

# How to Start a Brand Without a Distillery

Bar Convent Brooklyn  
Brooklyn, NY – June 13, 2018





# Some Background for Today's Discussion

## Today's discussion does not

- Provide a full tutorial on all items related to building a spirits brand
- Cover all nuances of each category (e.g., 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

## Today's discussion does

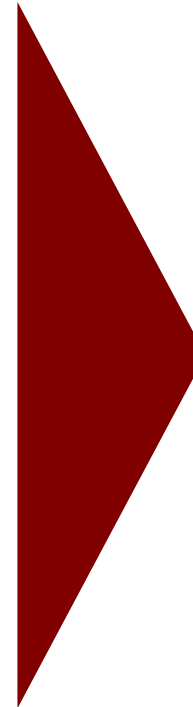
- Provide some historical context to the evolution of value drivers for spirits companies
- Offer a view on the importance of intangible assets
- Provide a roadmap to create a brand using an asset-light strategy
- Offer a view on some of the pros and cons of an asset-light strategy



# Three Tier System Based on Tangible, Not Intangible Assets



- 21st Amendment: Individual states given power to regulate sale and distribution of alcohol within their borders
- FAA (Federal Alcohol Administration Act): Three-tier system and tied house rules



## Tier 1: Manufacturers/Suppliers

- Distilleries
- Wineries
- Breweries
- (Importers)

## Tier 2: Wholesalers

- (Importers)
- Wine and spirits distributors
- Beer distributors
- State control boards

## Tier 3: Retailers

- On-Premise (e.g., bars)
- Off-Premise (e.g., liquor stores)

**CONSUMERS**

The U.S. alcoholic beverage industry is highly complex and regulated due to decentralized legal framework that varies across all 50 states; when the framework was developed in the 30s the lawmakers did focus on hard assets instead of intangible assets to draw the lines



# Perspective on Outsourcing Production



**“It's a lot of money for bricks and mortar. Don't build a distillery until you have enough money to do it properly and enough production to put in it.”**





# Perspective on Outsourcing Production



**“It's a lot of money for bricks and mortar. Don't build a distillery until you have enough money to do it properly and enough production to put in it.”**

**Sidney Frank**  
**Founder, Grey Goose**



# Value of Intangible Assets in Spirits – Examples



- Launched in 1997 by Sidney Frank
- Reached 1.3m cases in 2003 in the US
- In 2004 sold to Bacardi for \$2.3bn+
- Deal comprised of the intellectual property and a supply agreement with a contract producer in France



- Launched in 2012 by George Clooney, Rande Gerber and Michael Meldman
- Reached 69k cases in 2016 in the US
- In 2017 sold to Diageo for \$700m+
- Deal comprised the company, including its intellectual property, the supply agreement with a contract producer, and the team



