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COMMERCIAL AND INDUSTRY TRENDS – STRATEGIES TO GET AHEAD

By Harry Kohlmann, Ph.D.

American Beverage Licensees – Annual Convention
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SOME CURRENTLY HOT INDUSTRY TOPICS – MANY CHOICES TO SPEAK ABOUT

“Millenials, female and multi-cultural consumers”

“Legalization of Marijuana”

“Craft brewers and craft distillers”

“Flavors, flavors, flavors”

“The Bourbon Renaissance and the Cider Boom”

“Storytelling to sell brands”

“Recession is over, trading-up is back”

“Distribution bottlenecks”

“Chains winning using mega brands as loss leaders”

“Blurring category lines”

“Brands growing and maturing faster”

“Keg wines”

“Direct-to-consumer shipping”

“Technology disruption”

“More convenience and customization”

“Supplier and distributor consolidation”

“Innovation boom by alcoholic beverage entrepreneurs”

“Widening of wealth/income gap”

“More targeted brand propositions”

SOME BACKGROUND FOR TODAY'S DISCUSSION

Today's discussion *does not*

- Provide a full tutorial on all issues for independent on- and off-premise outlets
- Cover all nuances of each category: beer vs. wine vs. spirits
- Cover all nuances of each state
- Provide a one size fits all strategy
- Offer advice on regulatory issues

Today's discussion *does*

- Offer a view on a few important commercial and industry trends
- Provide some insights into the market forces influencing the route to market environment with a focus on the wine and spirits categories
- Offer some insights to assist the strategy development for on- and off-premise licensees

LICENSEES ARE IMPACTED BY SEVERAL MAJOR CHANGES IN CONSUMER, SUPPLIER AND WHOLESALER TIERS

Supplier topics

- Consolidation
- Brand extension over brand creation
- Innovation wave by craft producers & entrepreneurs

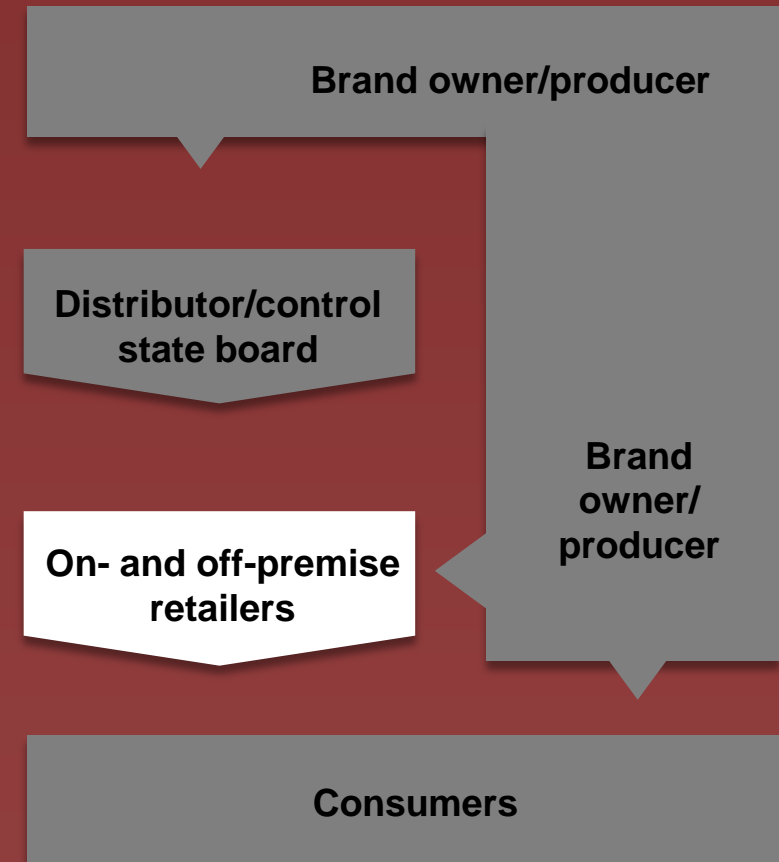
Distributor topics

- Consolidation
- Influence of large suppliers
- Increasing distribution challenges for emerging brands
- New channels for new brands

Consumer topics

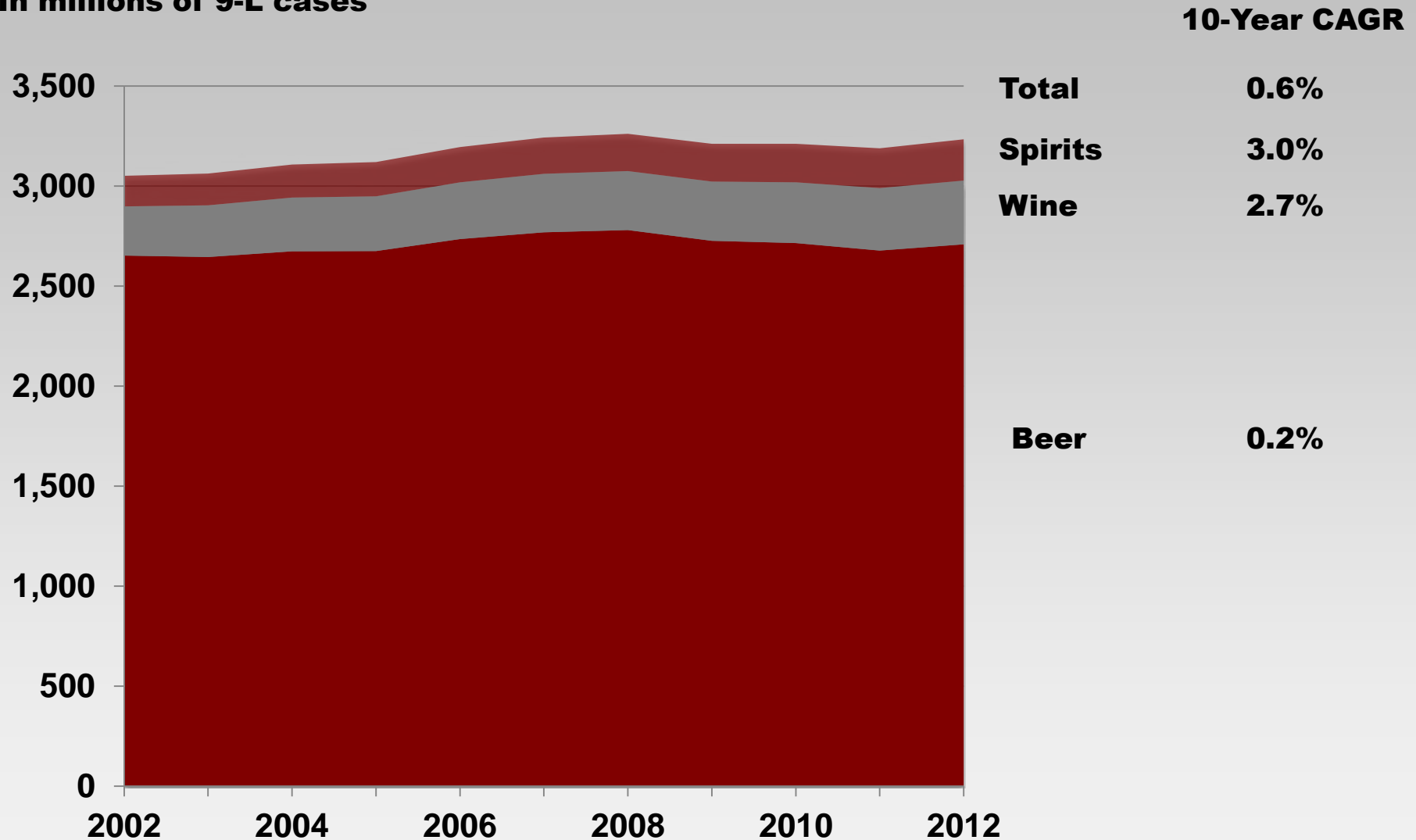
- Growth segments
 - Millennial
 - Female
 - Multi-cultural
- Shortening brand life cycles
- Disruptors using new technology

Route to Market for Alcoholic Beverages



ALCOHOLIC BEVERAGE MARKET HAS BEEN GROWING

Consumption in the U.S. between 2002 and 2012
In millions of 9-L cases



MARKET TRENDS: WHAT CONSUMER GROUPS ARE DRIVING GROWTH?

**What consumer groups are driving growth right now?
It is different for each licensee, but it is likely coming from
one or more of the following three groups:**

1 Millennials

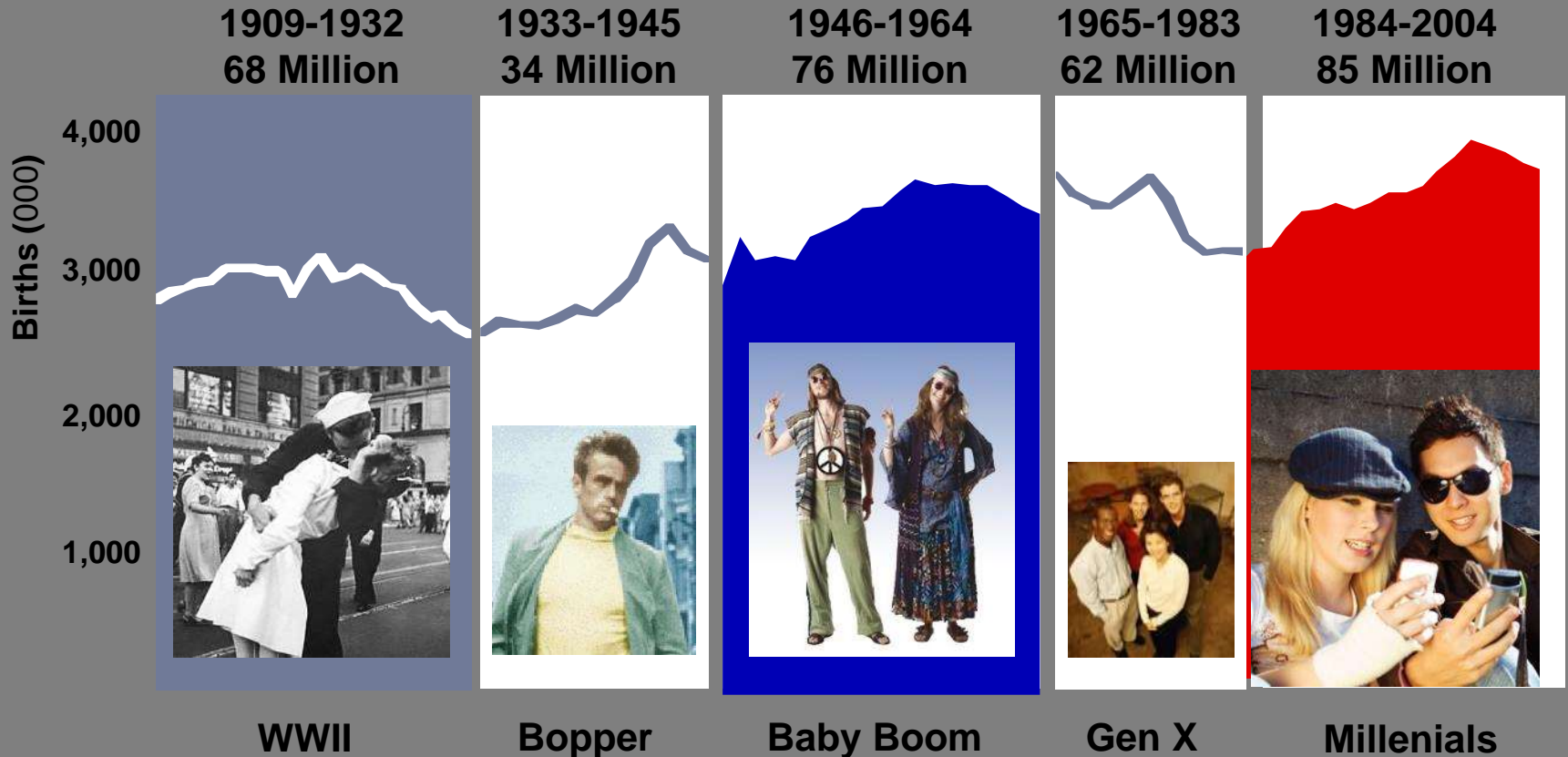
2 Women

3 Multi-cultural



THE EMERGENCE OF MILLENIALS

Overview of American generations over the ages



THE EMERGENCE OF MILLENNIALS - OVERVIEW

- **How big is the Millennial Generation?**
They number in total about 85 million of which about 60 million are now 21+ of age. They are split 52% male / 48% female
- **How influential are Millennials?**
They are the largest generation of customers yet. According to BCG, they represent \$1.3 trillion in consumer spending
- **What are their characteristics?**
It is said that no one truly understands Millennials — not even Millennials themselves. However, here are some general observations:
 - Need for instant gratification, all the time
 - They have short attention spans (How many music videos are watched until the end?)
 - Not yet grown up (Many lack “real” jobs or live with their parents)
 - Two personas: one online (think Instagram and Facebook) and one in real life
 - Almost everything is documented (think SMS, Facebook, Twitter, etc.)
 - Expert multi-taskers (A Millennial can send a text message, order a Starbucks coffee, and pay a bill with a smartphone app all at the same time!)



