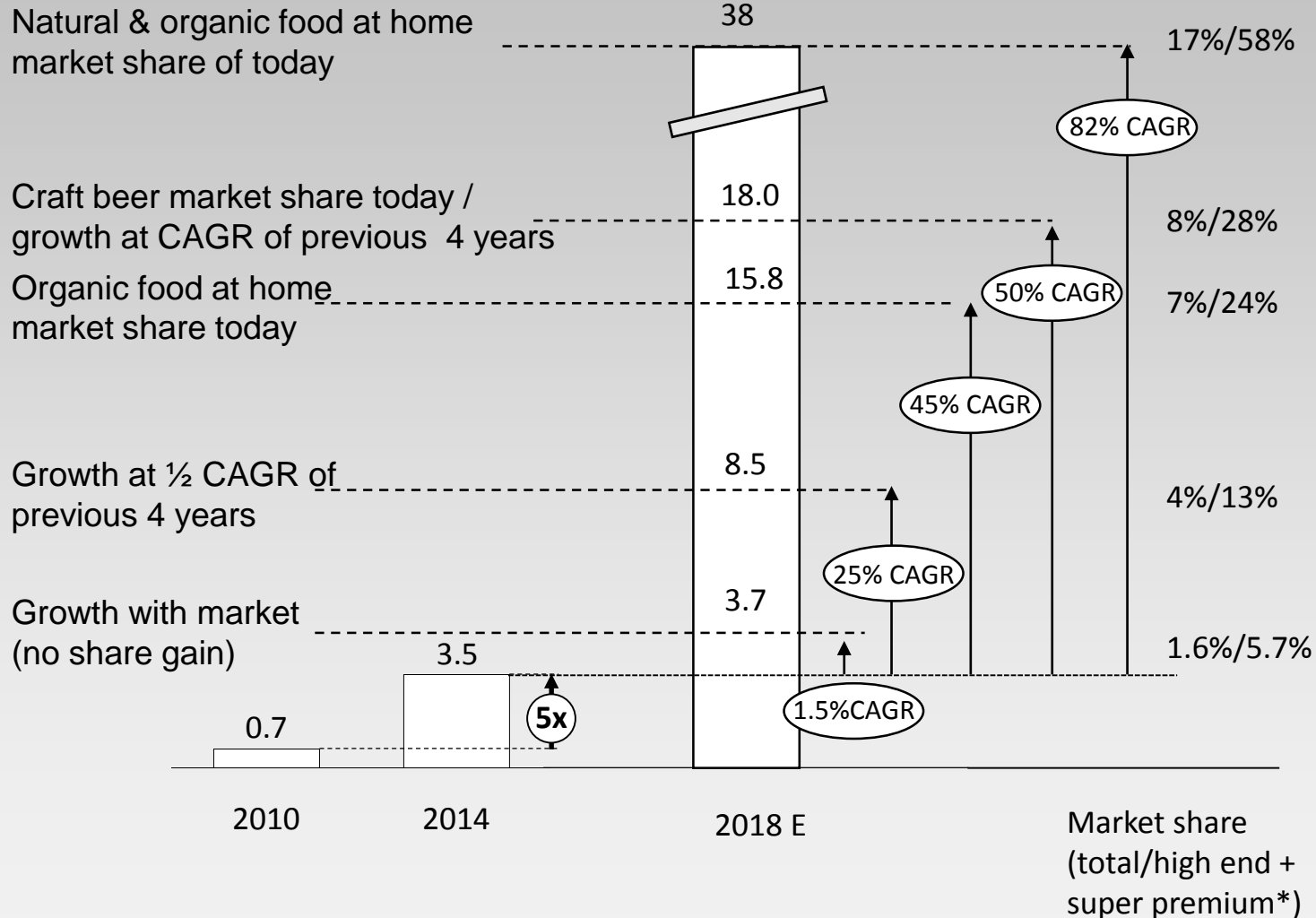


▪ The number of COLA filings by smaller DSPs is increasing rapidly

▪ Share of new COLAs filed by DSPs with less than 10 total filings per year increased more than 14 fold between 2006 and 2013

# SMALL DISTILLERS HAVE BEEN GROWING AND COULD GAIN SIGNIFICANT MARKET SHARE IF TRENDS CONTINUE

## Market size scenarios for 2018 based on today's DISCUS estimates in millions of 9-L cases



- Sales of products from small distillers have increased with a 50% CAGR since 2010
- Maintaining this growth rate would get the small distillers market share to 8% or the equivalent of the craft beer market share today
- This growth would mean an additional 15m cases for small distillers

# DISCUSSION TOPICS



- **“Goliath is vulnerable and David is winning, not necessarily alone, but as a group”**
- **“Relevant differentiation and badge value for the brand – on top of the category”**
- **“Use the home field advantage, focus on battles that one can win and help out on the battlefield”**
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# STARTING POINT FOR THE STRATEGIC PLAN SHOULD BE THE TARGET CONSUMER

**Examples of consumer groups that are currently driving distilled spirits growth**

**Millenials**



**Women**



**Multi-cultural**



**Examples of consumer groups segmented by behavior that might relate to craft spirits**

**Drink local**



**Drink healthy**

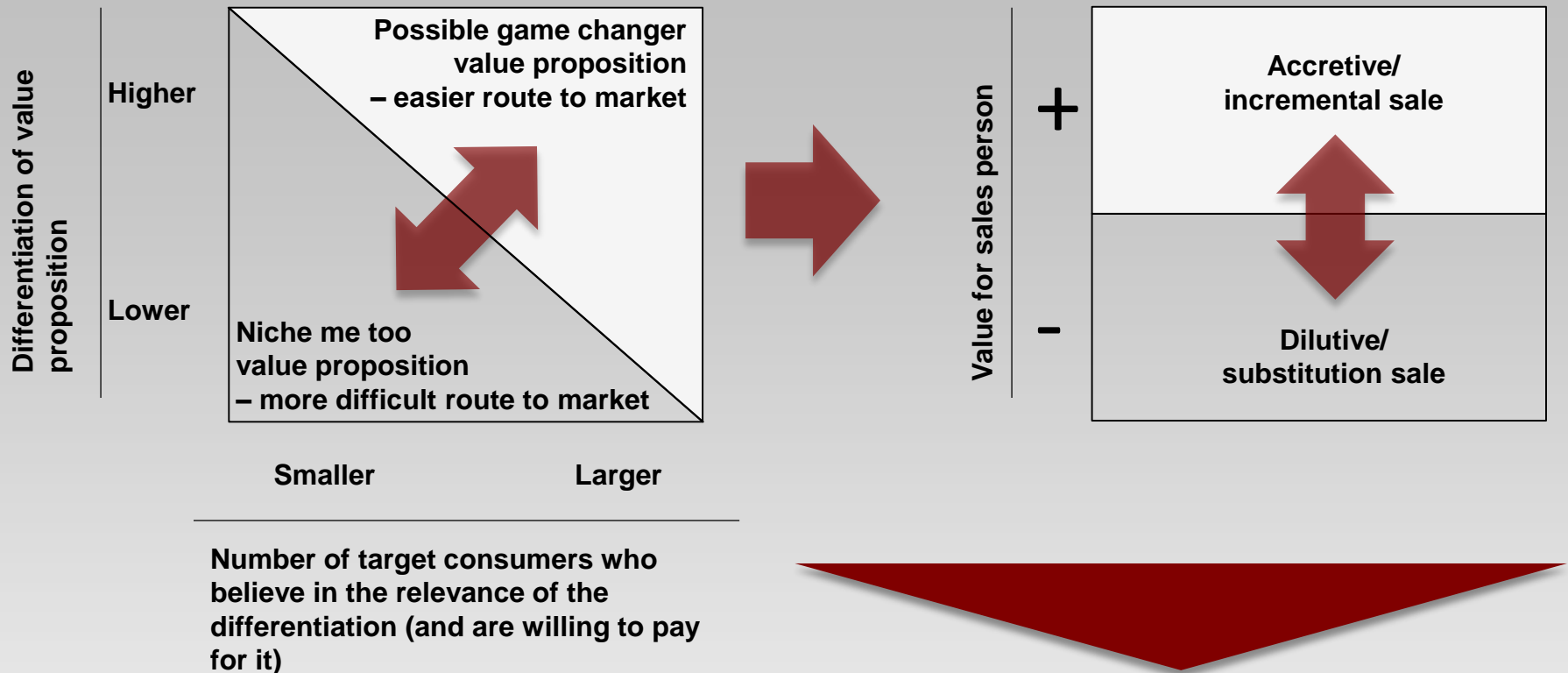


**Drink hip**



- Who is the target consumer?
- Where do they live?
- What do they drink today?
- Where are they drinking it today?
- Where are they buying it?
- Who is selling it to them?
- ...