# Contract Distillers Produce a Diverse Array of Brands at a Variety of Price Points and Quality Levels

VIVA  
MOJO

AVIÓN  
TEQUILA

EL  
CARTEL  
TEQUILA



Tequila  
*Esperanto*  
Selección®  
100% de Agave Azul



Tequila  
*Clase Azul*

TALERO  
TEQUILA  
LUXURY ORGANIC TEQUILA



JLP  
'The President's Tequila' 100% BLUE AGAVE

TEQUILA  
RANCHO  
ALEGRE®  
100% DE AGAVE



TEQUILA  
Campo Azul®





# All of These Brands Are Produced at Productos Finos de Agave, Producer of Casamigos

VIVA  
MOJO

AVIÓN  
TEQUILA



Tequila  
*Esperanto*  
Selección®  
100% de Agave Azul



Tequila  
*Clase Azul*

CASAMIGOS  
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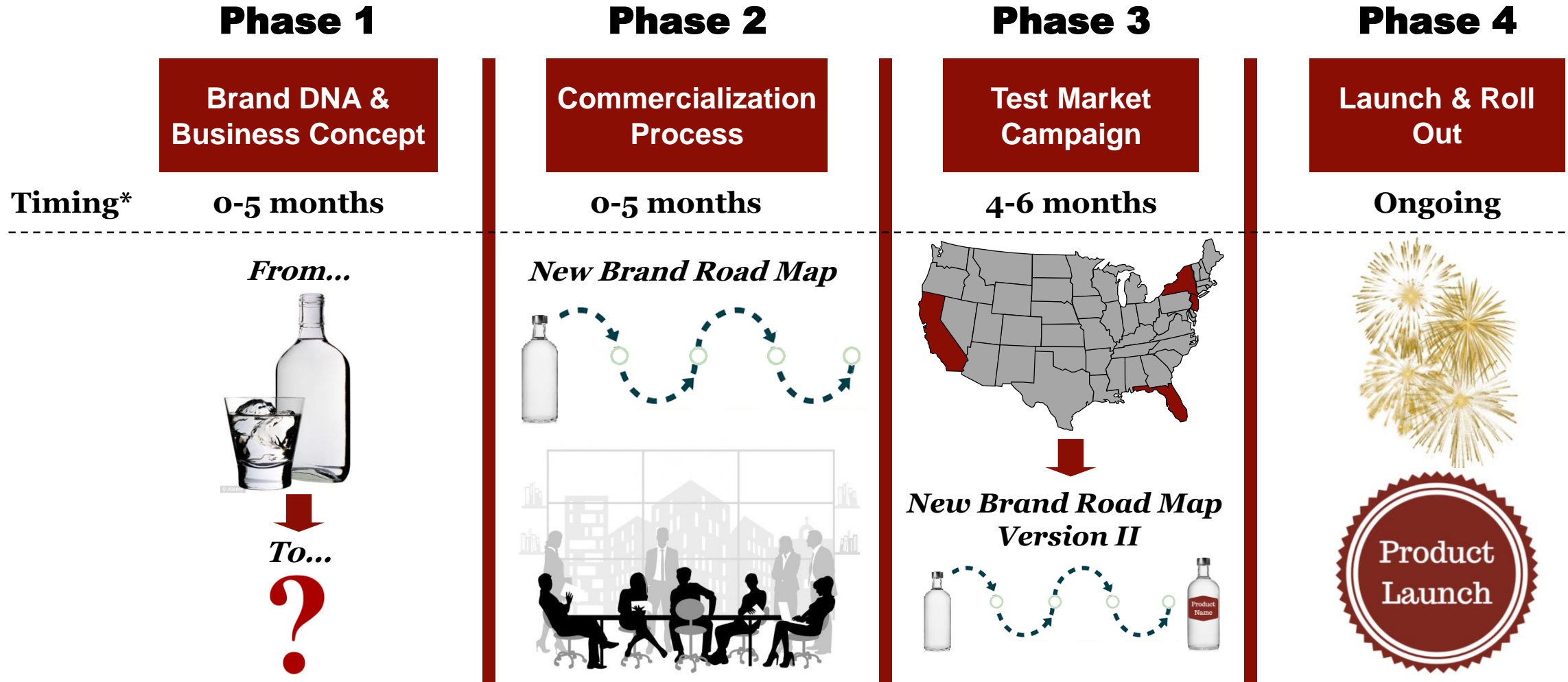


# Value Delivery System – All Functions Could Be Outsourced

	Functions/ Considerations		In-House	Outsource
<b>Marketing</b>	<ul style="list-style-type: none"><li>▪ Product</li><li>▪ Pricing</li></ul>	<ul style="list-style-type: none"><li>▪ Positioning</li><li>▪ Placement</li></ul>	<ul style="list-style-type: none"><li>▪ Staff</li></ul>	<ul style="list-style-type: none"><li>▪ Agencies</li></ul>
<b>Production</b>	<ul style="list-style-type: none"><li>▪ Location</li><li>▪ Facility</li></ul>	<ul style="list-style-type: none"><li>▪ Processes</li></ul>	<ul style="list-style-type: none"><li>▪ Staff</li></ul>	<ul style="list-style-type: none"><li>▪ Contract Producers</li></ul>
<b>Back-Office</b>	<ul style="list-style-type: none"><li>▪ Trademarks</li><li>▪ Licenses</li><li>▪ Registrations</li></ul>	<ul style="list-style-type: none"><li>▪ Accounting</li><li>▪ Compliance</li><li>▪ Logistics</li></ul>	<ul style="list-style-type: none"><li>▪ Staff</li></ul>	<ul style="list-style-type: none"><li>▪ Back-Office Provider</li></ul>
<b>Sales</b>	<ul style="list-style-type: none"><li>▪ Wholesale</li><li>▪ Retail</li></ul>	<ul style="list-style-type: none"><li>▪ Consumer</li></ul>	<ul style="list-style-type: none"><li>▪ Staff</li></ul>	<ul style="list-style-type: none"><li>▪ Shared Salesforce</li></ul>



# Four Different Phases to Launch a New Brand in the U.S. Market



\*Ranges depending on starting point, complexity and time of the year (e.g., no roll-out in QND)