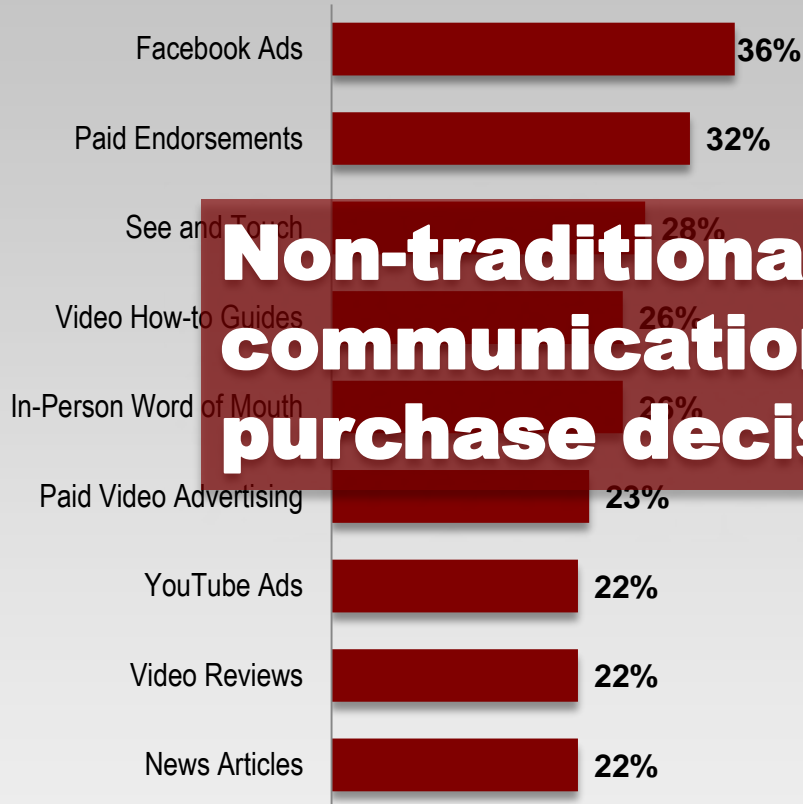
THE EMERGENCE OF MILLENNIALS – GENERATION IS CLEARLY DIFFERENT THAN PREVIOUS ONES

Highlighted statements	Millennial	Gen X	Boomers	Older
Like to explore new and different products	54%	49%	37%	21%
Strongly prefer sweeter wines	64%	54%	44%	36%
Like to try new (Spirit) flavors	60%	50%	36%	18%
Drink different products depending upon occasion	52%	46%	40%	29%
Prefer to mix/create drinks myself	51%	46%	36%	31%
Enjoy introducing others to my favorite brand/drinks	54%	44%	33%	21%
Willing to pay more for products/services committed to positive social and environmental impact	57%	40%	33%	31%

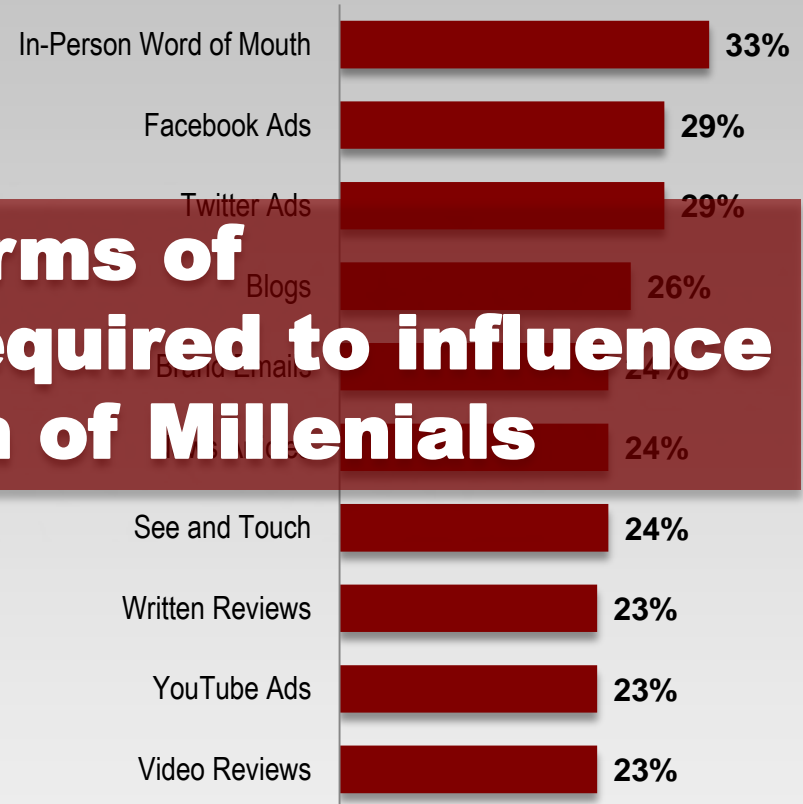
THE EMERGENCE OF MILLENNIALS – INFORMATION SUPPORT IN DECISION MAKING

Types of information a Millennial is likely to look for or take into consideration when making a purchase

BEER AND WINE



SPIRITS



Non-traditional forms of communication required to influence purchase decision of Millennials

THE IMPORTANCE OF TECHNOLOGY AND THE SMART PHONE IN PARTICULAR

Importance of technology and smart phones

- Millennials are digital natives – the first generation to grow up with technologies such as the Internet, social media and mobile phones
- More than 50 percent of younger millennials say mobile devices are the primary access point to the Internet
- Millennials are so tethered to mobile phones that the majority would give up their car before their devices



THE EMANCIPATION OF THE FEMALE CONSUMER - HIGHLIGHTS

What research says about female consumers from an alcoholic beverage perspective:

- **The majority of women either make or share the purchase responsibility for alcoholic beverages in a household**
- **Women's education and income levels continue to rise, driving increased independence (traditionally they followed the men's lead) and increasing frequency and consumption**
- **Tend to prefer sweeter drinks than men across all alcoholic beverage categories**
- **Women who are regular consumers of alcohol are also the most likely ones to amplify a brand's message through word of mouth**



THE EMANCIPATION OF THE FEMALE CONSUMER – DRINK OCCASIONS

Off-premise examples:

- **Just Hanging Out**
- **A Get Together / Party**
- **Just Because**



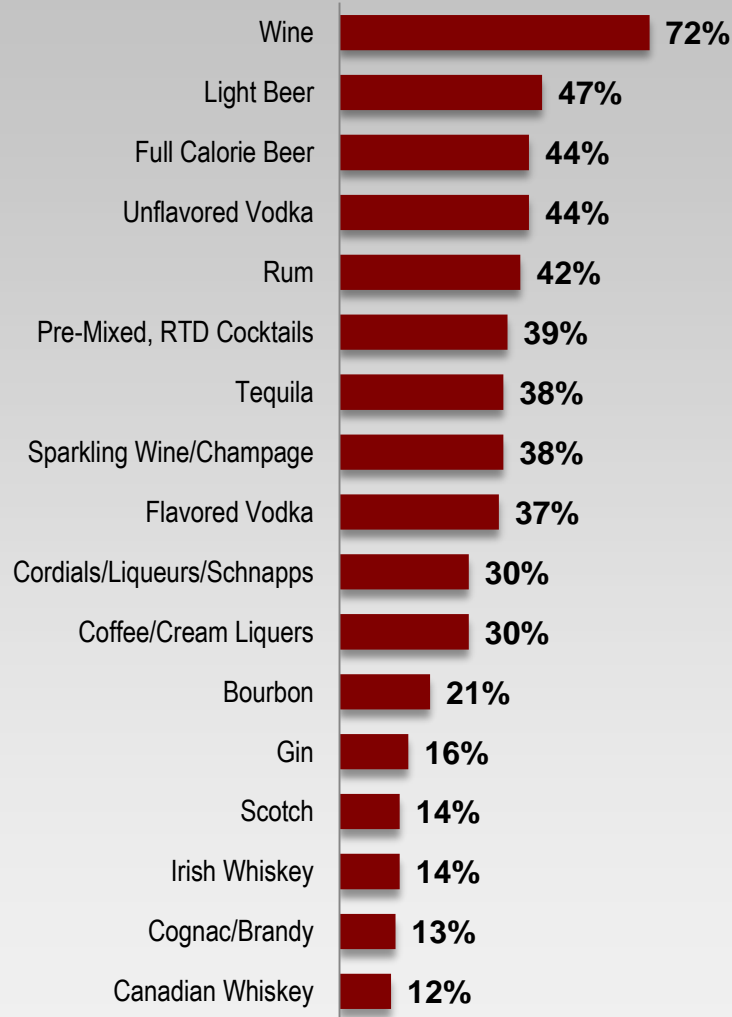
On-premise examples:

- **Girls Night Out**
- **Bachelorette Party**
- **Happy Hour**



THE EMANCIPATION OF THE FEMALE CONSUMER – BEVERAGE PREFERENCES

Beverage preferences of female consumers Consumption over the last 3 Months



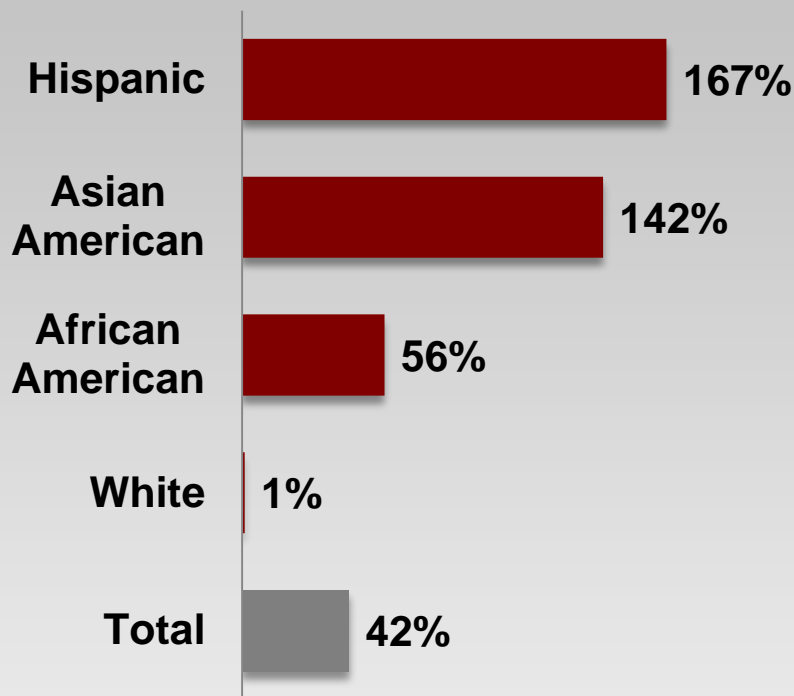
- **Wine has always been by far the most popular alcoholic beverage**
- **The beverage category that saw its popularity rise the most is vodka. In 1998, one fifth of female drinkers consumed the product; today it is one third**
- **Women consume an average of 5.7 different categories of alcoholic beverages per year. The youngest age bracket (22 to 29) is the most experimental, consuming an average of 6.3 different categories per year**

