Routes To The U.S. Beverage Alcohol Market For Entrepreneurial Brands

Perla Fernandez
Park Street Companies
Barra Mexico
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### Some Background for Today’s Discussion

**Today’s discussion DOES NOT**

- Provide a full tutorial on all route-to-market opportunities for entrepreneurial spirits players
- Cover all nuances of each category: brown and white spirits
- Cover nuances of all types of states and accounts (control chain versus independent and on-versus off-premise)
- Provide a one-size-fits-all strategy
- Address global markets
- Offer advice on regulatory issues including e-commerce

**Today’s discussion DOES**

- Offer a view on commercial and industry trends
- Focus on the U.S. distilled spirits 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 entrepreneurial brands with national growth ambitions
“The route-to-market in a highly regulated red tape environment that demands three tiers”

“Vulnerable first tier Goliaths with David winning, not necessarily alone, but as a group”

“The second tier on a fast track to a duopoly with some alternative options for starters”

“The higher the relevant differentiation and badge value for the brand, the easier the route to market battle”

“The start close to home and a focus on a success blueprint that can be replicated in other markets”

“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”
Route to Market: Definition and Requirements for an Effective Platform

**General Definition:**
“It is a 'path' or 'pipeline' through which goods flow in one direction (from supplier to the consumer), and the payments generated by them flow in the opposite direction (from consumer to the supplier).”

**Market-driven**
- Route to market platform needs to be designed from the market back instead of inside-out and must effectively address customer and consumer needs.

**Coherent**
- Route to market platform needs to be aligned and integrated with the company’s overall customer service framework including order processing, fulfillment, logistics, billing, etc.

**Balanced**
- Route to market platform must enable identification and balancing of three competing priorities:
  - Customer needs and preferences (i.e., “what they want”)
  - Revenue growth (i.e., “what you want”)
  - Cost-to-serve (i.e., “what you want to keep low”)

**Flexible**
- Route to market platform must include a certain degree of flexibility as the original model may require modification based on data captured via a short feedback loop; improvements and adjustments must be made to address any change in market conditions.

Sources: Wikipedia, Park Street Analyses
An Industry That Required Two Constitutional Amendments

27 amendments in total. 24 amendments dealing with the role, rights and the functioning of government and the democratic process. Only other industry affecting amendment is the right to keep and bear arms. Sources: U.S. Constitution, data.gov, Park Street Analyses
Historical Background of Prohibition: A Movement and Two Constitutional Amendments

**Anti-Saloon League**
- Formed by women in 1893
- Powerful political force of the temperance movement focusing on passing a national ban on alcoholic beverages
- Believed that alcohol contributed to social problems related to abuse, prostitution, and criminal activity

**18th Amendment**
- "The 18th Amendment to the U.S. Constitution prohibited the manufacture, sale, transport, import, or export of alcoholic beverages"
- National Prohibition Act became effective 1920

**21st Amendment**
- Ended Prohibition in 1933 by repealing the 18th Amendment
- Some states, however, continued prohibition within their jurisdictions. Almost two-thirds of all states adopted some form of local option which enabled residents in political subdivisions to vote for or against local Prohibition.
- For a time, 38% of Americans lived in areas with Prohibition.

Source: Archives.gov
The Legal Ramifications Today

- Alcohol is still regulated by a complex and decentralized legal framework

- Results of the 21st Amendment & the FAA Act of 1935:
  - Adoption of today’s three tier system
  - Elimination of “tied house” practices
  - Introduction of FET’s
  - Federal government granted authority to license importers, manufacturers, wholesalers, and warehouses (not retailers).
  - Consumer deception laws and standards/requirements for labels and formula approval

- Federal regulations are administered by four main bodies:
  - Alcohol and Tobacco Tax and Trade Bureau (TTB)
  - Food and Drug Administration (FDA)
  - Federal Trade Commission (FTC)
  - Bureau of Alcohol Tobacco and Firearms (ATF)

- States given power to regulate sale & distribution of alcohol within their state:
  - Liquor control boards
  - Some states push regulatory authority to the county level (e.g., Montgomery County)