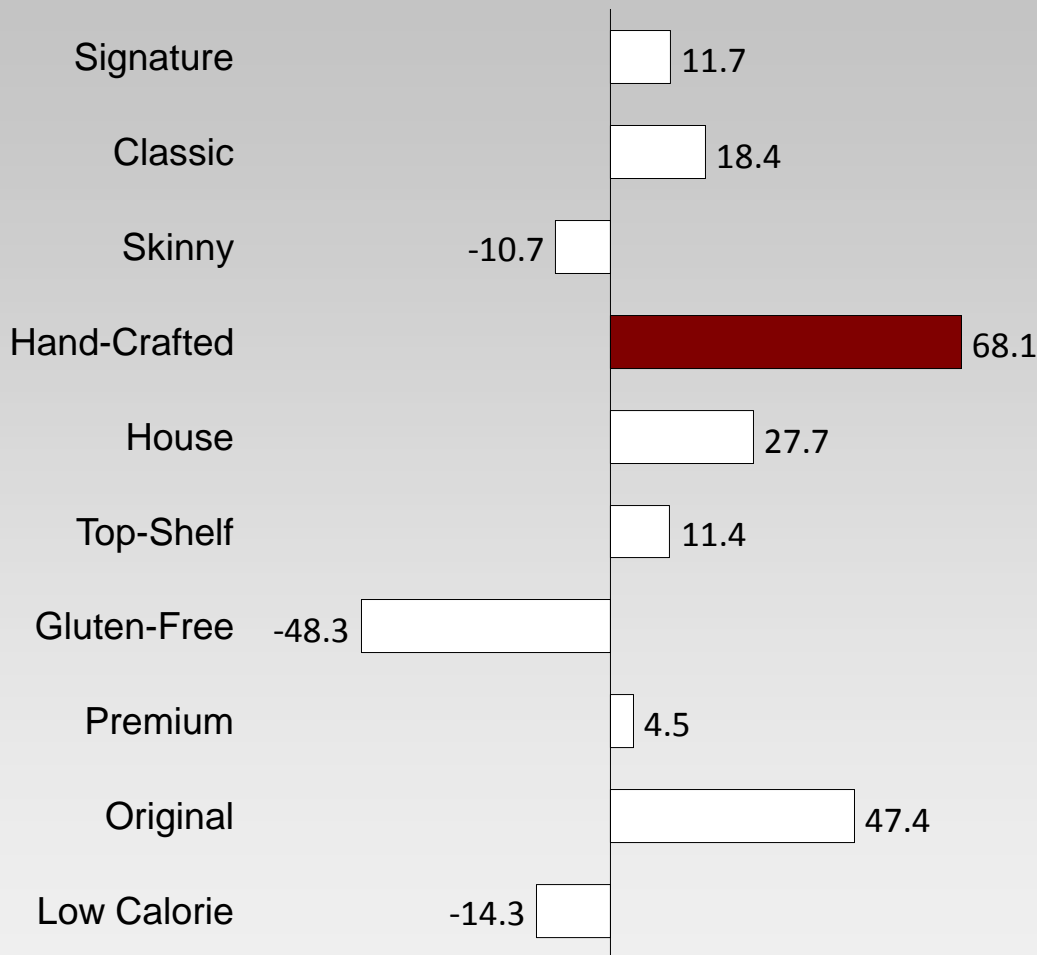
# THE HIGHER THE RELEVANT DIFFERENTIATION THE EASIER THE ROUTE TO MARKET BATTLE



- **Products with a differentiation that is relevant for a target consumer are easier to sell**
- **If there is proof that there are many target consumers who are willing to pay for the differentiated value proposition the sale along the route to market is easier**
- **Once the salesperson perceives the sale as accretive for him/herself and not as a dilutive substitution sale, the route to market becomes the easiest**

# CRAFT IS GETTING EXPOSURE

**Top 10 on-premise menu item claims by time period – Q4 2014 vs Q2 2014 in %**



- The word “hand-crafted” is rapidly gaining popularity in the creation of on-premise menus, indicating it is increasing consumer draw
- With the large number of craft products entering the market and non-craft product using the term craft, it is becoming increasingly more important for a particular craft brand to have a relevant differentiation to stand out
- Brands need to provide authentic craft credentials and badge value

# BADGE VALUE

## General Definition

- **Badge: a special or distinctive mark, token, or device worn as a sign of allegiance, membership, authority, achievement, etc.**
- **Brands can serve as a badge for people to communicate non-verbally to the world who they are (or who they want to be) and what they value (self-expressive benefits)**
- **Brands with highest badge value are the ones with simple messages and a strong and specific point of view**

## Case Study

- **Fizz agency conducted a case study on Grey Goose in ~2007**
- **They posed the question: “Do people use a louder voice when sitting at a bar and ordering Grey Goose vodka than when they order other vodkas?”**
- **The resounding answer was “Yes”. In fact on average the study found that a Grey Goose order was almost 20% louder than an order for any other vodka**
- **Following additional research, the study came to this conclusion: people associated Grey Goose with being “the best” or “excellence” and by ordering it they were communicating to others that they liked to and could afford to surround themselves with excellence**
- **These consumers wished that as many people as possible would associate them with “the best” or “excellence” , and thus they tended to unconsciously order Grey Goose using a louder voice than patrons who ordered other vodkas**

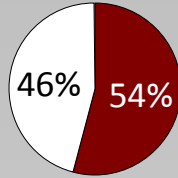
- **Creating badge value is essential for premium distilled spirits and craft has been able to create badge value for the category**
- **Individuals brands face the challenge of creating badge value on top of the category**
- **Badge value is not created overnight, requires relevant differentiation and thoughtful branding, and often includes strategies to activate influencers as early adopters**

# DISCUSSION TOPICS

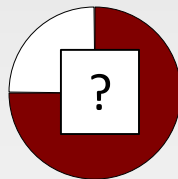
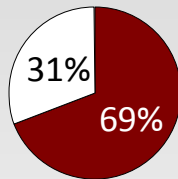
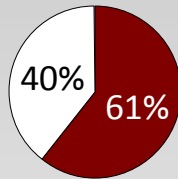
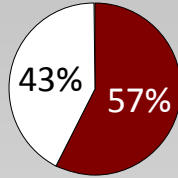


- **“Goliath is vulnerable and David is winning, not necessarily alone, but as a group”**
- **“Relevant differentiation and badge value for the brand – on top of the category”**
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# HOME GAMES VS AWAY GAMES



■ = Home Games Won



- Home field advantage exists, and it is not because of theories such as “Sleeping in your own bed” and “Better familiarity with the home field”
- According to researchers the main reason for home field advantage is the slightly preferential treatment which home teams receive from referees (which is involuntary) in light of home crowd support



- Get your home crowd support
- Take advantage of slightly preferential treatment by the referees/gatekeepers
  - State law makers
  - Distributors
  - Retailers (on and off)



# CRAFT PLAYBOOK FOR HOME GAMES

## Examples

### State Law Makers

- Lobby for preferential treatment (e.g., direct-to-consumer sales at distillery)
- Emphasize job creation impact and remember that law makers like photo opportunities and “headline wins”
- ...

### Distributors

- Appeal to their desire to help another local business (distributors are often highly embedded in their local communities)
- ...

### Retailers (on and off)

- Appeal to help another local business
- Have friends and family ask for the brand at local stores and bars
- ...