GROCERY STORES INNOVATING WAYS TO INCREASE APPEAL TO FEMALE WINE BUYERS

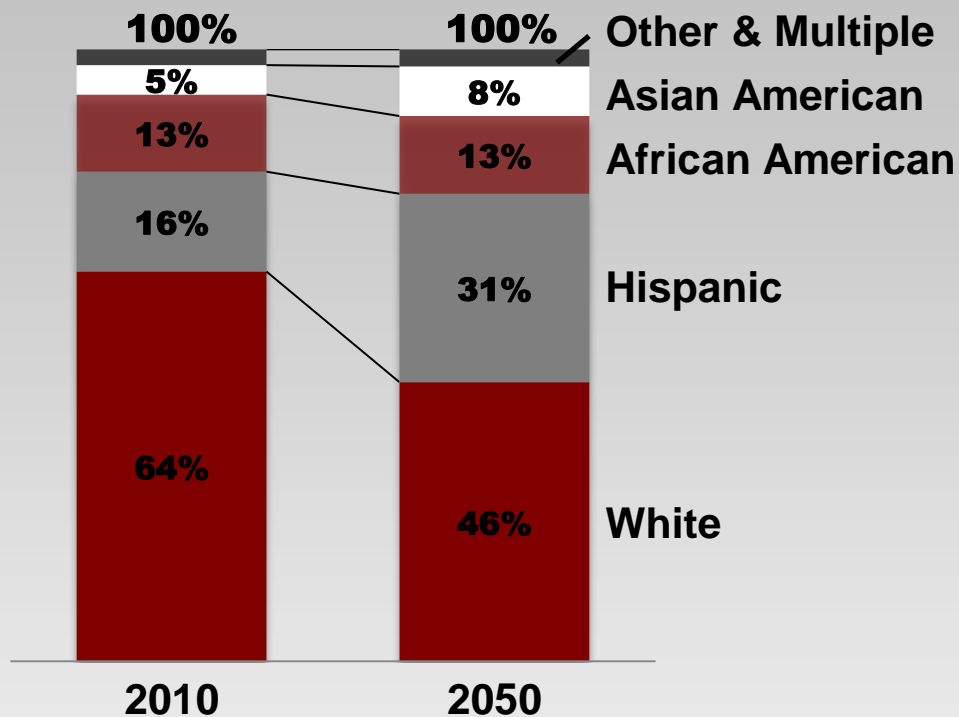


MARKET TRENDS: THE U.S. IS BECOMING INCREASINGLY MULTICULTURAL

**Population growth projection
2010 – 2050 by ethnic group**



**Composition of population by ethnic group,
2010 vs. 2050**

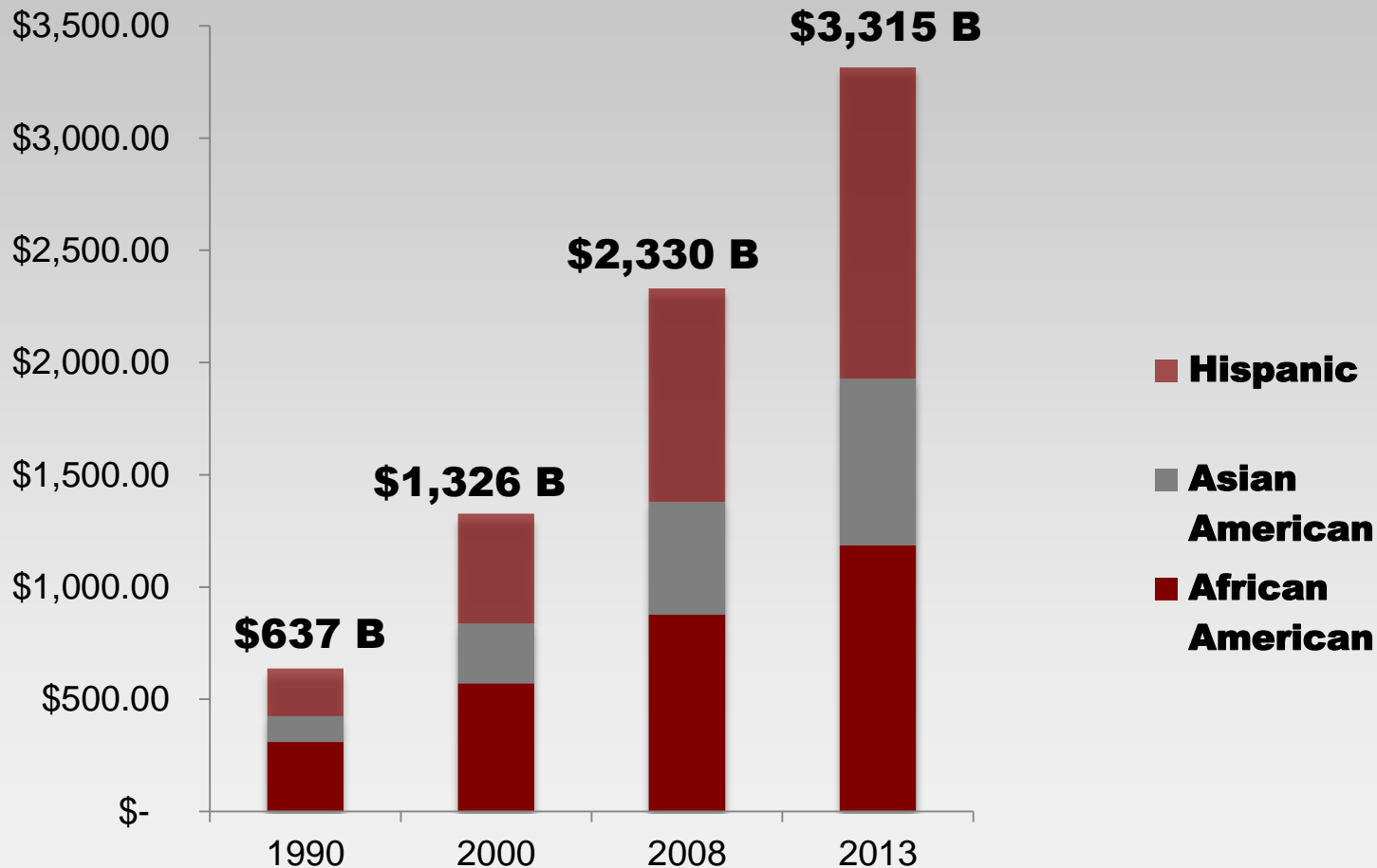


- **The multicultural ethnic groups represent a buying power of \$3.3 trillion and have been growing faster than the average U.S. consumer's buying power**
- **It is estimated that multicultural consumers spent more than \$21 billion on alcoholic beverages in 2013 with a split of 60% beer and wine / 40% distilled spirits**

* Excludes American Indian, Alaska Native, Hawaiian & Other Pacific Islanders
Source: US Census Bureau, Nielsen / Wine Market Council (US Wine Consumer Trends)

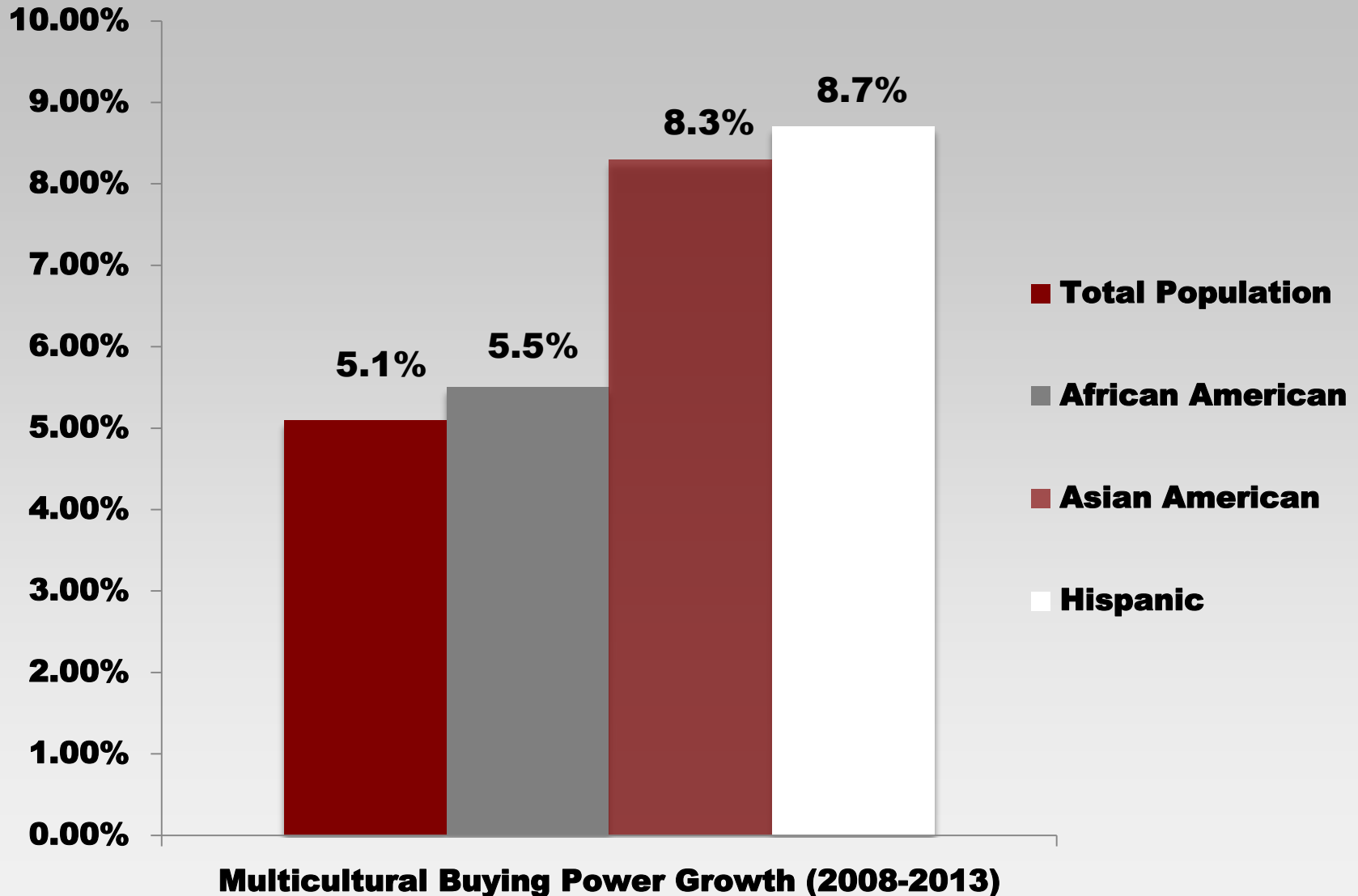
BUYING POWER AMONG KEY ETHNIC SEGMENTS HAS GROWN RAPIDLY...

Multicultural Buying Power (\$ in Billions)



AND HAS GROWN FASTER THAN THE AVERAGE U.S. CONSUMER'S BUYING POWER

Multicultural Buying Power Growth (in %)



MARKET TRENDS: THE U.S. IS BECOMING INCREASINGLY MULTICULTURAL

UNDERSTANDING THE ETHNIC GROUPS TO TARGET THEM EFFECTIVELY – HIGHLIGHTS

Hispanics

- Although Hispanics come from many nations with distinct cultures, the community as a whole developed shared values
- Language is a connector and the culture is being passed on from one generation to the next
- Drinking is an important part of the Hispanic lifestyle. Drinks together with food play an important role in bonding
- Brands are more important than the beverage category
- Many consumers adopt a new “upgraded” brand or category

African-Americans



- Image is key! They seek material success, status, and personal reputation enhancement
- African-Americans have a high brand commitment particularly with respect to high-end brands
- Endorsements by hip-hop artists and brand / product mentions in hip-hop songs have a strong influence on brand consumption

Asian-Americans

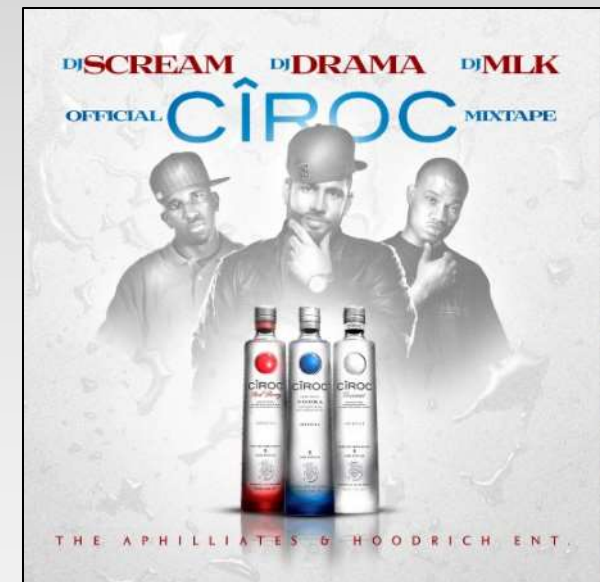
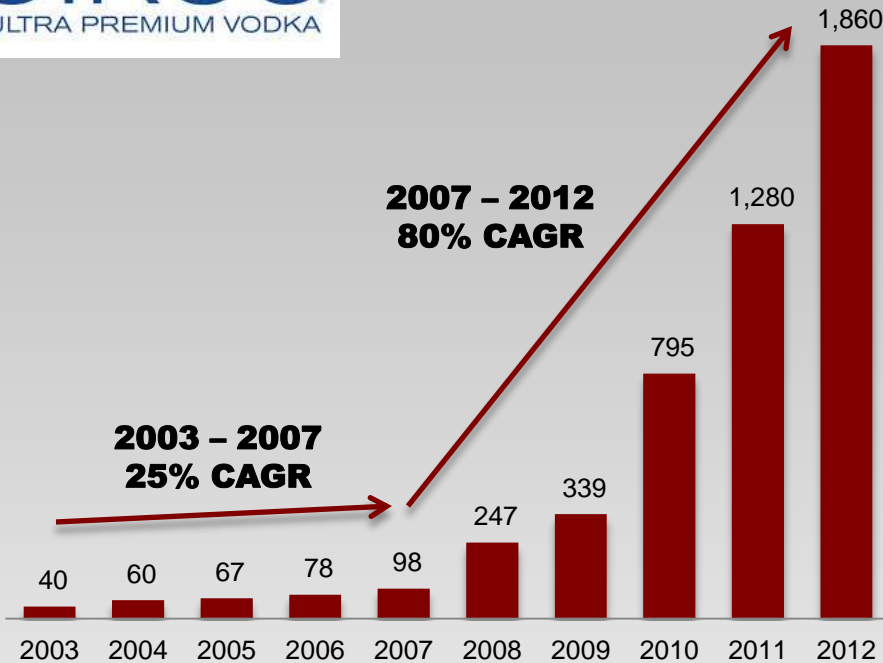
- Although Asian-Americans come from many nations with distinct cultures, the community as a whole developed shared values
- Maintenance of a business network is crucial part of social life
- “Face” (e.g., reputation) is a guiding principle for Asian-American consumers
 - Pricing that is well known
 - Visual codes that clearly indicate the level of investment

Status is an important driver in purchasing decisions for multicultural consumers – the communication should be tailored to improve effectiveness