# At the Beginning the Brand DNA and Business Concept Need to Be Defined/Clarified

## Phase 1

**Brand DNA &  
Business Concept**

## Phase 2

**Commercialization  
Process**

## Phase 3

**Test Market  
Campaign**

## Phase 4

**Launch & Roll  
Out**

**Market  
Opportunity/  
Target Consumer**

- Define target market opportunity for new brand within the alcoholic beverage industry
  - Analyze size and growth of the overall market and the targeted segment
  - Review the market segment attractiveness for particular value propositions (e.g., successful benchmark brands) and the underlying drivers of the success

**Brand DNA**

- Understand the DNA of the new brand
  - Analyze the key values that the brand embodies and understand the relevance for specific target consumer segments
  - Understand the elements that support each of those values

**Brand Positioning**

- Create the brand positioning
  - Review the competitive set for the new brand
  - Build directional hypotheses for the positioning of the new brand versus its key competitors and target consumers in the desired market segment
  - Create elements of differentiation that are relevant for the target consumers



# At the Beginning the Brand DNA and Business Concept Need to Be Defined/Clarified (cont.)

## Phase 1

**Brand DNA &  
Business Concept**

## Phase 2

**Commercialization  
Process**

## Phase 3

**Test Market  
Campaign**

## Phase 4

**Launch & Roll  
Out**

### **Product & Bottle Design**

- Build directional hypotheses for product and bottle design that support the brand DNA and positioning
  - Formula and creation story
  - Production location
  - Package design elements

### **High Level Marketing Strategy**

- Create high level marketing strategy
  - Understand the marketing platform and available avenues against the target consumer segment
  - Understand marketing tools and tactics to be utilized
  - Understand the unit economics (short and long term) for the anticipated product
  - Set target retail prices based on competitive set and unit economics

### **Business Plan & Budget**

- Create high level business plan
  - Define business objectives
  - Review route to market and business system options and cost elements
- Outline a high level budget for brand creation and market launch





# Once the Brand DNA and Business Concept are Clearly Defined the Business Needs to Be Commercialized

## Phase 1

Brand DNA &  
Business Concept

## Phase 2

Commercialization  
Process

## Phase 3

Test Market  
Campaign

## Phase 4

Launch & Roll  
Out

### Bottle Design & Costs

- Create bottle design to fit with the brand DNA with the help of a branding and design agency
  - Run structured process to select branding and design agency
  - Work with agency to:
    - Create design directions based on consumer brand DNA, brand positioning and target costs
    - Test the design directions through basic qualitative market research
  - Collaborate with possible vendors to run iterative process to reach target costs for the packaging

### Product Design & Production

- Create product formula and pick producer to fit with the brand DNA
  - Run structured process to select production partner
  - Work with producer on formula and elements to support the brand DNA and target costs
  - Work with producer in order to secure that the desired design works on the bottling line

### Marketing Partners (If applicable)

- Negotiate and finalize partnership(s) with possible marketing partners (e.g., celebrity endorser(s), other marketing platform )(if applicable)



# Once the Brand DNA & Business Concept Are Clearly Defined the Business Needs to Be Commercialized (cont.)

## Phase 1

Brand DNA &  
Business Concept

## Phase 2

Commercialization  
Process

## Phase 3

Test Market  
Campaign

## Phase 4

Launch & Roll  
Out

### Creative & Communication

- Develop creative and communication with the help of a creative agency
  - Run structured process to select creative agency
  - Work with agency to:
    - Transform brand positioning and DNA into communication strategy
    - Develop marketing strategies and tactics
    - Create a list of required marketing materials
    - Develop creative elements
  - Run RFP process to select vendor for marketing materials
- Decide on back-office set-up (outsource or in-house) and pick provider(s)
  - Importing/wholesaling, logistics, warehousing
  - Federal compliance, state compliance, accounting, data management, customer service
- Start regulatory approval process (e.g., COLAs, formula approvals)
- Create an updated detailed marketing plan based on outcome of commercialization process

### Back-Office Setup

### Marketing Plan (Updated)



# Once the Brand is Ready to Be Launched the Test Market Campaign Should Commence (cont.)

## Phase 1

Brand DNA &  
Business Concept

## Phase 2

Commercialization  
Process

## Phase 3

Test Market  
Campaign

## Phase 4

Launch & Roll  
Out

### Test Market Design

- Collaborate with distributor to develop test market campaign for the new brand
  - Create small test market universe with 20-50 test accounts (e.g., mix of on -versus off-premise, large versus small, ethnic versus non-ethnic, etc.)
  - Design micro marketing campaign based on the chosen marketing strategies and tactics for the test market (e.g., tastings, POS, pricing, programming)
  - Define success parameters for the test market campaign