- Local support should not be underestimated – it is not protectionism but rather an appeal to local patriotism
- Do not underestimate the impact of your personal network “getting loud” in the community and advocating for your brand
- Use the home field advantage to create your playbook for road games

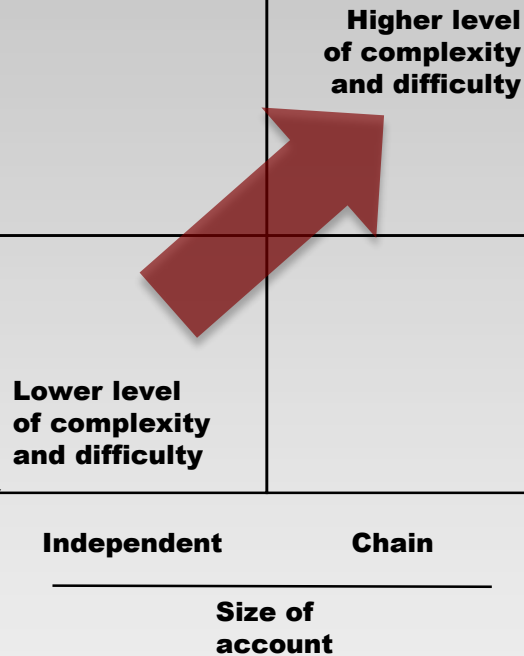
# RETAIL OPTIONS TO START

- Good volume opportunity
- Interesting for proof of concept when used for tastings
- Floor placement almost mandatory for new brand

Premise type

Off

On



- Highest volume opportunity – typically part of roll-out after successful launch
- Business is typically being co-managed by large suppliers functioning as category managers
- Difficult to get listed and easy to get delisted (“one shot opportunity”)

- Low volumes but good visibility
- Easiest place to start
- Mutually beneficial relationship between bartender’s brand and supplier brand

- Good volume opportunity depending on size of chain
- Highly competitive to get on menu
- Good visibility for marketing purposes
- Elegant way to get distribution in new states

# EXAMPLES OF HELPING ON- AND OFF-PREMISE RETAILERS MOVE PRODUCT

## Managed bar nights



## In store tastings



## Buy backs






# DISCUSSION TOPICS



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# DISTRIBUTOR PARADOX



*"I'm really upset with my distributor – they are not spending enough time on my portfolio. They are spending too much time and attention on the small brands!"*

CEO of Top 10 supplier

*"My distributor doesn't pay any attention to my brand – they only do what the large suppliers want."*

Refrain of small brand entrepreneur

- **Distributors have a certain degree of freedom and power but are limited by the desires and needs of their customers**
- **Lack of consumer demand and the rejection of retailers often ends up as criticism of distributors**

# WHEN EXPANDING BEYOND THE HOME STATE THERE ARE SEVERAL CHOICES TO CONSIDER

## High-end Image vs 2nd Tier Markets

- High-end image markets are cities with high density of influencers and high visibility (e.g., New York, Miami, Los Angeles, Las Vegas, San Francisco and Chicago are often included on that list)
- These markets are highly competitive and have many suppliers investing a majority of their marketing funds in these areas. It is therefore typically more expensive to conquer these markets than other markets

## Franchise vs Non-franchise Markets

- Franchise markets provide distributors a certain level of protection. In some markets (e.g., Georgia, Tennessee, New Jersey) the termination of a distributor is almost impossible. The entering of a franchise market is often considered a marriage without a divorce option
- Given the value of franchise protection distributors are often more willing to take a chance on a new product or a new supplier

## Open States vs Control States

- In many control states, a formal listing process is required before products can get into the bailment warehouses and into the stores. The alternative is to obtain special order item status which allows stores to order the product when it is requested by customers
- When attempting to get listed, the brand should have at least some consumer pull as slow moving SKUs are subject to delisting. A recovery from delisting is difficult

- The choice of expansion markets has to be carefully considered as each market has its own pros and cons
- There is no one-size-fits-all strategy as different brands in the past have shown that brands can be built in every state
- No matter which market(s) are prioritized, each market needs resources to support the launch



# DISTRIBUTION IN OPEN NON-FRANCHISE STATES – SEVERAL VALID OPTIONS

## Top Supplier Distributor

- Leading market share in particular state and typically part of multi-state network
- Representing several top 10 spirits and wine suppliers
- Divisional set-up with multiple salespeople calling on the same account
- Supply chain infrastructure shared between divisions typically best in class/market
- Typically very well capitalized: no credit or slow payment issues

## Second Tier Distributor

- Small market share in particular state, typically focused on metro areas
- Represent none of the top 10 spirits and wine suppliers, just small and medium sized suppliers
- Lower customer service and balance sheet/credit risk

## Clearing Distributors

- Unbundled logistics and sales: no salesforce in market, clearing and logistics only
- Represent small suppliers as well as top 10 spirits and wine suppliers on special projects and test markets
- Small per case fee instead of large gross profit

- Top supplier distributors typically have the largest number of accounts and the highest frequency of visits, generally providing the highest service levels for retailers
- From a strategy perspective, top supplier distributors should be explored first, albeit with low expectations (they often pass knowing that with success they will likely get another shot)
- Second tier and clearing distributors are valid options as their reach is typically sufficient for the launch phase
- No matter what, the supplier has to supplement the sales resources in order to get traction – distributors at the start are often not more than order takers and delivery vehicles
- It typically helps to launch with a test market phase with a clearly defined target account universe and performance parameters

# NOT GETTING ENOUGH ATTENTION? DISTRIBUTORS TYPICALLY OPERATE BASED ON THE CONCEPT OF FAIR SHARE OF ATTENTION

## Allocation of priorities based on fair share of attention - conceptual

Supplier tier	Annual gross profit contribution range in \$m	# of suppliers in portfolio	# of top priorities	# of top priorities/ supplier	# of other priorities/ supplier	# of other priorities
Top suppliers	5<	2	2	1.00	2	1.00
Large suppliers	2-5	4	3	0.75	3	0.75
Medium suppliers	1-2	8	0	0.00	10	1.25
Small suppliers	0.1-1	30	0	0.00	5	0.17
Entry suppliers	<0.1	250	0	0.00	0	0.00
Total		294	5		20	

**Fair share of attention**

**Large gross profit contribution = High level of attention**

**Small gross profit contribution = Small level of attention**

## Conclusion

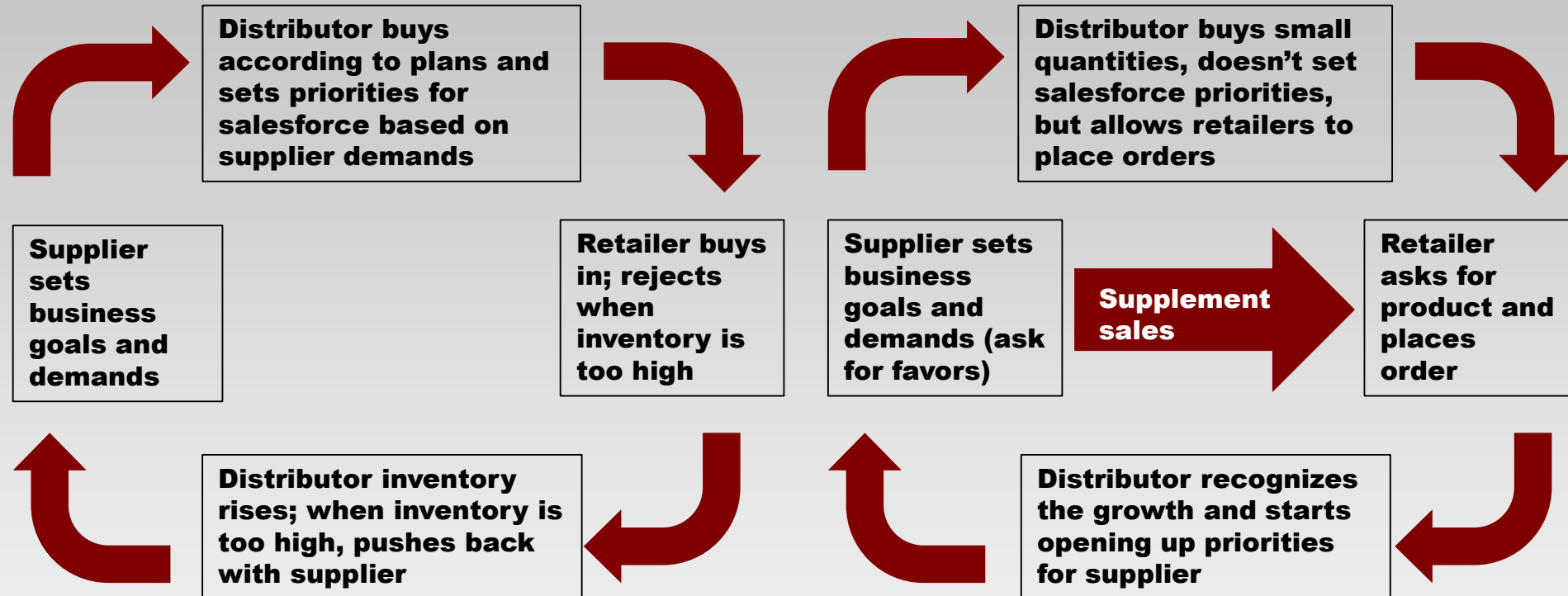
- Priorities for the sales force are the outcome of negotiations between suppliers and distributors
- Most often the concept of fair share of contribution is used to come up with the fair share of attention which guides the allocation of priorities
- Small brands and small suppliers often end up without any priority – the same typically applies to small brands of large suppliers
- Distributors are often unable to pay attention to a small brand as the risk of losing a large supplier is too big