MARKET TRENDS: ADDRESSING THE WANTS OF MULTICULTURAL MINORITIES – EXAMPLE CIROC



Sales volume
Thousands of 9-L cs

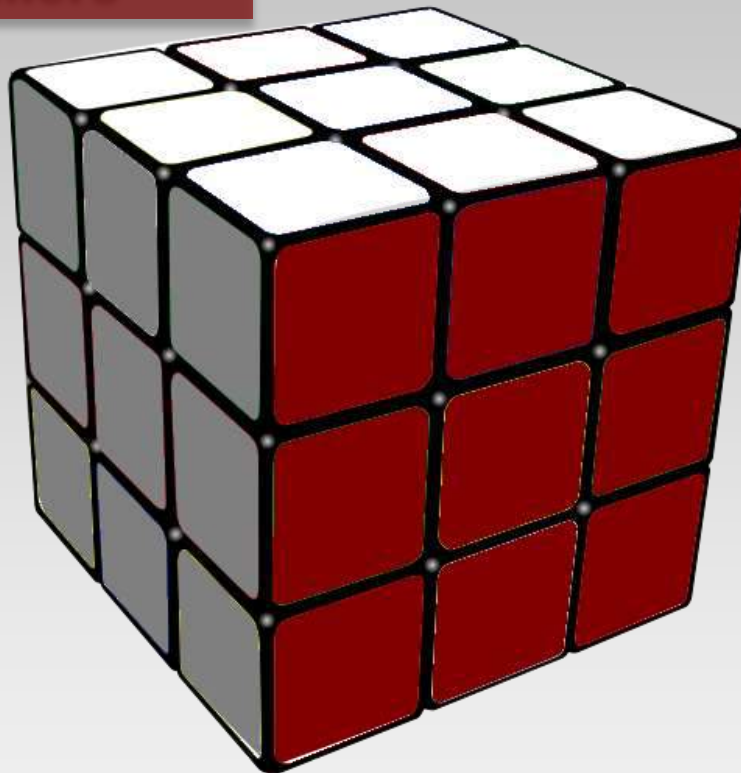


- Diageo originally introduced Ciroc as a competitor to Grey Goose, but its sales were highly disappointing after years of efforts. By 2007, Grey Goose still outsold Diageo's Ciroc by 34x
- In the middle of 2007, hip-hop artist Sean "P. Diddy" Combs became the face of the brand with the goal of transforming Ciroc into a brand for African-American consumers
- The result was a spectacular jump in sales. In subsequent years, other hip hop artists such as Rick Ross, DJ Khaled, and others joined P. Diddy to promote Ciroc's positioning

DEMOGRAPHIC TRENDS NOT ISOLATED

**Race Ethnicity:
Multi-cultural
Consumers**

**Gender:
Female**

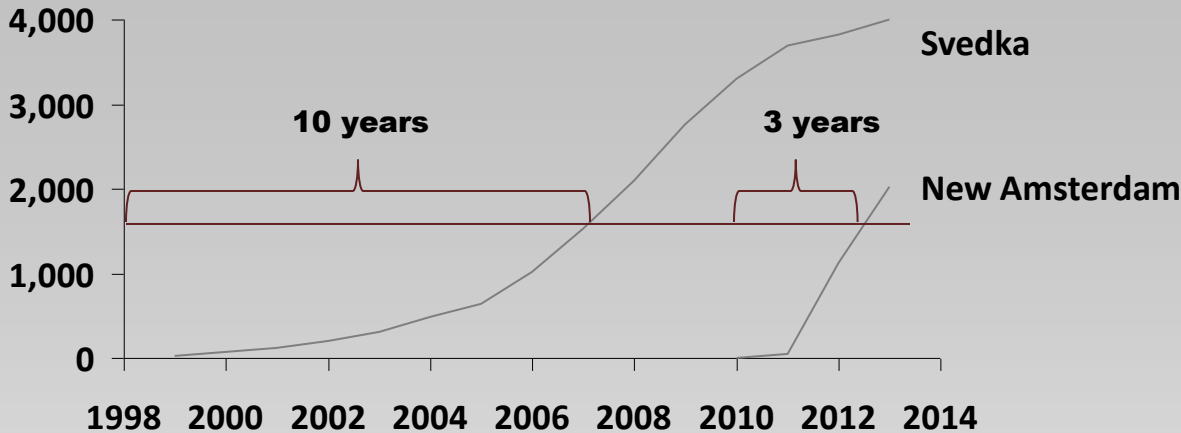


**Generation
Age:
Millennials**

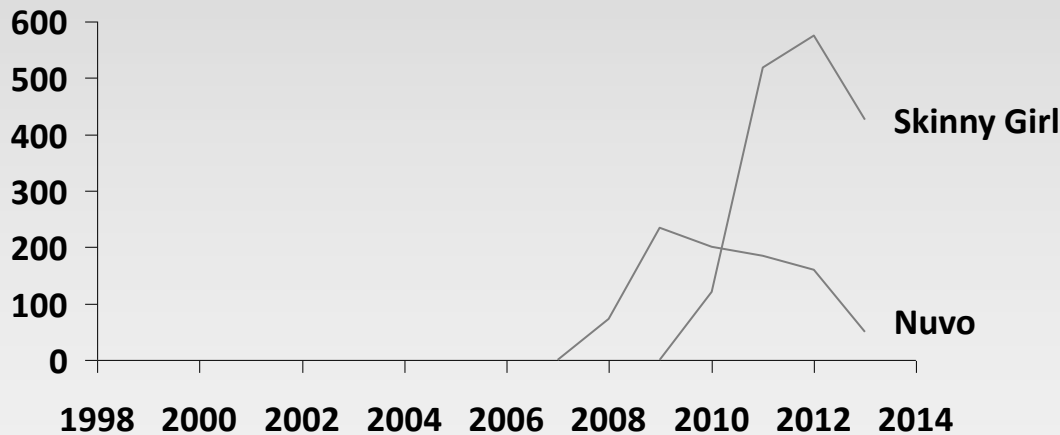
CONSEQUENCES OF CHANGES IN CONSUMER BEHAVIOR: ARE LIFE CYCLES OF BRANDS SHORTENING?

Faster growth

U.S. sales volume of selected brands
In thousands of 9-L cases



U.S. sales volume of selected brands
In thousands of 9-L cases



Less loyalty

- **Faster information flow can lead to faster growth for brands**
- **In some of the fast growing brands, the brand loyalty might not be as strong**
- **The challenge for the retailer is to know which brand or product turns out to be a fad and which one represents a real trend and sustainable value proposition in the marketplace**

CONSEQUENCES OF CHANGES IN CONSUMER BEHAVIOR: RISK OF TECHNOLOGY DISRUPTORS – OTHER INDUSTRY EXAMPLES

Technology disruptors in regulated industries: personal transportation example

- **Taxi industry is locally and regionally regulated – very little incentive for participants to innovate as a way to increase profits**
- **UBER, an App-Powered transportation network company, recognized that customers are willing to pay a premium price for convenience, professionalism, and cleanliness**
- **Resistance of regulators and incumbents fought by utilizing social media networks of passionate UBER users**
- **Founded in 2009, most recent valuation at \$18bn**



Technology disruptors in retail industries: video rental example

- **Video rental business initially highly fragmented with independent stores prior to being consolidated and dominated by chains such as Blockbuster, which at its peak had 9,000 stores and 60,000 employees**
- **Netflix, a start-up focused on flat rate DVD-by-mail entered the market in 1997**
- **Blockbuster turned down an acquisition of Netflix for \$50m in 2000**
- **Blockbuster filed for bankruptcy in 2010 and in 2014 the company ceased operations**
- **Netflix's market cap in May 2014 exceeded \$23bn**



NETFLIX

CONSEQUENCES OF CHANGES IN CONSUMER BEHAVIOR: RISK OF TECHNOLOGY DISRUPTORS – ALCOHOLIC BEVERAGE EXAMPLES

Local delivery consolidators

- Mostly mobile apps to consolidate consumers and “introduce” them to particular liquor stores (which make the sale) and delivery personnel (who deliver)
- Revenue models vary, but many of them charge a type of referral fee to the store and a delivery fee to the consumer
- Venture capital has started to back some of these new entrants (e.g., Drizly is reported to have raised close to \$5m so far this year)
- Ultimate value driver for these ventures is to own the relationship with the consumer and market that relationship to brand owners and off-premise licensees

The logo for Drizly, featuring the word "Drizly" in a blue, sans-serif font with three blue dots above the letter 'i'.The logo for Thirstie, consisting of a white letter 'T' inside a black square, followed by the word "THIRSTIE" in white, uppercase, sans-serif letters on a black background.The logo for Saucey, featuring the word "SAUCEY" in a black, serif font.

Online automatic check

- Mobile apps to facilitate the payment and possibly the order process at a bar or restaurant
- Venture capital has started to back some of these new entrants (e.g., Dash is reported to have raised a second round of \$1.2m this year)
- Ultimate value driver for these ventures is to own the relationship with the consumer and market that relationship to brand owners and on-premise licensees

The logo for Tabbedout, featuring the word "Tabbedout" in a black, sans-serif font with a teal dot above the 'a', and the tagline "PAY YOUR TAB WITH YOUR PHONE" in smaller teal letters below.The logo for Dash, featuring a blue fork icon inside a blue circle followed by the word "Dash" in a blue, sans-serif font.

LICENSEES ARE IMPACTED BY SEVERAL MAJOR CHANGES IN CONSUMER, SUPPLIER AND WHOLESALER TIERS

Supplier topics

- Consolidation
- Brand extension over brand creation
- Innovation wave by craft producers & entrepreneurs

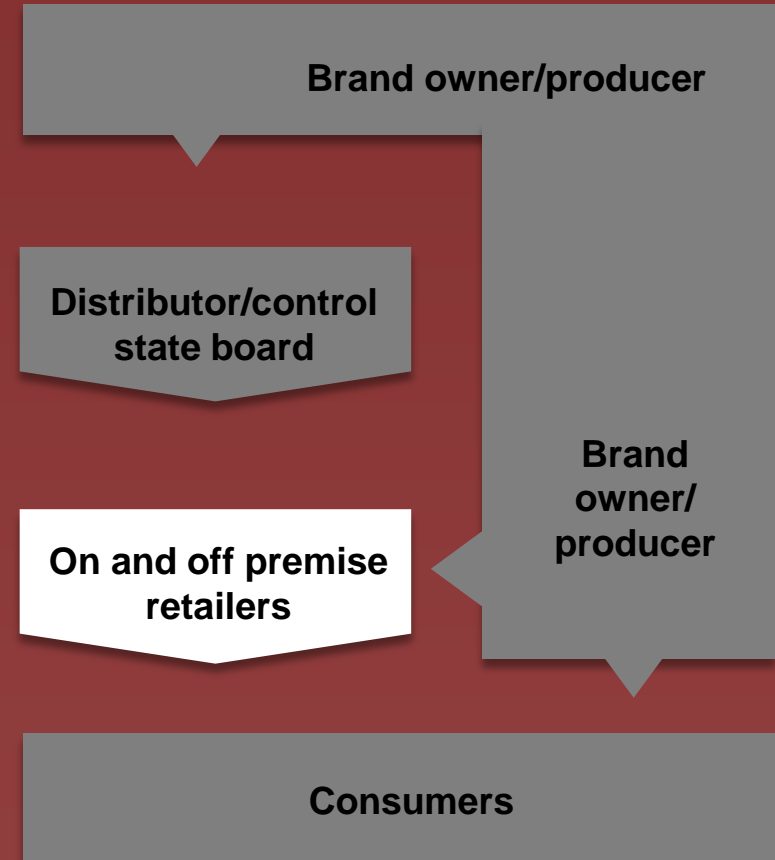
Distributor topics

- Consolidation
- Large supplier influence
- Increasing distribution challenges for emerging brands
- New channels for new brands

Consumer topics

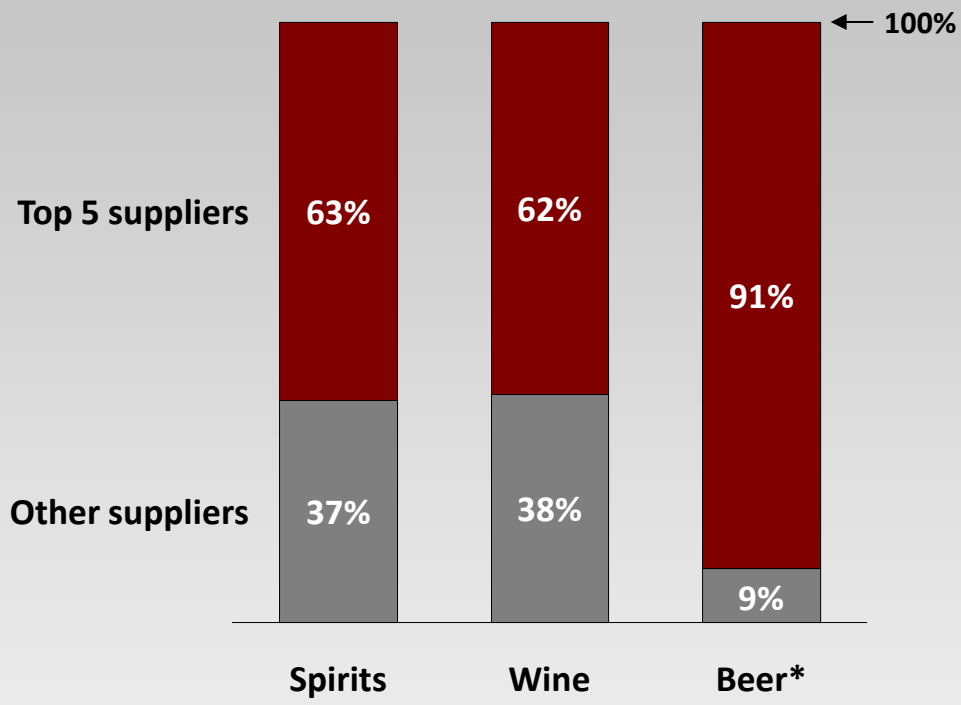
- Growth segments
 - Millennial
 - Female
 - Multi-cultural
- Shortening brand life cycles
- Disruptors using new technology