### Organizational Setup & Support

- Set-up small organization to execute the test market campaign
  - Hire personnel (e.g., marketing, sales broker)
  - Run RFP process to select vendor for part time staffing needs in store (e.g., model agency)
  - Train organization on brand DNA, positioning and test concept elements

### Test Market Feedback

- Create short feedback loop mechanisms to test product value proposition
- Collect feedback from test market campaign and adjust the test market campaign (if required)



# Once the Brand Showed Success in the Test Market Campaign the Roll-Out Can Be Planned

## Phase 1

Brand DNA &  
Business Concept

## Phase 2

Commercialization  
Process

## Phase 3

Test Market  
Campaign

## Phase 4

Launch & Roll  
Out

### Business Plan Update

- Based on test market campaign feedback update business plan
  - Adjust marketing plan (e.g., marketing tactics, pricing, unit economics)
  - Collaborate with distributor to adjust implementation and roll-out plan
  - Create detailed marketing budget over time dependent on the roll-out plan
  - Update financial pro forma

### Organizational Setup & Support

- Ramp up production for roll-out
- Staff up the organization to execute the roll-out campaign
- Create feedback loop mechanisms to continue to validate the product value proposition
- Schedule distributor meetings in other markets





# 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



# Important that Brand Works in Micro-Market: Selling In and Re-Orders

## Selling In

- First placement typically needs sales pitch to gatekeeper at retail (e.g., owner, bartender)
- Retailers are asked to invest working capital – they need to see ROI quickly
- Sales pitch needs to include a marketing element that provides confidence that product will sell; while the retailer can facilitate, the product needs to have pull
- Sell-in works at times easier with someone who has a relationship (importance of a well connected sales person) or who is an owner (accounts like brand owners)
- Selling in without getting on the floor (e.g., a bottle placement on the shelf) is not effective; in order to get on the floor, it may be required to offer volume discounts, floor displays, and/or tastings

## Re-Orders

- Re-orders are the single most important thing to evaluate the viability of a brand for distributors and gatekeepers
- A re-ordering retailer has experience with a brand and confidence that the brand will continue to sell
- Distributors and gatekeepers are wary of re-orders driven by large amounts of buy backs; off-premise re-orders at times seen as more reliable indicators than on-premise re-orders
- It is relatively better to have a smaller volume and strong re-orders than a big sell-in order and no re-orders
- If the retailer is unable to move the product with making a positive margin (i.e., retailer dumps) the brand might get severely damaged



# Examples of Helping On- and Off-premise Retailers Move Product

## Managed Bar Nights



## Buy Backs



## In Store Tastings







# Infrastructure to Conquer: Front-Office vs Back-Office Tasks

## Front-Office

- Selling to an open state distributor; 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

### Integrated

**In-house front-and  
back-office  
infrastructure**

### Bundled / Agency

**Full service national  
distributor**

### Unbundled



**Front  
office**

**Back  
office**





# Assessment of Traditional Route to Market Options: Integrated and Bundled Approaches

	Front-Office	Back-Office	Examples	Comments
Integrated	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>
			Outsourced	
Bundled/ Agency				



# 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
 THE EIGHTY SIX CO. NOISE AND SPIRITS	 THE EIGHTY SIX CO. NOISE AND SPIRITS	park  street
 CHAMPAGNE REIMS FRANCE	 CHAMPAGNE REIMS FRANCE	park  street
 BLUE NECTAR TEQUILA	 Espiritus Group	park  street
 Beso Del Sol SANGRIA	 Beso Del Sol SANGRIA	park  street
 Vie Vite	 TURQUOISE LIFE BEVERAGE BRANDS	park  street
 Moskovskaya VODKA	 ALIGNED BEVERAGE SOLUTIONS	park  street



# Asset-Light vs Distillery-Based Strategy

## Advantages of asset-light strategy

- Less capital intensive
- Easier to pivot in case consumer demand is different than predicted
- Time to market
- Limited production execution risk if production partner selection conducted properly
- Reduces complexity of learning curve; leverage expertise not just physical assets

## Advantages of a distillery-based strategy

- Authenticity of story
- No dependency on third party
- Physical presence to assist marketing activities (e.g., visitor center)
- Proprietary assets/processes; potential barrier to competition, valuation enhancement