# SMALL SUPPLIERS OFTEN NEED TO CREATE RETAIL DEMAND IN ORDER TO GET DISTRIBUTORS TO INCREASE ATTENTION

CONCEPTUAL

## Large supplier – distributor cycle

## Small supplier – distributor cycle



**Key for smaller suppliers is to get retailers to ask for the product to break the cycle of fair share of attention; this requires supplemental sales efforts**

# EXAMPLES OF STRATEGIES AND TACTICS TO INCREASE ATTENTION – CREATE AWARENESS WITHIN THE DISTRIBUTOR

## Margins and Incentives

- Large suppliers pay significantly smaller gross profit percentages than small suppliers (15-22% vs 25-35%). Standing out with high gross margins among small suppliers can increase awareness
- Providing large placement and re-order incentives for the salespeople (if distributor approves) can increase awareness

## Communication: Presentations, “Ride-Alongs” and Follow-ups

- Presentations and trainings at general sales meetings are important opportunities to increase awareness of the brand among distributor salespeople
- Opportunities to spend a day riding along a distributor salesperson are great opportunities to build a personal connection with the salesperson and accounts
- Sharing of success stories and achieving of milestones can be impactful follow-ups to create and sustain the “winner image”
- All communications and pitches have to be carefully planned and crafted. Avoid desperate over-communication, giving the impression that the distributor salesperson’s time is not valuable

## In-market Sales, Brokers & Brand Ambassadors

- Supporting sales activities with frequent market visits and dedicated or shared sales personnel in the market is crucial, especially at the launch
- In case of shared resources, make sure to get a fair share of attention from the shared resources

- Awareness creating activities are crucial with distributor salespersons who have 100’s if not 1,000’s of products to sell
- Focusing limited resources on particular distributor salespeople and their account universe can help create mini success stories that are newsworthy within the distributor
- Attention will come through awareness and success

# EXAMPLES OF TYPICAL PITFALLS TO AVOID WITH TOP SUPPLIER DISTRIBUTORS

## Focus on Order Size

- Distributors have a high level of sophistication in managing their inventory levels
- Extra working capital capacity is typically used to support large suppliers in making their numbers
- New brands have no track record and will therefore typically be only ordered in small quantities
- Demanding larger order sizes or even showing a strong interest in the order size, sends the distributor a message that the supplier is potentially under-capitalized and may lead to a decrease in supplier credibility and cancellation of the order

## Launch a Portfolio of Brands and Demand Full Distribution

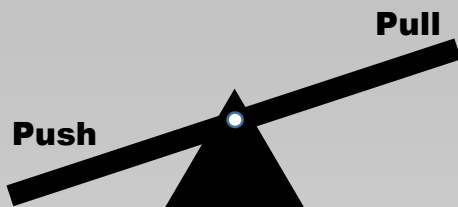
- Distributors typically segment their account universe in order to focus their activities
- Launching more than one brand and demanding to get into every account is unreasonable especially for new or small suppliers and will likely result in not getting anything
- The focus should be on a particular brand or a brand with logical extensions (e.g., different age profiles)
- Distribution goals need to be very focused and in line with the relevant differentiation of the brand

## Working without a Marketing Plan

- Distributors have only limited resources, and one of their largest assets is their relationships with accounts
- While distributors can place brands in outlets based on the trust the accounts have in them, distributors need to do their due diligence on the consumer pull activities first. Nobody wants to get calls from good accounts requesting that the distributor come back to pick up goods
- A comprehensive marketing plan that demonstrates how the target consumer is engaged and activated is crucial to get a distributor to buy in

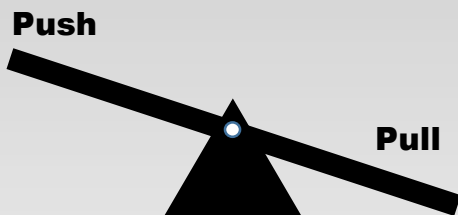
# IN SHORT: MASTERING THE BALANCE BETWEEN PUSH AND PULL IS ONE OF THE KEYS TO SUCCESS

## Push > Pull



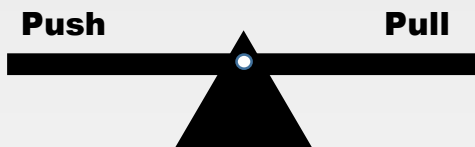
- When push activities lead the way without adequate consumer pull, product will get to retailers and will stay there until retailers determine to move the product, either by asking the distributor to take it back or by heavily discounting it for the consumer
- Relationships between retailers and distributors frequently get strained or damaged in this process, especially if large volumes are involved. Distributors try to avoid this situation as much as possible
- New brand developments of large suppliers often encounter this situation, ultimately leading to a high level of sensitivity and lower emphasis on new brand development among large suppliers