- Strong regulation through combination of federal and state authorities
- Three tier system & tied house rules
- Objective of tax collection and consumer protection (temperance)

Source: Archives.gov
Discussion Topics

- “The route-to-market in a highly regulated red tape environment that demands three tiers”
- “Vulnerable first tier Goliaths with David winning, not necessarily alone, but as a group”
- “The second tier on a fast track to a duopoly with some alternative options for starters”
- “The higher the relevant differentiation and badge value for the brand, the easier the route to market battle”
- “The start close to home and a focus on a success blueprint that can be replicated in other markets”
- “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”
The Spirits Market Has Been Growing Steadily

Over the last 20 years, consumption has grown on average by 2.4% per year, reaching 228 million cases in 2017.

Assuming a below the long-term CAGR growth rate of 1.9%, the market would add 22m+ cases over the next five years.

Sources: Beer Handbook, Liquor Handbook, IWSR, Park Street Analyses
* Includes Malts, Spirits, Wine, and Cider
Most of the Growth is Expected at Premium Price Points

Breakdown of U.S. Spirits Market, 2016

<table>
<thead>
<tr>
<th>Spirits</th>
<th>2016 Non-Premium</th>
<th>2021 Non-Premium</th>
<th>2016 Premium</th>
<th>2021 Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other</td>
<td>3.5%</td>
<td>0.0%</td>
<td>9.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Whiskey</td>
<td>7.4%</td>
<td>17.6%</td>
<td>3.2%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Vodka</td>
<td>23.5%</td>
<td>10.1%</td>
<td>3.6%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Rum</td>
<td>10.1%</td>
<td>1.0%</td>
<td>-1.3%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Gin</td>
<td>5.7%</td>
<td>3.2%</td>
<td>-4.1%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Brandy</td>
<td>7.2%</td>
<td>4.2%</td>
<td>20.8%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Tequila</td>
<td>3.6%</td>
<td>3.2%</td>
<td>18.6%</td>
<td></td>
</tr>
<tr>
<td>12.7%</td>
<td>9.2%</td>
<td>34%</td>
<td>34%</td>
<td>79%</td>
</tr>
<tr>
<td>4.6%</td>
<td>3.2%</td>
<td>2.9%</td>
<td>8.7%</td>
<td>13.4%</td>
</tr>
<tr>
<td>5.7%</td>
<td>4.2%</td>
<td>20.8%</td>
<td>13.4%</td>
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<tr>
<td>7.2%</td>
<td>3.6%</td>
<td>18.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.1%</td>
<td>10.1%</td>
<td>-1.3%</td>
<td>3.9%</td>
<td></td>
</tr>
<tr>
<td>25.0%</td>
<td>7.4%</td>
<td>7.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33.6%</td>
<td>23.5%</td>
<td>-1.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Weighted Growth: 2.7% 9.0%

2015 – 2016 Volume Growth

Growth of U.S. Spirits Market, 2016 – 2021

Million of 9-L Cases

2016 2021

Non-Premium Spirits

Premium Spirits

+4.3M cases +2.9% CAGR

+17.7M cases +23.6% CAGR

Industry Structure: Supplier and Wholesale Tier
Concentrated

U.S. Wine and Spirits Supplier Sales by Tier (2017)
Dollars, Billions

<table>
<thead>
<tr>
<th>Tier</th>
<th>Sales (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spirits</td>
<td>26.4</td>
</tr>
<tr>
<td>Wine</td>
<td>9.2 (proj.)</td>
</tr>
<tr>
<td>Total</td>
<td>35.6</td>
</tr>
</tbody>
</table>

Concentration of Top 10 Supplier Sales vs. others (2017)
% of total dollar sales

- Top 10: 24%
- Others: 76%

- Supplier tier is concentrated on national level
- Sales/product curves nationally mostly mirror regional and local sales/product curves
- Domestic craft spirits industry consists of over 1,800 distillers with a combined share of 4.6% (value)

Top Suppliers (2017)