Route to Market for Alcoholic Beverages



INDUSTRY STRUCTURE: THE SUPPLIER TIER IN EACH ALCOHOLIC BEVERAGE CATEGORY IS CONCENTRATED

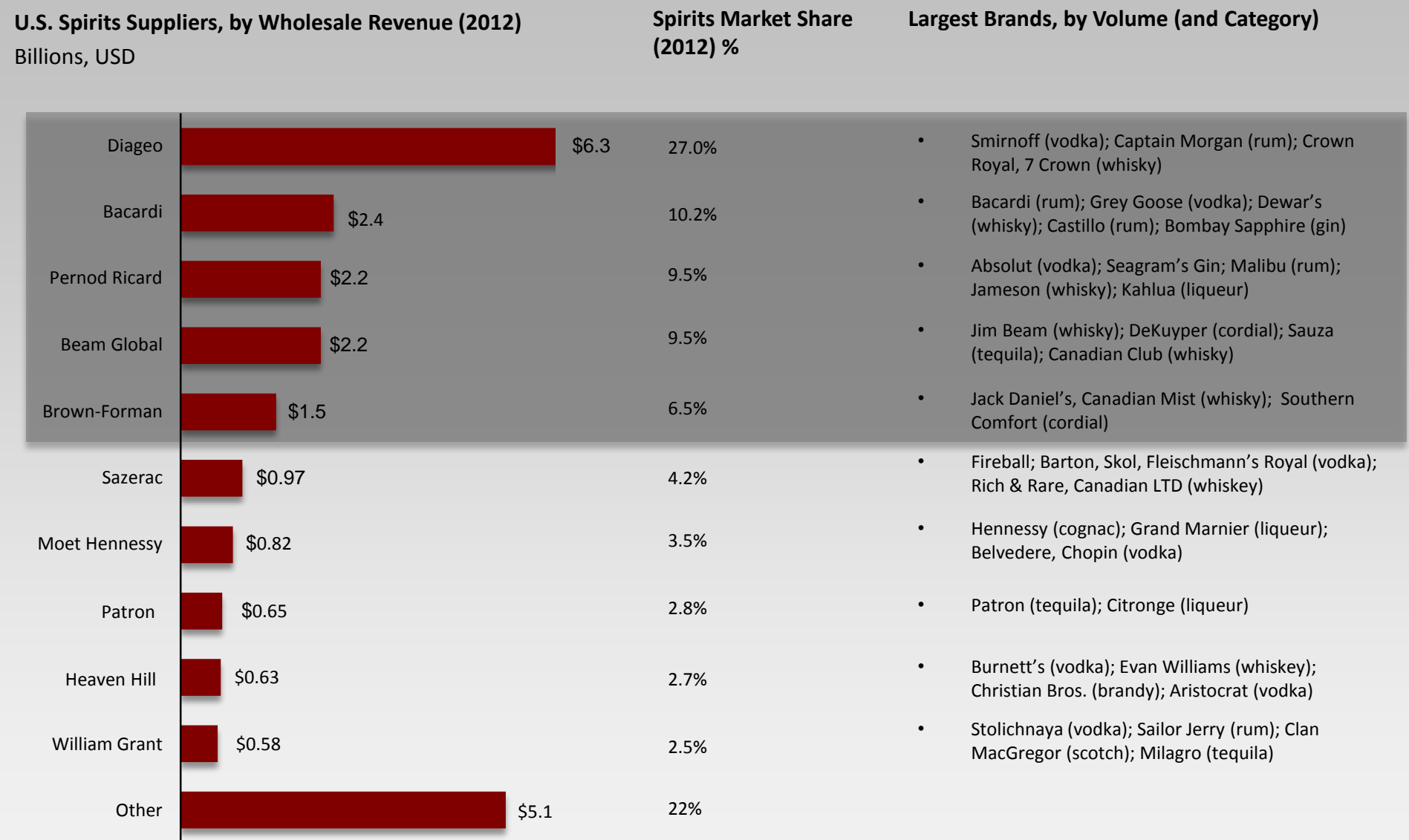
Market share of leading alcoholic beverage companies based on revenues*



- Supplier tiers in alcoholic beverages are concentrated
- Beer is the most concentrated category, dominated by the top 2 players (ABI, Miller Coors)
- Consolidation in wine and spirits is high and increasing

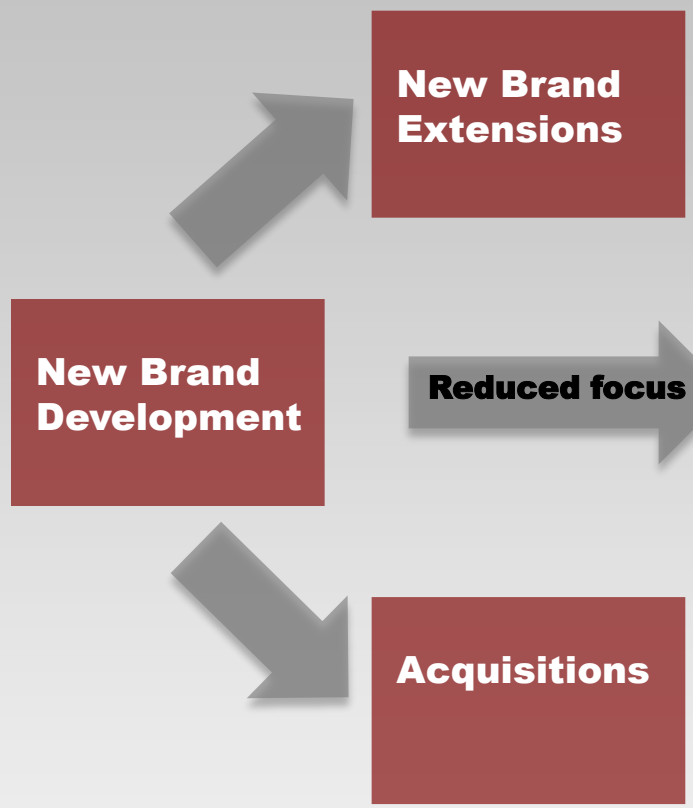
Source: Beverage Information Group; *Beer measured in case volume

SUPPLIER TIER IN SPIRITS: THE TOP 5 SPIRITS SUPPLIERS GENERATE ~63% OF THE INDUSTRY REVENUE



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

Examples of innovation and brand portfolio management in spirits industry by large suppliers (other than traditional elements such as packaging and liquid)

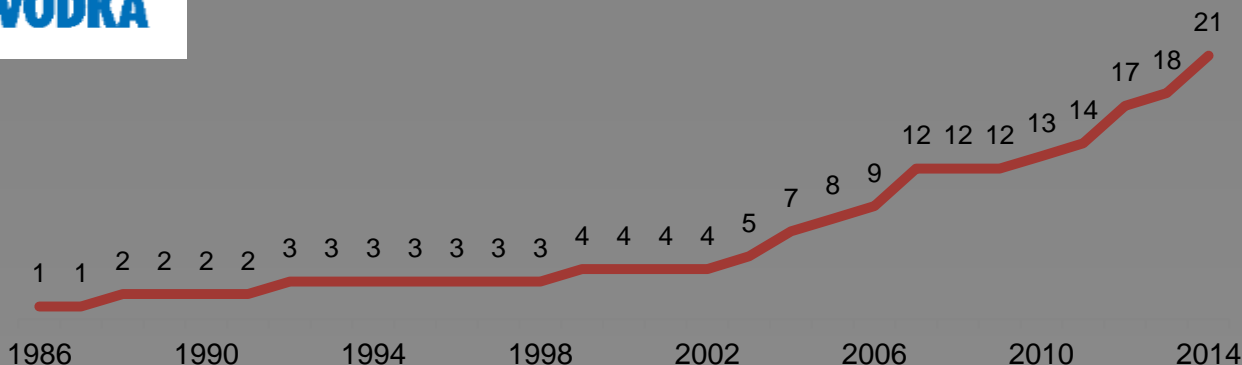


- New brand development (NBD) of large suppliers with low success rate
- New brand extension development with higher success rate
- Acquisitions also seen more favorable for new brand additions as they do not have full negative P&L impact of internal NBD

BRAND EXTENSIONS: EXAMPLE ABSOLUT



Number of brand extensions



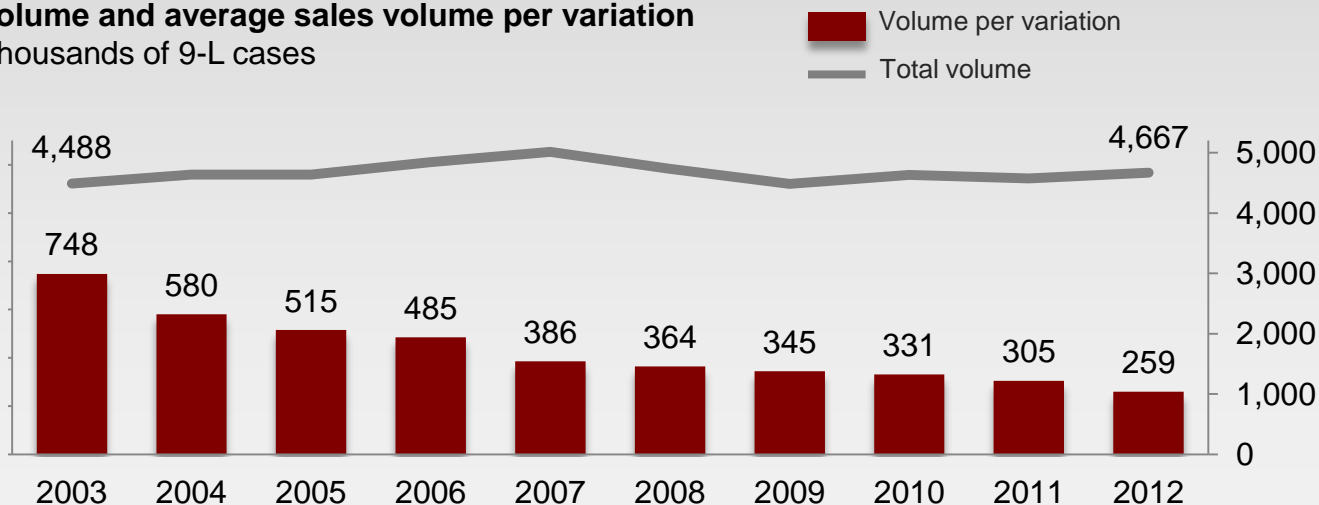
Available Flavors:

- Ruby Red
- Berry Acai
- Wild Tea
- Raspberri
- Vanilia
- Citron
- Kurant
- Mandarin
- Pears
- Peppar
- Mango
- Apeach
- Orient Apple
- Grapevine
- Cherrykran

In addition there are unflavored extensions and limited edition bottles:

- Absolut 100 (2007)
- Absolut Elyx (2013)
- Absolut Tune
- Cities (e.g., Boston, Miami)
- Seasonal

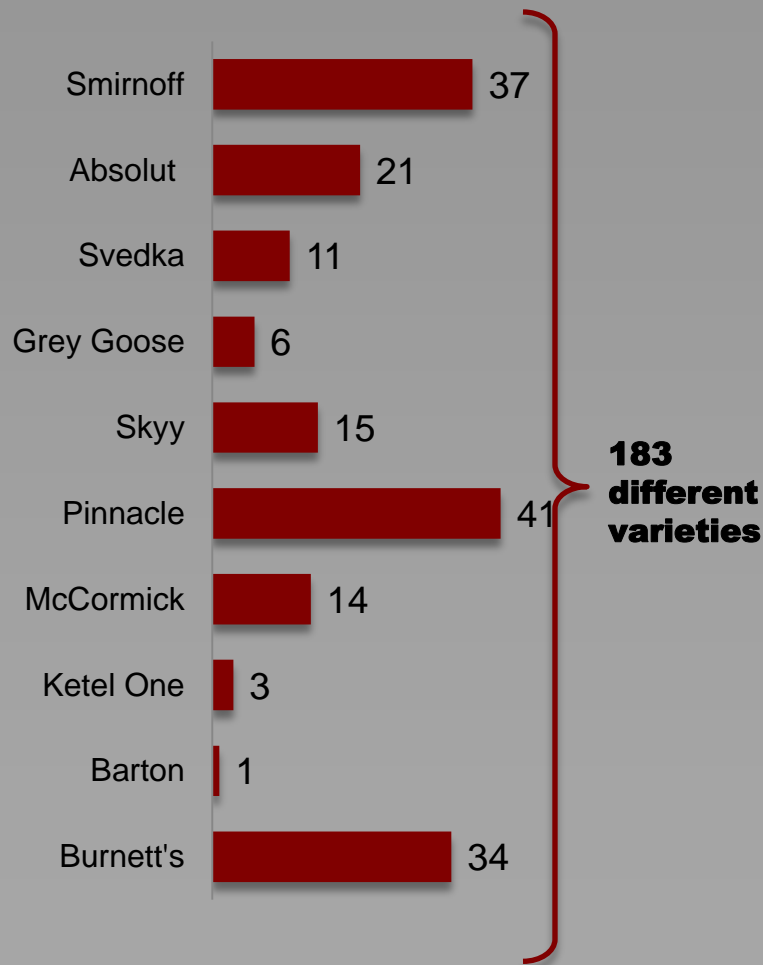
Volume and average sales volume per variation
Thousands of 9-L cases