## Push < Pull

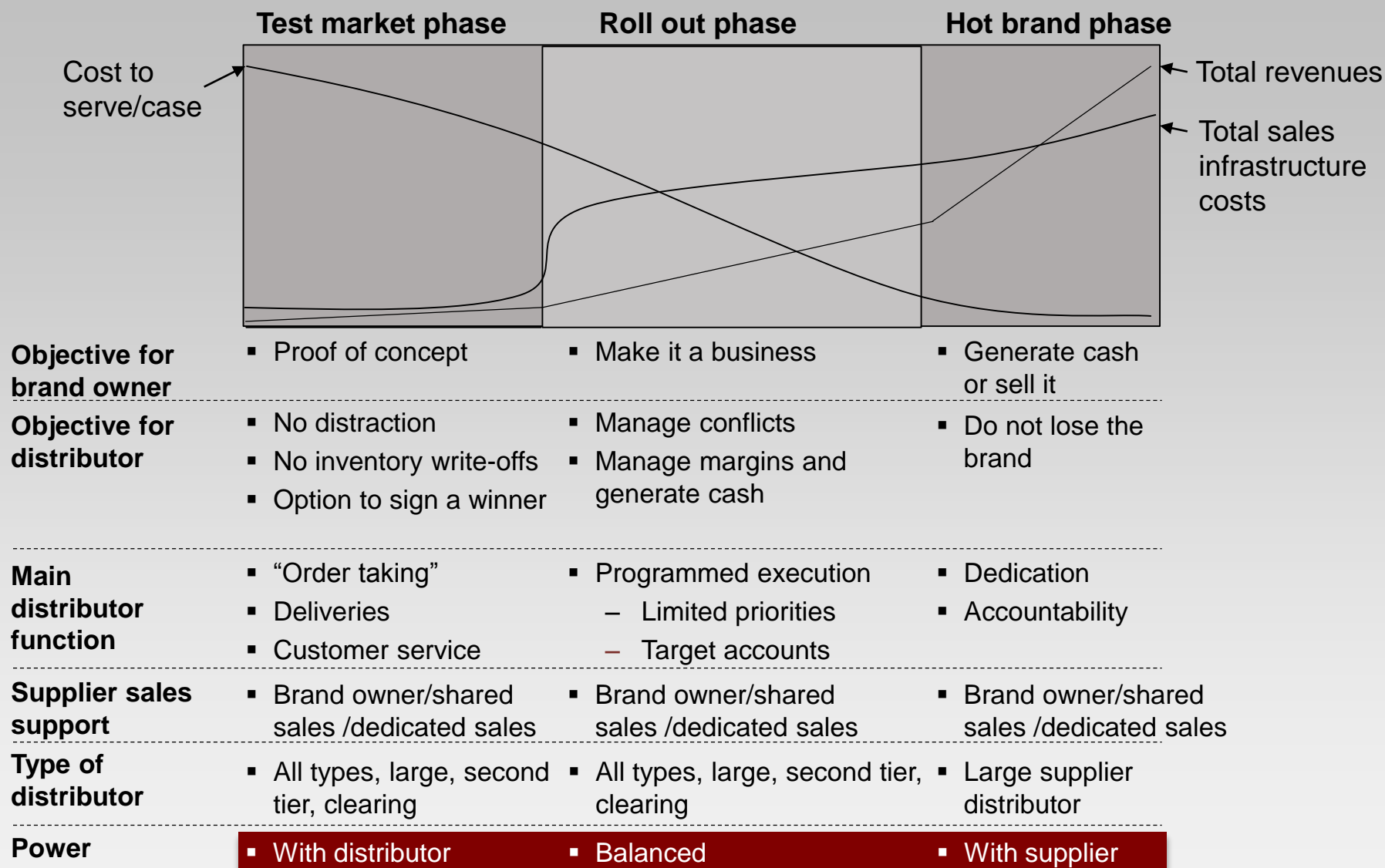


- When pull activities lead the way without adequate distribution, consumers ask for the product and are unable to find it. This is good to a certain degree as it will drive retailers to ask their distributors for the product, but it is not sustainable over time as it impedes growth and may lead to frustration among consumers who are unable to purchase the product
- The costs of creating the pull have to be weighed against the benefits as an over-investment in pull without adequate push is a waste of resources. Such over-investment typically occurs in above the line spending
- Entrepreneurs who have significant capital, are impatient, and/or have unrealistic expectations are most likely to fall into this category
- Balancing the right amount of push with the right amount of pull has often been the recipe behind successful brand launches. It combines below the line marketing spend and activities in target geographic areas and target accounts with the appropriate level of distribution
- A test market campaign is typically an effective method to create and optimize a pull/push playbook that can be replicated during the roll-out in other areas

## Push = Pull



# NEW BRAND LAUNCH – WITH SUCCESS THE POWER BALANCE AND ROUTE TO MARKET CHANGE



# DISCUSSION TOPICS



- **“Goliath is vulnerable and David is winning, not necessarily alone, but as a group”**
- **“Relevant differentiation and badge value for the brand – on top of the category”**
- **“Use the home field advantage, focus on battles that one can win and help out on the battlefield”**
- **“The concept of fair share of attention or there is no silver bullet for distribution”**
- **“Combining an above fair share of attention and economies of scale for an efficient and effective route to market”**



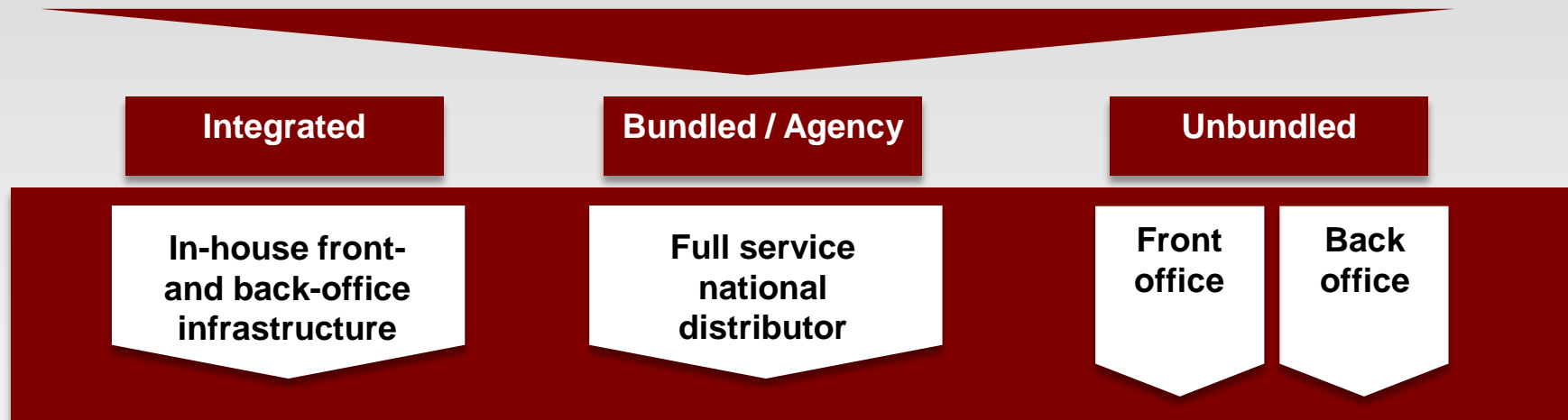
# INFRASTRUCTURE TO CONQUER: FRONT-OFFICE VS BACK-OFFICE TASKS

## Front-Office



- **Selling to an open state distributor**
  - The principal/gatekeeper
  - The salesperson that ultimately sells to the retailer
- **Selling to a control state broker / presenting to a control state board**
- **Soliciting retail demand**
- **Encouraging consumers to buy (sampling on- and off-premise)**
- **Consumer marketing**

## Back-Office

- **Licensing and regulatory compliance management (federal and state levels)**
- **Logistics and supply chain management (warehousing and transportation)**
- **Order processing and fulfillment**
- **Distributor and control state customer service**
- **Financial, reporting and systems**



# ASSESSMENT OF TRADITIONAL ROUTE TO MARKET OPTIONS: INTEGRATED AND BUNDLED APPROACHES

	Front-Office	Back-Office	Examples	Comments
<b>Integrated</b>	In-House	In-House		<ul style="list-style-type: none"> <li>▪ Undivided attention of the sales force</li> <li>▪ Full control of the marketing funds</li> <li>▪ Need large volume to cover high fixed costs</li> <li>▪ Long ramp-up time</li> <li>▪ Scope and scale issues (e.g., specialist know how, relationships)</li> </ul>
	<b>Outsourced</b>			<ul style="list-style-type: none"> <li>▪ Possibly lower fixed cost but high variable costs due to mark-up</li> <li>▪ One stop shop</li> <li>▪ Scope and scale advantages</li> <li>▪ Possible additional layer of divided attention</li> <li>▪ Possible conflict of interest due to lack of independence</li> <li>▪ Risk of comingling of marketing funds</li> <li>▪ Lack of control</li> </ul>