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diageo</td>
<td>23.9%</td>
</tr>
<tr>
<td>Beam Suntory</td>
<td>9.10%</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>8.60%</td>
</tr>
<tr>
<td>Bacardi</td>
<td>6.60%</td>
</tr>
<tr>
<td>Sazerac</td>
<td>6.20%</td>
</tr>
<tr>
<td>Brown Forman</td>
<td>6.10%</td>
</tr>
</tbody>
</table>

Sources: Beverage Information Group, Park Street Analyses, *Projection based on 1.0% CAGR
Authenticity: Democratization of Marketing and Validation

- Many more messages reach an individual from many more different sources than in the past

- Due to the ability to cost-effectively target messages in new media to particular consumer groups, marketing channels have effectively opened up to subscale marketers

- Side effect of new media is that the individual is now empowered to validate messages instantaneously

- The democratization of validation increases the importance of discovery and therefore authenticity for new products

- The badge value of alcoholic beverage brands changes due to the increasing importance of discovery and authenticity and allows newer brands with the right credentials to compete more effectively
Trend Towards Fragmentation: Democratization of Production

Not as dramatic as in music, news, and film, but the barriers to entry are getting smaller

Multiple initiatives have improved success probability for entrepreneurial brands by simplifying access to the alcoholic beverage industry
- Tax credits
- Simplified licenses (e.g., craft distiller licenses)
- Ease of three tier system regulations (e.g., on-premise consumption in tasting rooms)
- Production (e.g., 25%+ of craft distillers offer contract production)
- Back-office (e.g., Park Street)
- Distribution (e.g., self distribution options in markets like CA, NY, NJ and FL through Park Street)

U.S. Federal Interest Rate, 1995 – 2015
Percent (Annual)


Sources: TTB.gov, Journal of Wine Economics, Liquor Handbook, Brewers Association, Park Street Analysis
Fragmentation: Head of Sales/Brands Curve Getting Hit

Larger brands losing market share

Long tail growing

U.S. Spirits Market Share by Volume of Top 5 Brands over a 20-year Period

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vodka</td>
<td>46%</td>
<td>42%</td>
<td>42%</td>
<td>35%</td>
<td>38%</td>
</tr>
<tr>
<td>Rum</td>
<td>76%</td>
<td>78%</td>
<td>80%</td>
<td>69%</td>
<td>66%</td>
</tr>
<tr>
<td>Tequila</td>
<td>73%</td>
<td>76%</td>
<td>74%</td>
<td>67%</td>
<td>61%</td>
</tr>
<tr>
<td>Gin</td>
<td>61%</td>
<td>58%</td>
<td>59%</td>
<td>55%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Sources: Liquor Handbook, Park Street Analyses
Entrepreneurial activity, both craft and non-craft, has and will continue to lead the way. Further explosive growth is possible once the barriers to entry and the operating costs are low enough for “keep your day job”-entrepreneurs to enter the industry on a larger scale.

Other drivers are new product development by existing suppliers both for existing brands and (to a smaller degree) new brands as well as private label activity by chain retailers.

Sources: Liquor Handbook, Craft Spirits Project – preliminary presentation (ACSA, IWSR, Park Street), Park Street Analysis
Sources: Liquor Handbook, Park Street Analysis

**Trend Towards Fragmentation Does Not Mean A Fragmented Marketplace Without Large Brands**

- Brands in spaces with higher barriers to entry (e.g., regulatory or aging) have shown more resilience

- Brands at lower price points where scale and leverage matters more

- Independent brands without any major supplier affiliation – still relatively early in the brand lifecycle

- Large supplier innovation

**EXAMPLES**

**Millions of 9-L Cases**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAMESON</td>
<td>1,607</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BURNETT'S</td>
<td>2,039</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tito's</td>
<td>850</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FIREBALL</td>
<td>770</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CAGR**

- JAMESON: 12.1%
- BURNETT'S: 5.9%
- Tito's: 37.7%
- FIREBALL: 36.1%
Large Suppliers in Times of Fragmentation

Volume for the Top 10 Spirits Suppliers to Maintain their Market Share
Millions of 9-L Cases

<table>
<thead>
<tr>
<th>Year</th>
<th>Large brand advances / declines</th>
<th>Volume needed to maintain market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>146.3</td>
<td>?</td>
</tr>
<tr>
<td>2020</td>
<td>157.2</td>
<td>?</td>
</tr>
</tbody>
</table>

Large brand growth acceleration and/or turnaround or just slowing the decline of the larger brands is and will be the highest priority for every larger supplier and the focus of their sales forces (pressure on distributors).