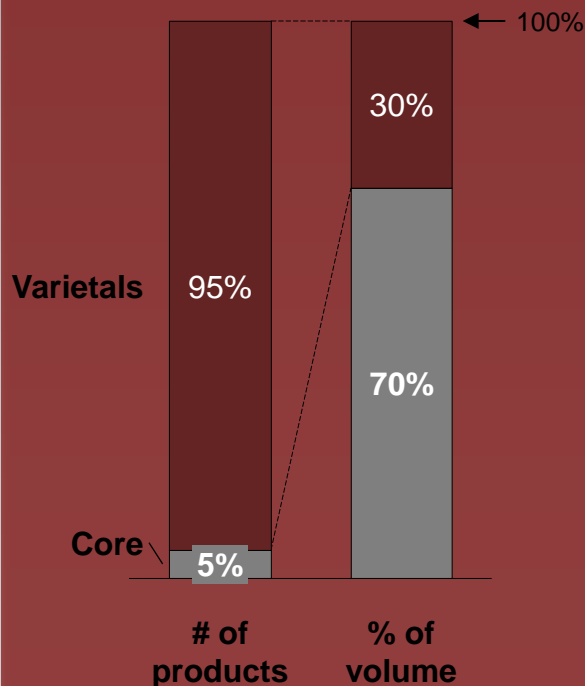
- **Absolut increased the number of brand extensions by over 3x in the 10 year period between 2003 and 2012**
- **With sales staying relatively flat, the complexity and shelf requirements increased and the sales per SKU dropped by over 2/3**

BRAND EXTENSIONS – VODKA CATEGORY EXAMPLE

Number of vodka varieties available to order for 10 leading US vodka brands
Florida retailer example as of May 2014



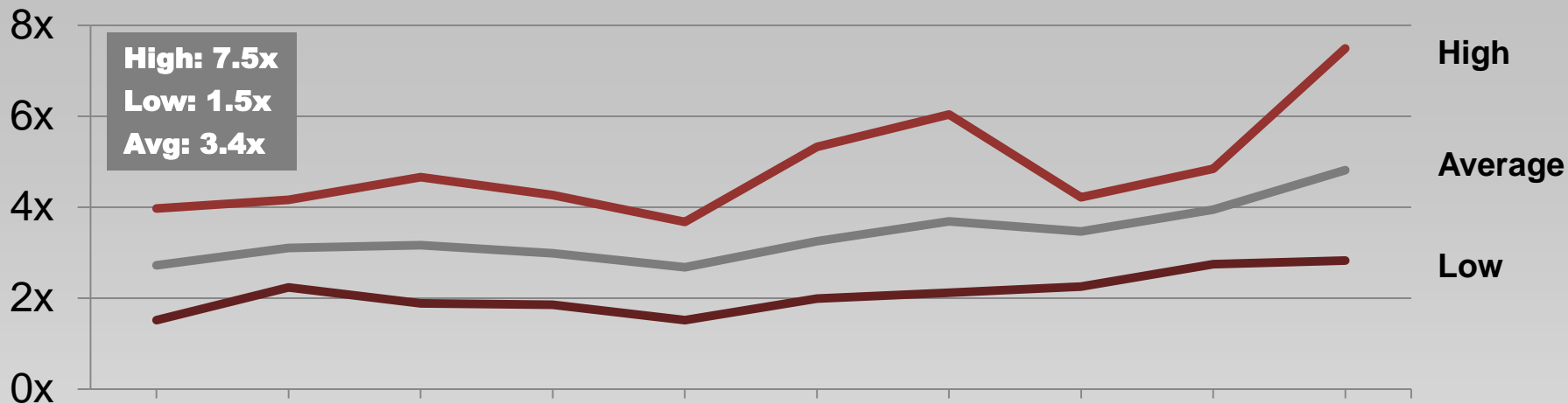
- **Flavored vodka accounts for ~30% of the total vodka volume in the U.S.**
- **Hence, one can estimate that roughly 5% of products account for 70% of the sales volume**



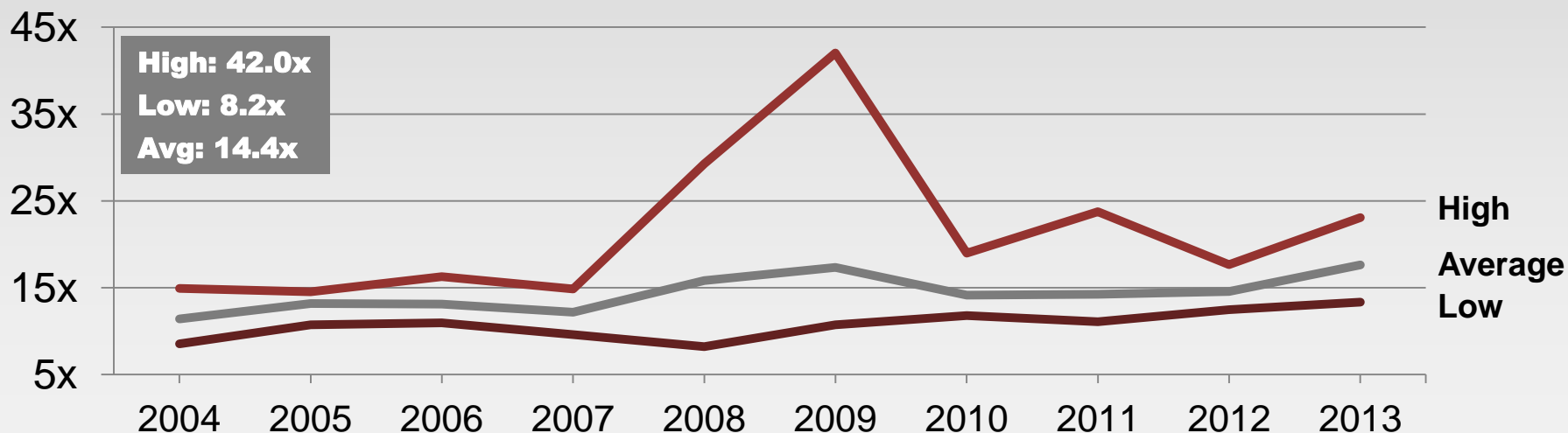
- **The days when consumers would drink every new vodka flavor dreamed up seem numbered**
- **“Flavor fatigue” has started to appear**
- **The torrent of flavor launches of the past few years has eased to a steady trickle**

HISTORICAL MULTIPLES OF PUBLIC SPIRITS COMPANIES: TRADING ON AVERAGE ~3x REVENUES AND ~14x EBITDA

Historical EV/Sales Multiple, 2004 – 2013



Historical EV/EBITDA Multiple, 2004 – 2013



Note: Companies included are leading spirits companies Beam, Brown-Forman, Campari, Diageo, and Pernod Ricard as well as Constellation; Source: Bloomberg

ACQUISITIONS TYPICALLY CONDUCTED AT HIGH VALUATIONS

Estimates

Examples of acquisitions of brands with a strategic U.S. focus, spirits

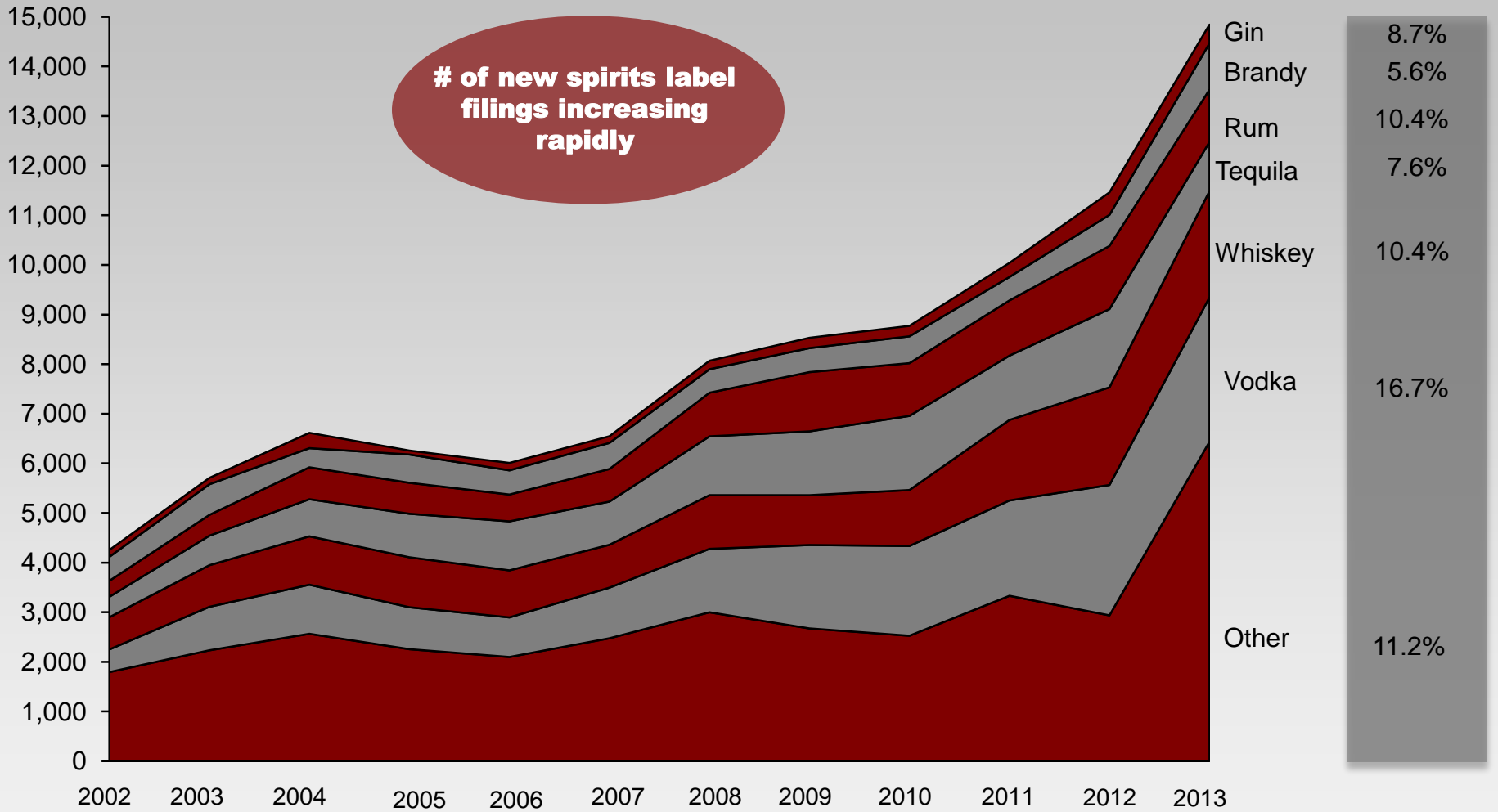
Year	Brand	Acquirer	Cases ('000 9L)	Total consideration (Millions, USD)	Price/Case	Revenue multiple**
2012	Pinnacle & Calico Jack	Beam	~3,000	\$605	\$202	4.9x
2011	Skinny Girl	Beam	110	\$90	\$818	11.2x
2010	Zacapa (50%)	Diageo	100	\$200	\$2,000	15.8x
2007	Cabo Wabo	Campari	56	\$91	\$1,429	9.6x
2007	Ketel One (50%)	Diageo	1,700	\$1,800	\$1,059	8.4x
2007	Svedka	Constellation	1,100	\$384	\$349	8.4x
2006	42 Below	Bacardi	90	\$91	\$1,011	13.0x
2006	Chambord	Brown Forman	144	\$255	\$1,711	16.3x
2004	Grey Goose	Bacardi	1,400	\$2,290	\$1,636	9.7x

Conclusion

- Transactions conducted at high valuations
- Acquirer has to back into pro-forma EBITDA multiple below industry peer group trading multiple to achieve accretion
- Acquisition multiple of 5x revenues might translate into 3x revenue for acquirer after synergies (e.g., national and international roll-out)
- High exit valuations attract investments to back emerging alcoholic beverage ventures

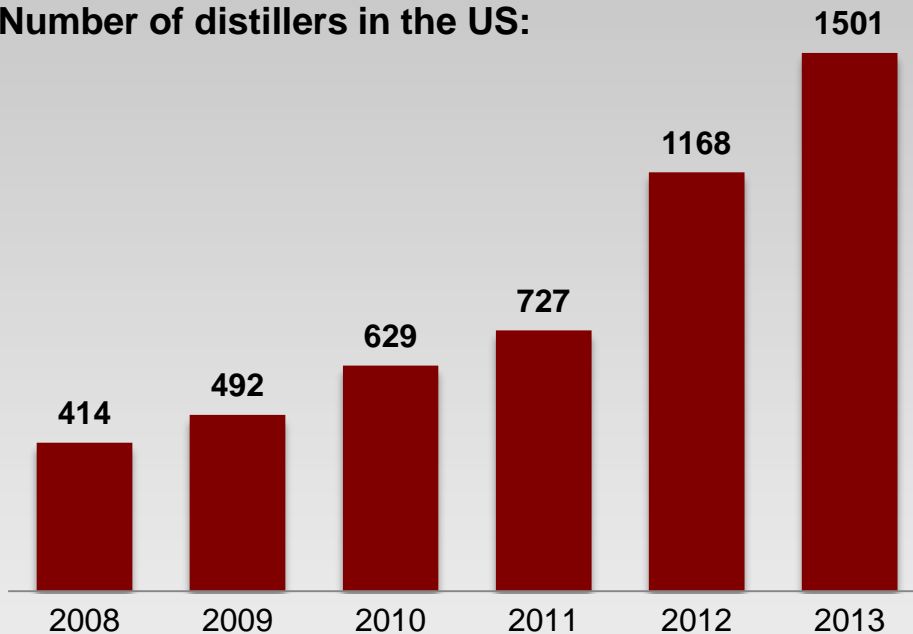
RESULTING IN LARGE INCREASE OF NEW PRODUCT INTRODUCTIONS

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



THE CRAFT DISTILLER MOVEMENT IN THE U.S. IS ONE DRIVER OF THE INNOVATION BOOM

Number of distillers in the US:



- The number of distilleries operating in the U.S. more than tripled in the last five years (ACDA estimates number of craft distillers operating at over 600 in 2014)
- If the craft spirits movement is as successful as the craft brewing movement, the category could reach over 17 million cases by the end of the decade



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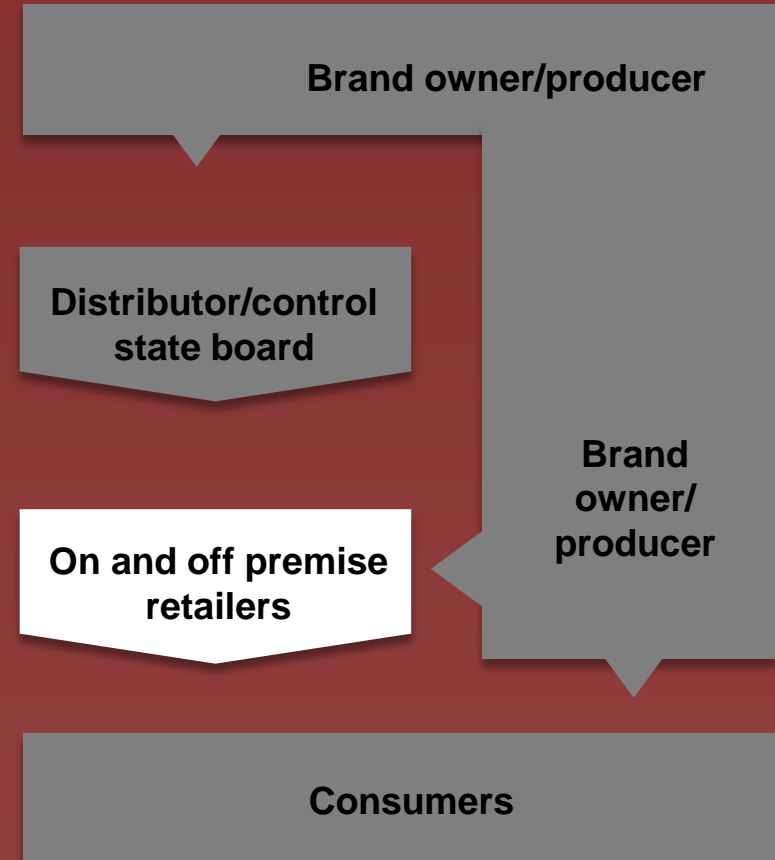
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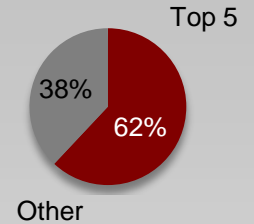
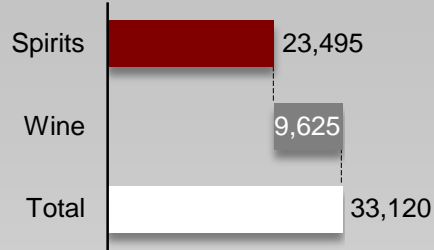
DISTRIBUTION TIER IN WINE AND SPIRITS: THE TOP 5 DISTIRBUTORS GENERATE ~57% OF THE INDUSTRY REVENUE

Wine and Spirits Sales by Tier (2012) \$ Millions

Concentration

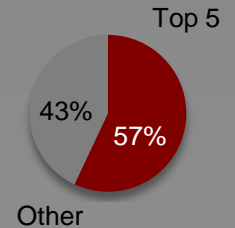
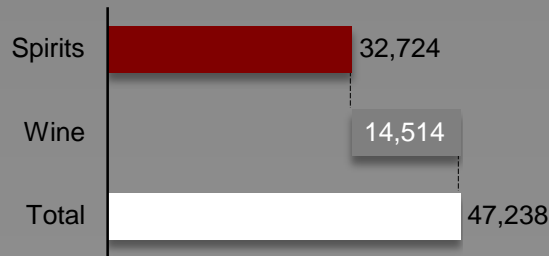
**Tier 1
Manufacturers /
Suppliers**

- Distilleries
- Wineries
- (Importers)



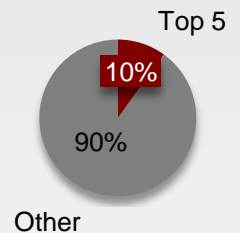
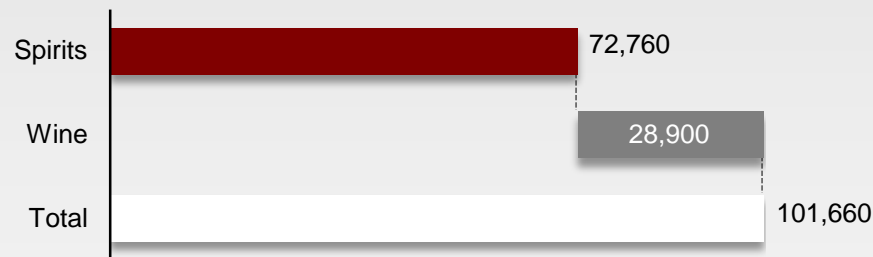
**Tier 2
Wholesalers**

- (Importers)
- Distributors
- Control Board



**Tier 3
Retailers**

- On-Premise (e.g., bar)
- Off-Premise (e.g., liquor store)



SOUTHERN WINE & SPIRITS IS LEADING THE DISTRIBUTION TIER WITH REVENUES OF OVER \$10BN

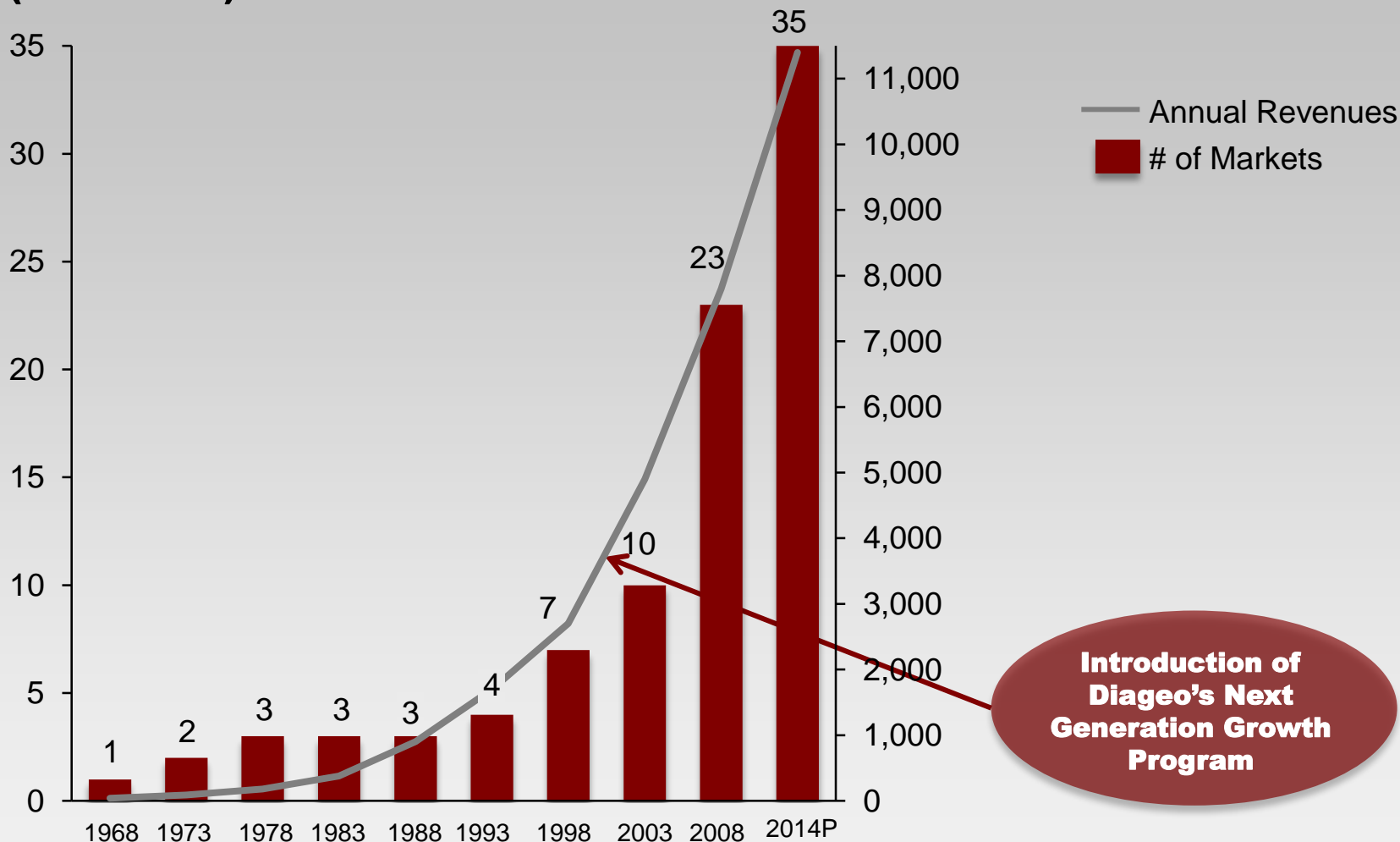
U.S. Wine & Spirit Wholesalers, by Revenue (2014P)*

Billions, USD

Wholesaler	Revenue (2014P)*	Market Share (2014P) %	Total States Covered	Accessible Market** %	Largest Markets (>\$250mm)
Southern Wine & Spirits	\$11.4	22.2%	35	72.18%	AZ, CA, CO, FL, ID, IL, KY, NV, NY, WA
Republic National	\$5.83	11.4%	20	35.97%	CO, FL, IN, LA, MD, SC, TX, VA
Charmer Sunbelt	\$5.36	10.4%	14	36.42%	CO, FL, MD, NJ, NY
Glazer's Family	\$3.59	7.0%	13	22.92%	LA, MO, TX
Young's Market	\$2.96	5.8%	10	22.53%	CA, WA
Wirtz Beverage	\$1.77	3.4%	6	12.21%	IL, WI, NV
Johnson Bros.	\$1.66	3.2%	22	59.71%	MN
Martignetti Co.	\$1.20	2.3%	5	5.68%	MA, RI
Allied Beverage	\$0.76	1.5%	1	4.21%	NJ
Fedway Associates	\$0.70	1.4%	1	4.21%	NJ
All Other Wholesalers (Incl. Control States)	\$16.08				

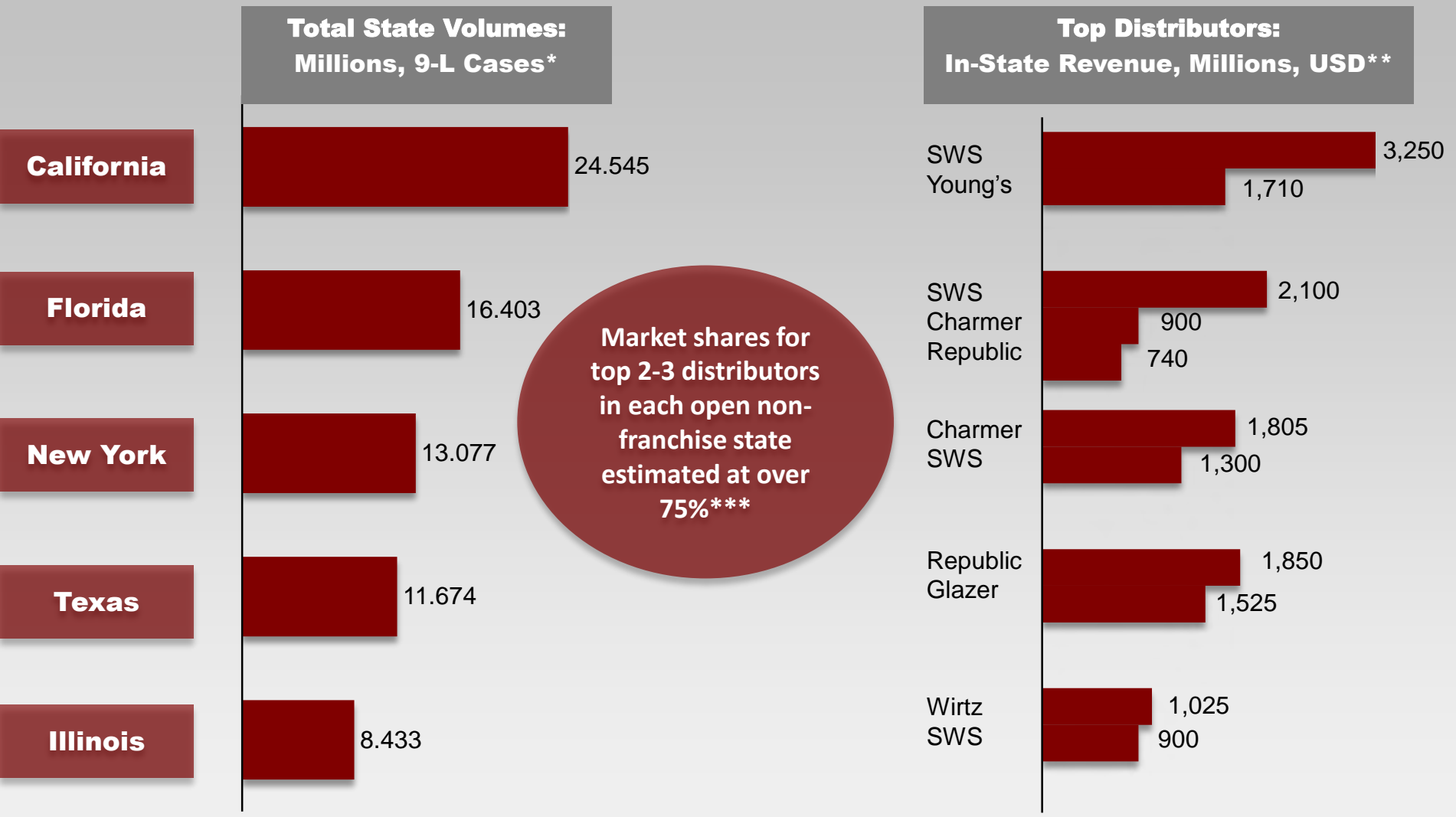
SOUTHERN WINE & SPIRITS' GROWTH ACCELERATED OVER THE LAST 10 YEARS

Southern Wine & Spirits: Annual Revenues (\$ Millions) and Number of Markets (1968-2014P)