## Bundled / Agency

### Outsourced

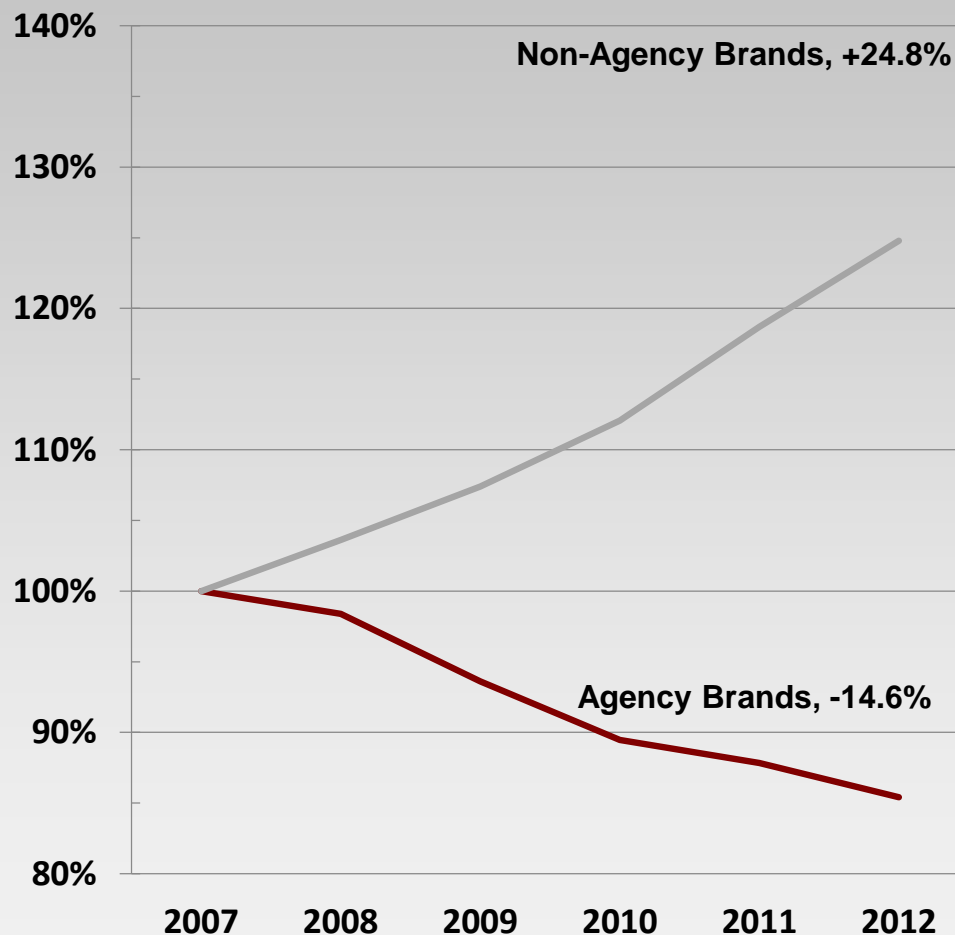


- Possibly lower fixed cost but high variable costs due to mark-up
- One stop shop
- Scope and scale advantages
- Possible additional layer of divided attention
- Possible conflict of interest due to lack of independence
- Risk of comingling of marketing funds
- Lack of control

# BUNDLED APPROACHES UNDERPERFORM FOR AGENCY BRANDS BOTH COMPARED TO INDUSTRY PEERS AND BRANDS THAT ARE OWNED BY THE INFRASTRUCTURE OPERATOR

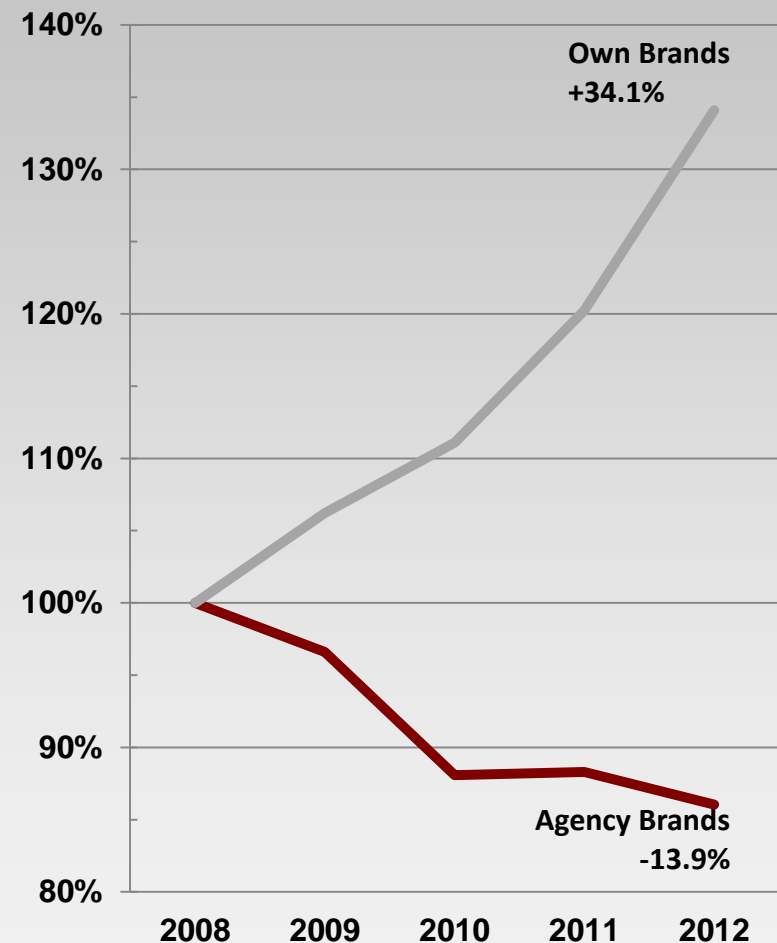
Sales of leading agency spirit brands vs. sales of leading non-agency spirit brands in same category, 2007 - 2012

2007 Sales = 100%; All Spirit Categories

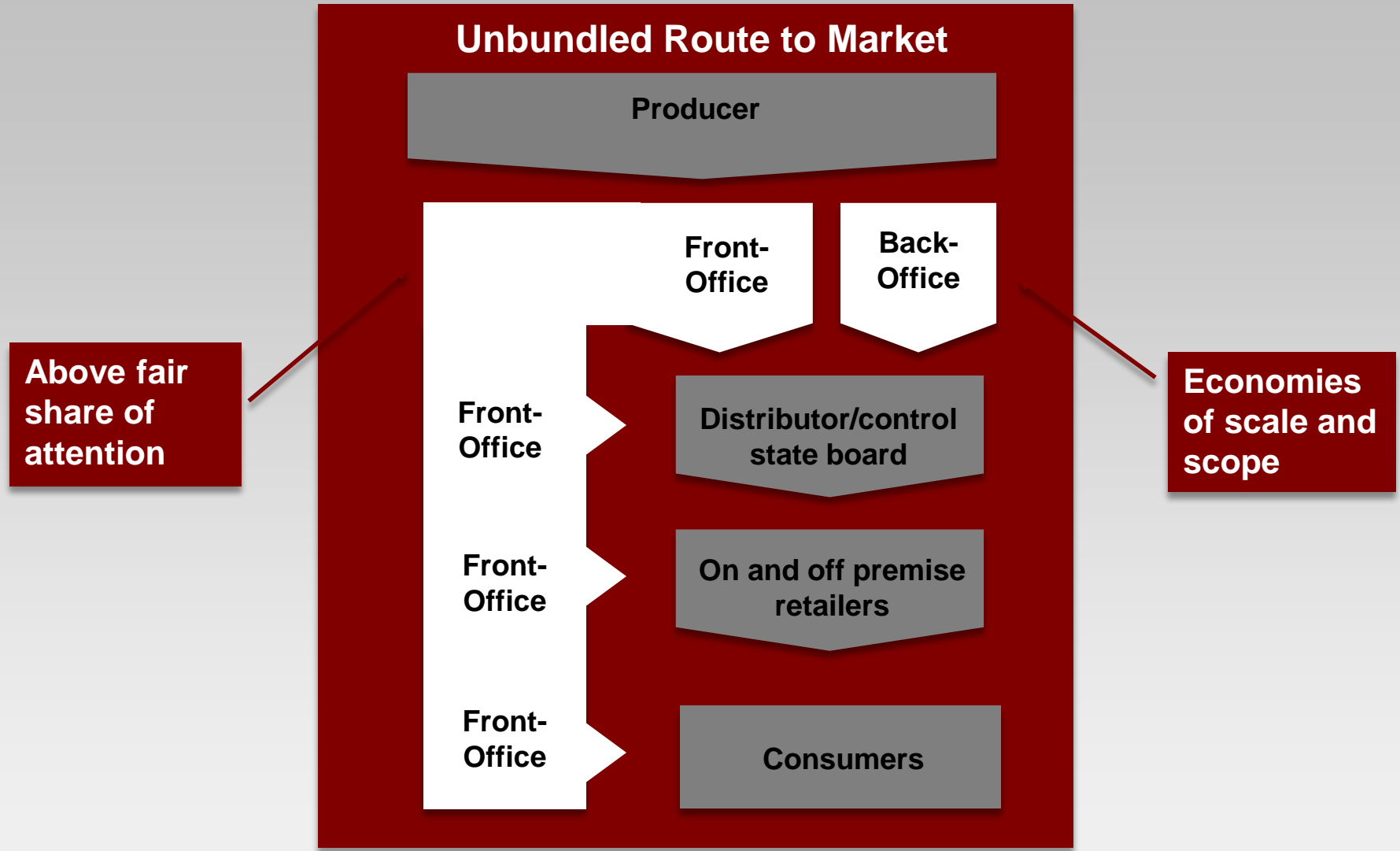


Example for agency operator William Grant sales, 2008 – 2012 agency vs. own brands