# Examples of Contract Producers and Brand-Owned/Affiliated Distilleries

## Contract Producers



## Brand-Owned/Affiliated Distilleries





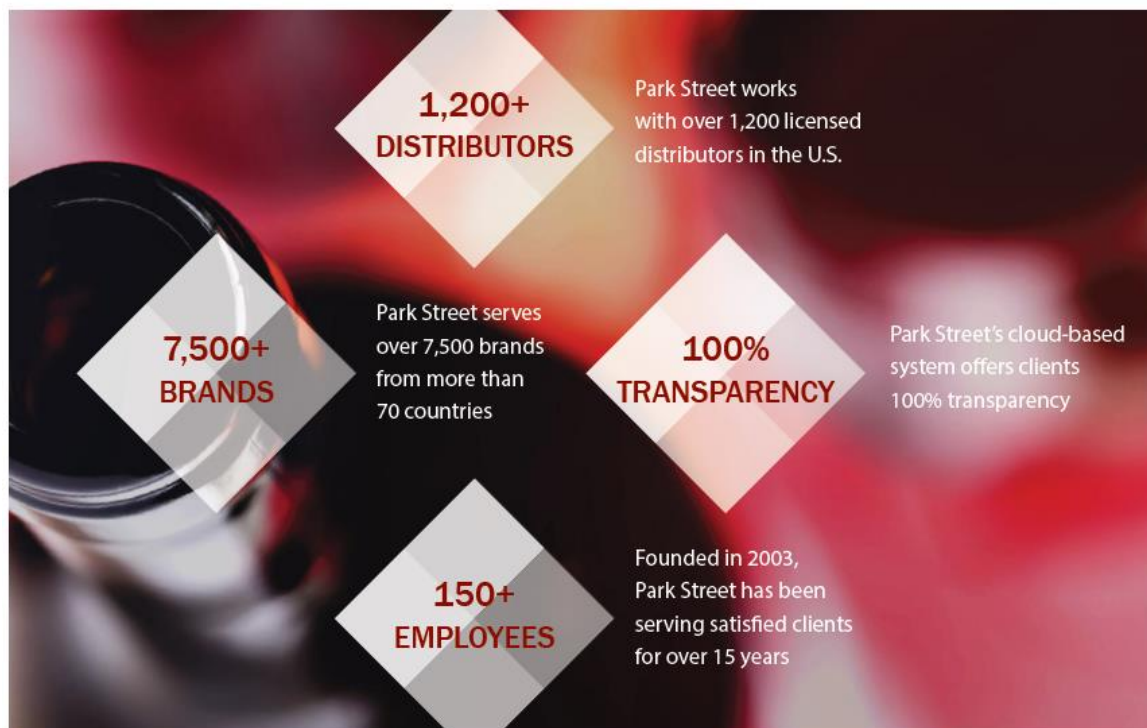
# QUESTIONS?





# About Park Street

## Park Street: The Platform for Innovators



## Park Street's Mission Statement

Park Street's mission is to help emerging and established alcoholic beverage companies build and manage successful brands by providing innovative solutions and exceptional service.

## The Park Street Advantage

Park Street invests heavily in technology-driven systems to streamline back office operations and provide clients performance-enhancing business management tools. Park Street was founded on the professional service standards of McKinsey & Company, and its talented people distinguish the firm through their responsiveness, accountability, and commitment to putting clients' interests first. Park Street offers a fully integrated solution across front- and back-office services, working capital investment, and advisory services. With more than seventy-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 United States (U.S.) and European Union (EU) — all while maintaining compliance with federal and state (U.S.) and European Commission and individual country (EU) 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., EU, 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 EU 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 EU solution which enables clients to avoid costly delays and penalties and remain focused on the core competencies which drive brand growth.

## Working Capital & Trade Financing

- Park Street offers flexible working capital solutions which enable clients to capitalize on opportunities, meet seasonal liquidity demands, optimize production schedules, and more. Products include advance payments, credit facilities, overdraft privileges, and corporate guarantees. The underwriting process focuses on, among other factors, the quality and liquidity of the collateral/assets (e.g., creditworthiness of the distributor, payment history, inventory turnover rate), the financial and operational stability of the client, and the quality and track record of other relevant stakeholders (e.g., producers, suppliers).

## Ancillary Services

- Park Street provides a range of ancillary services designed to help clients reduce costs, streamline operations, and/or accelerate growth and profitability. Some of these solutions are offered as value added services, while others are provided on a fee-for-service basis. Services include integrated accounting solutions (e.g., consolidated financial reporting, front-office accounts payable, expense management), advisory services (e.g., route-to-market, regulatory strategy, market insights, growth acceleration, dispute resolution, strategic partnerships, negotiation support, exit planning), trade show solutions (e.g., insights, managed set-ups, vendor qualification, site selection, POS materials), HR management solutions (e.g., employee benefit management, payroll, workers' compensation, employment documentation, HR dashboard), and more.

## Export Solutions

- Park Street's export solutions enable suppliers to access markets beyond the U.S. and EU. 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.