**Introduction of
Diageo's Next
Generation Growth
Program**

THE TRUE CONCENTRATION IS MORE VISIBLE ON THE STATE LEVEL – MANY MARKETS ARE LEFT WITH ONLY 2-3 MAJOR DISTRIBUTORS



Source: Beverage Information Group; Impact; * 2012; **2013E; ***100% of top suppliers with top 2-3 distributors

LARGE SUPPLIERS INFLUENCE DISTRIBUTION TIER IN WINE AND SPIRITS

Large suppliers

DIAGEO

Beam



BROWN-FORMAN



Pernod Ricard



Constellation

BACARDI 

- Concentrated action (e.g., RFP)
- Coordinated planning (e.g., alliance)
- Increasing demands
 - Lower gross margins for distributors
 - Higher level of service and attention (e.g., dedication, divisions, specialists)
 - Penalties (if performance goals not met)
- More sophisticated controls
- Alignment

Large distributors



Glazer's



DISTRIBUTORS TYPICALLY TAKE ORDERS FOR SMALL SUPPLIERS AND SELL PRODUCTS OF THE LARGE SUPPLIERS

Allocation of wholesaler 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	

Conclusion

- Large wholesalers are trying to serve licensees the best way possible, but given the balance of power are also forced to push innovation pipeline of their large suppliers
- Priorities for the sales force are the outcome of negotiations between suppliers and distributors with large suppliers typically having leverage
- In addition, the concept of fair share of contribution is used to come up with the fair share of attention which guides the allocation of additional priorities
- This is a rear view mirror approach, upside potential is not necessarily considered
- Small brands and small suppliers typically end up without any priority
- The licensees target consumer demands for innovative brands might not get consideration

WHOLESALE TIER OFTEN NOT MORE THAN ORDER TAKING, DELIVERY, AND CUSTOMER SERVICE VEHICLE FOR EMERGING BRANDS

Small suppliers of new and emerging brands

Distribution funnel



- **Large wholesalers are resistant to take new brands into the portfolio**
 - **Uncertainty about the prospects**
 - **Conflicts with brands of larger suppliers**
 - **Requirement to improve efficiencies/ reduce complexity - bias to pass/wait**
- **If they take a new brand into the portfolio**
 - **Promising value proposition**
 - **Favor to supplier sales rep**
 - **Ask for “Insurance” contracts, high margins and long payment terms**
 - **Provide small account universe (e.g., one market) with no priorities**
 - **Positioned as order taking item given the attention of sales force can’t be diverted from larger supplier’s priorities – supplier’s sales reps need to generate demand**
- **If the large wholesaler passes on the new brand, supplier is required to use small or clearing wholesalers with more limited coverage**
- **Wholesale function for new brands is limited in either set-up to order taking, deliveries, and customer service**

ALTERNATIVES TO TOP SUPPLIER DISTRIBUTORS TO GET UNIQUE BRANDS THAT COULD HELP CREATE RELEVANT DIFFERENTIATION

Typical characteristics/comments

Second-tier distributors

- **Small market share in particular state, typically focused on metro areas**
- **Represent none of the top 10 spirits and wine suppliers**
- **Independent or part of regional network**
- **Single sales force division set-up (for both spirits and wine and on- and off-premise) with typically a large book**
- **Lack of economies of scale and scope: limited coverage of market, risk of not being accepted by retailer and lower frequency of deliveries**

Clearing distributors

- **Unbundled logistics and sales: no salesforce in market, clearing and logistics only**
- **Small market share in particular state, typically focused on metro areas**
- **Independent or part of regional network**
- **Dedicated or shared supplier reps licensed as distributor solicitors**
- **Account universe: supplier creates own account list**
- **Lack of economies of scale and scope: limited coverage of market, risk of not being accepted by retailer and lower frequency of deliveries**

- **Resistance by licensees to accept a new wholesaler is one of the biggest barriers for the emerging brands to get to market**
- **Processing another vendor can make a big difference for the supplier and the licensee**
- **Licensees in more rural areas typically don't have the option as distribution alternatives are small**

EMERGING BRANDS CAN BE A SOURCE OF COMPETITIVE ADVANTAGE FOR A LICENSEE



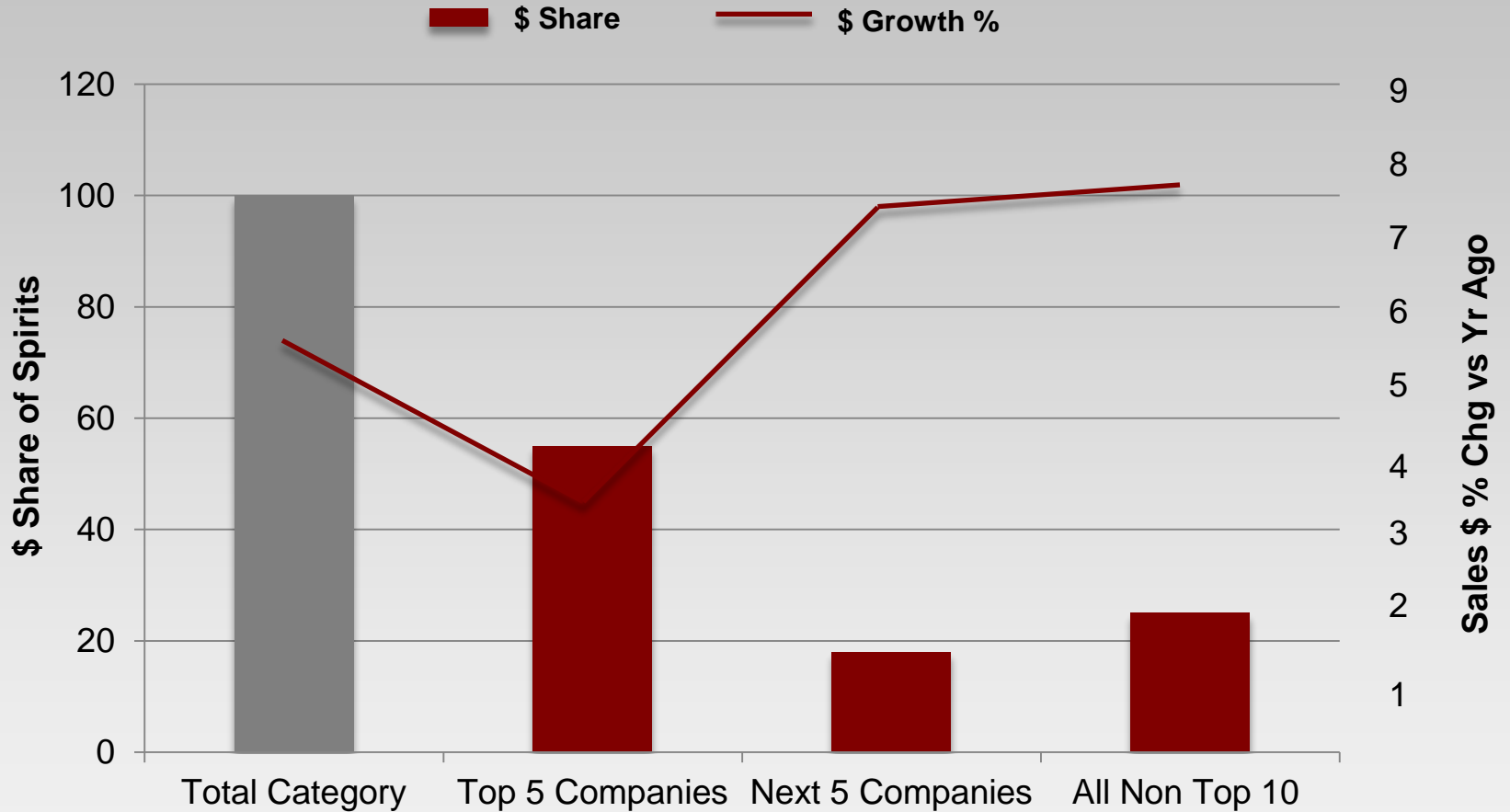
“I don’ t have time to approve another unknown vendor or see another crazy salesman, I have a battle to fight”

EMERGING BRANDS CAN BE A SOURCE OF COMPETITIVE ADVANTAGE FOR A LICENSEE

- **A licensee should be open to brands with the following characteristics**
 - **A distinct value proposition targeted at the licensee target consumer group**
 - **A solid marketing plan to generate pull from the consumer**
 - **Solid financial backing to execute the marketing plan**
- **These brands might or might not be represented by a large wholesaler (e.g., conflicts, lack of track record, etc.)**
- **The new brand could be able to create significant economic benefit for the licensee (where legally allowed), far outweighing the downside of approving another vendor (if required)**
 - **Marketing funds spend against the licensee's target consumers with the licensee mentioned as destination (e.g., viral social media campaign attracting consumers typically out of licensee's regular customer base)**
 - **Marketing funds spend in the account (e.g., tastings, buy backs)**
- **In order to tap into the potential, the licensee has to**
 - **Be clear about its target customers**
 - **Market the platform actively to suppliers and small/clearing wholesalers (e.g., outreach communication)**
 - **Conduct their own category management (if not captain, at least be validator)**
 - **Be data driven**
 - **Separate brands into categories to appeal to the target consumers: “must haves”, wide selection propositions and new launches – have sections in store or on the menu and market the platform**

SMALL AND MEDIUM SPIRITS BRANDS ARE ALREADY DRIVING CATEGORY GROWTH EVEN WITH DISTRIBUTION BARRIERS

Medium to small spirit companies (in aggregate) are driving category growth
Spirits share and % change vs year ago – by supplier size



SUMMARY

- **Do not lose your direct relationship with your customer: give them what they want whenever they want it – this will reduce the risk of your customers moving to a different provider using disrupting technology**
- **Become your own category captain or validator in order to be part of the marketing framework of suppliers**
 - **Identify your target consumer and market that target consumer reach upstream**
 - **Tap into supplier resources to promote your business (within legal boundaries of the three tier system)**
 - **Understand the theory of shortening brand life cycles and start being firm on resisting brand extensions of established brands that do not match your target customer needs**
- **Do not discriminate against smaller wholesalers – an additional invoice could be an investment with a possible high return**

APPENDIX

ABOUT PARK STREET

Park Street is a leading provider of diversified services, working capital, and trade financing for domestic and imported alcoholic beverage brands. The company is headquartered in Miami, FL with operations across the U.S. and 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 industry relationships and decades of experience with leading global beverage companies such as Bacardi, E. & J. Gallo, Diageo, Coca Cola, and more. The company serves a broad range of wine and spirits clients including craft distillers, multi-brand global suppliers, owner operators, vineyard owners, celebrity brands, and more.

Park Street offers a fully integrated solution across back-office services, working capital investment, and advisory services. With more than fifty-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 their most complex challenges, accelerate growth, and capitalize on compelling opportunities. Whether a client would benefit from back-office support, working capital investment, advisory services, or all of the above, Park Street provides a professional and comprehensive solution which integrates seamlessly across service areas and with the client organization.

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 (all 50 states), and receive payment for alcoholic beverage products in the U.S. — all while maintaining compliance with federal and state alcoholic beverage control laws and tax requirements. The three core benefits to Park Street’s foreign and domestic clients are: (i) achieving cost-effectiveness, (ii) enhancing operational performance, and (iii) focusing client resources on sales, marketing, and brand enhancement among consumers. 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 domestic and foreign production facilities resulting in streamlined operations.

Distribution: Direct-to-Retail

In select key 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 compliance set-up and management services in order to help domestic and international alcoholic beverage companies go live and operate in adherence with federal and state laws and regulations. The company's compliance set-up and management services provide an easy and cost-effective 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 domestic suppliers to access markets around the world and allow foreign suppliers 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.