2008 Sales = 100%



# THE UNBUNDLED APPROACH COMBINES ABOVE FAIR OF ATTENTION AND ECONOMIES OF SCALE



# SALES INFRASTRUCTURE MODELS – GETTING AN ABOVE FAIR SHARE OF ATTENTION

## Dedicated Sales Infrastructure

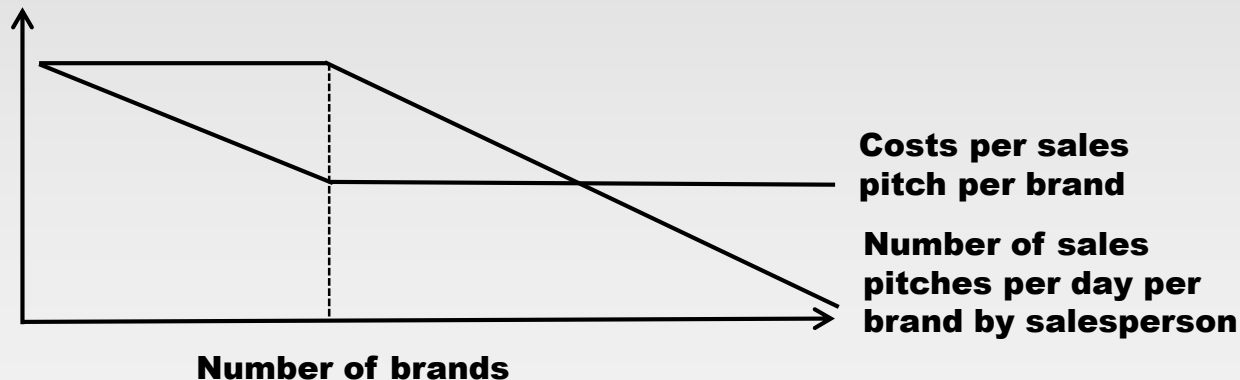
- A dedicated sales infrastructure has salespeople with just one priority
- The salesperson manages the distributor and solicits retail demand, securing an above fair share of attention
- The disadvantages of this model are the high costs that are not shared with another supplier
- Dedicated national sales infrastructures for entrepreneurial brands can cost between \$1m and \$3m per year depending on the number of salespeople

## Shared Sales Infrastructure

- A shared sales infrastructure needs to be independent (i.e., no ownership of brand) to ensure aligned incentives
- Should have a portfolio that has no direct conflicts and is not too large – the individual brand will get attention during every sales call, securing above fair share of attention
- Assuming the salesperson's productivity allows for 5 brands per sales call, the costs of the salesperson could be shared between 5 brands

Sales productivity vs costs to serve (costs sharing model)

CONCEPTUAL



# TYPE OF SHARED SALES INFRASTRUCTURE MODELS

## National Shared Cost Infrastructure Providers

- There are few national shared cost infrastructure providers
- They typically operate by dividing their expected total costs among their brands and adding a small profit
- For maximum effectiveness, the portfolio needs to be aligned with the same distributor footprint, and the portfolio must not have any direct conflicts among brands
- Brands shouldn't be owned by the infrastructure provider to avoid a conflict of interest among the stakeholders

## Joint Ventures Between Brands

- At one point or another, most operators of dedicated sales infrastructures examine transitioning into an agency provider in order to reduce costs
- The major (and often insurmountable) challenges of this exercise are the resolution of conflicts of interest and the alignment of the distributor footprint
- One viable approach is to spin-off of the existing sales forces and then merge the spun-off sales forces to create a new entity managed by its own CEO and governed by a board with joint representation
- The management and books are completely transparent for the partners

## Regional Sales Brokers

- Regional sales brokers provide sales typically focused on a particular distributor in the market
- The costs are lower than a dedicated salesperson, but conflicts in the portfolio and the size of the portfolio are sometimes problematic
- The ease of set-up make this model the most prominent one, while the success is mixed

- Finding and/or creating an efficient and effective sales infrastructure that provides optimum sales productivity and low cost is one of the biggest challenges for small brands
- Getting into the right set-up can become a strong competitive advantage

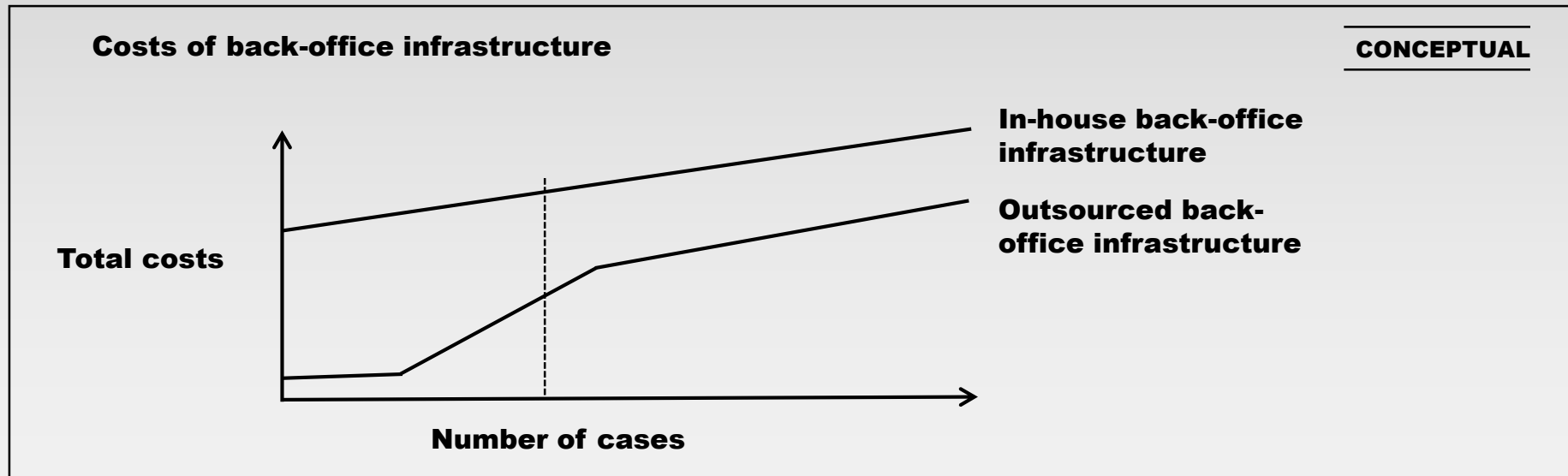
# BACK-OFFICE INFRASTRUCTURE MODELS

## In-house Infrastructure

- An in-house back-office has full time employees who provide the service
- Lack of economies of scale make this model very expensive and vulnerable (e.g., dependency on particular employees, no redundancy)
- In order to make this model viable from a cost perspective, many brands under-invest and therefore put the business at risk
  - Regulatory Compliance – Management Systems
  - Business intelligence – Accounting, Data

## Outsourced Infrastructure

- A back-office provider can serve an enormous portfolio, including competing brands, as it is not involved in front-office management
- In serving such a large number of brands, a back-office provider can utilize economies of scale to deliver cost savings vs the in-house model and provide a high degree of business stability and specialized expertise
- Small and medium sized brands benefit from sophisticated infrastructure and systems that are typically available only to large suppliers



# EXAMPLES OF THE UNBUNDLED ROUTE TO MARKET APPROACH

## Overview

- **Split front- and back-office functions**
- **Outsourced or internal front-office**
  - **Salesforce**
  - **Marketing**
- **Outsourced back-office**
  - **Licensing and regulatory compliance**
  - **Logistics and supply chain management**
  - **Order processing and fulfillment**
  - **Distributor and control state customer service**
  - **Financial, reporting and systems**

## Examples

Company	Front-Office	Back-Office
		        
		
		
		
		



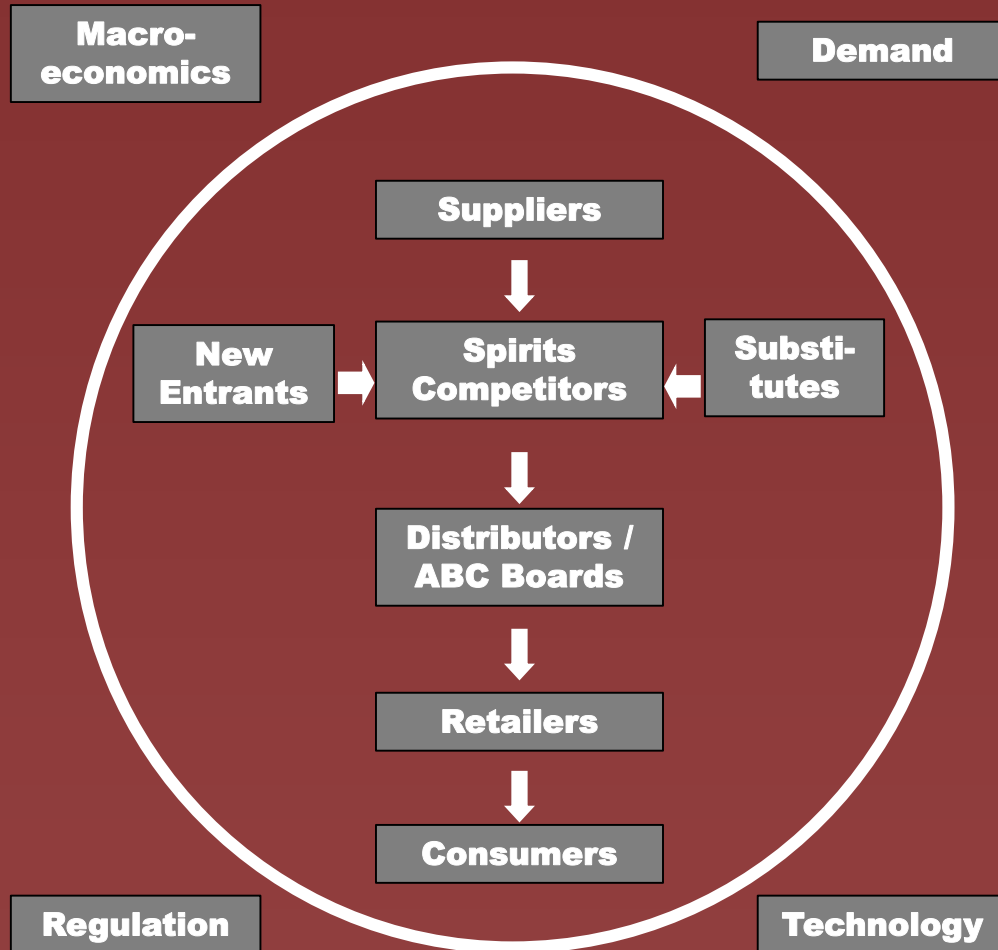
# ONE MORE THING



“Every champion was once a contender that refused to give up.”

**Winning in the U.S. market is rewarded with a big price and it's big because it's very difficult to win.**

# QUESTIONS?



- **“Goliath is vulnerable and David is winning, not necessarily alone, but as a group”**
- **“Relevant differentiation and badge value for the brand – on top of the category”**
- **“Use the home field advantage, focus on battles that one can win and help out on the battlefield”**
- **“The concept of fair share of attention or there is no silver bullet for distribution”**
- **“Combining an above fair share of attention and economies of scale for an efficient and effective route to market”**

## ABOUT PARK STREET

**Park Street helps emerging and established alcoholic beverage companies build and manage successful brands by providing innovative solutions and exceptional service.**

**Leading wine, spirits, and malt beverage brands partner with Park Street for its turn-key back-office services (e.g., importing, distribution, logistics, regulatory compliance, accounting, and more), proprietary business management tools, advisory services, and working capital solutions. Park Street is headquartered in Miami, FL with operations serving the United States (U.S.) and European Union (E.U.). The company supports over 1,000 brands from more than 70 countries around the world. Park Street was launched in 2003 by McKinsey & Company alumni and is led by executives with long-standing relationships with leading global alcoholic beverage companies.**

**The Park Street Advantage is grounded in three core attributes: (i) innovation through information technology investment, (ii) commitment to extraordinary service, and (iii) unmatched range of fully integrated solutions. With more than sixty-five years of combined experience among its senior management team and expertise in operations, strategy, information technology, finance, and deal structuring and negotiation, Park Street is able to help clients overcome challenges, accelerate growth, and capitalize on opportunities.**

# PARK STREET SERVICES (1 of 2)

## Back-Office Services

Park Street provides a cost-effective, turn-key solution to manage the thousands of complex details required to import (if applicable), transport, insure, warehouse, sell, and receive payment for alcoholic beverage products in the U.S. and E.U. — all while maintaining compliance with federal and state (U.S.) and European Commission and individual country (E.U.) alcoholic beverage control laws and tax requirements. The three core benefits to Park Street's clients from the U.S. and around the globe are: (i) achieving cost-effectiveness, (ii) enhancing operational performance, and (iii) focusing client resources on sales, marketing, and product innovation. With precision and transparency, Park Street manages the logistics, compliance, order fulfillment, data management, customer service, and accounting from the point the product is picked up at the producer until it is delivered to the customer and the customer invoice is paid. Park Street's operational infrastructure integrates seamlessly with production facilities in the U.S., E.U., or anywhere in the world resulting in streamlined operations.

## Distribution: Direct-to-Retail

In select U.S. markets (FL, NY, NJ, CA), clients can leverage Park Street's distribution network to sell imported and domestic product directly to retailers (restaurants, bars, liquor stores, etc.). This distribution model is attractive to both established and emerging brands. It allows established brands to lower cost by leveraging the wholesale clearing model and enables emerging brands to enter new markets quickly and inexpensively in order to demonstrate initial market traction (i.e., test market campaign) before moving on to a traditional distributor. Brand owners also utilize Park Street's distribution capabilities to sell additional products not supported by their traditional distributor (i.e., supplementary distribution).

## **PARK STREET SERVICES (2 of 2)**

### **Compliance Management**

**Park Street offers a full suite of turn-key compliance set-up and management services in order to help U.S. and non-U.S. alcoholic beverage companies rapidly access U.S. and E.U. markets and operate in adherence with all applicable alcoholic beverage laws and regulations. The company's compliance set-up and management services provide an easy and cost-effective U.S. and E.U. solution which enables clients to avoid costly delays and penalties and remain focused on the core competencies which drive brand growth.**

### **Working Capital & Trade Finance**

**Park Street offers accounts receivable financing (factoring), revolving credit facilities, term loans secured by accounts receivables and other assets, guarantees, and letters of credit. The underwriting process focuses on the quality and liquidity of the collateral/assets (e.g., creditworthiness of the distributor, payment history, inventory turnover rate), as well as the financial stability of the brand owner.**

### **Advisory Services**

**Park Street provides advisory services focused on the alcoholic beverage sector, including, among others, business building, route to market planning, organizational effectiveness, strategic partnerships, joint ventures, and negotiation support. Park Street collaborates with clients to identify and implement value-creating solutions in a wide range of scenarios including start-up, growth acceleration, exit, and more.**

### **Export Solutions**

**Park Street's export solutions enable suppliers to access markets beyond the U.S. and E.U. For example, non-U.S. suppliers are able to utilize free trade zones at select U.S. ports to service regional and sub-regional markets (e.g., Mexico, Caribbean, Central America, South America). Services include, among others, warehousing, logistics management, regulatory compliance, order fulfillment, invoicing, and customer service.**