- Brand extensions and stretches will be used where feasible without decreasing the overall brand equity.
- Might exit or decide to give management of sub-scale brands with declining sales and little hope (towards end of brand life cycle) to third party sales force operators.
- New brand development within large suppliers has a poor track record and will not see much increased investment.
- Acquisitions of new brands will be needed to bridge gap:
  - Distilled spirits VCs (early stage)
  - Portfolio of local/regional brands
  - Larger mergers/acquisitions
# Pathway to Future Growth for Major Suppliers: Investments in Entrepreneurial Brands

<table>
<thead>
<tr>
<th>Supplier</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diageo</strong></td>
<td>• United Spirits</td>
<td></td>
<td>• Casamigos</td>
<td>• Belsazar</td>
</tr>
<tr>
<td></td>
<td>• Peligroso Tequila</td>
<td></td>
<td></td>
<td>• Pierde Almas</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Westward American</td>
</tr>
<tr>
<td><strong>Constellation Brands</strong></td>
<td>• Casa Noble Tequila</td>
<td>• High West Distillery</td>
<td>• Schrader Cellars</td>
<td>• The Real McCoy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Catoctin Creek Distillery</td>
<td>• The Prisoner Wine Company</td>
<td>• Copper &amp; Kings</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Nelson’s Green Briary</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bacardi</strong></td>
<td>• Angel’s Envy</td>
<td></td>
<td>• Illegal Mezcal</td>
<td>• Patron Spirits</td>
</tr>
<tr>
<td></td>
<td>• Banks Rum</td>
<td></td>
<td>• Teeling Irish Whiskey</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Leblon Cachaca</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pernod Ricard</strong></td>
<td>• Tequila Avion</td>
<td>• Monkey 47</td>
<td>• Del Maguey Mezcal</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Smooth Ambler</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Paddy Irish Whiskey</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
“The route-to-market in a highly regulated red tape environment that demands three tiers”

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Major Supplier Consolidation has led to Major Distributor Consolidation

- Concentrated action (e.g., RFP)
- Increasing demands
  - Lower gross margins for distributors
  - Higher level of service and attention (e.g., dedication, specialists)
- Alignment
- Coordinated planning
- More sophisticated controls (with aim to eliminate any ‘double coverage’ through distributor and supplier sales personnel)

Source: Park Street Analyses
Concentration in Distribution Tier has Grown Exponentially Since 1990

Top 5 Distributor Sales Revenue and Market Share, 1990 – 2017

Dollars, Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>SGWS</th>
<th>SWS</th>
<th>Glazer’s</th>
<th>RNDC</th>
<th>National</th>
<th>Republic</th>
<th>Breakthru</th>
<th>Charmer Sunbelt</th>
<th>Young’s</th>
<th>Empire</th>
<th>Sunbelt</th>
<th>Federated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>4,290</td>
<td>5,270</td>
<td>995</td>
<td>640</td>
<td>665</td>
<td>825</td>
<td>2,130</td>
<td>3,440</td>
<td>6,245</td>
<td>2,350</td>
<td>1,775</td>
<td>1,350</td>
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<tr>
<td>1995</td>
<td>5,270</td>
<td>6,925</td>
<td>895</td>
<td>665</td>
<td>825</td>
<td>1,285</td>
<td>665</td>
<td>2,130</td>
<td>3,440</td>
<td>1,350</td>
<td>1,775</td>
<td>1,350</td>
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<tr>
<td>2000</td>
<td>9,430</td>
<td>11,310</td>
<td>1,700</td>
<td>1,630</td>
<td>2,350</td>
<td>825</td>
<td>2,130</td>
<td>6,245</td>
<td>14,505</td>
<td>2,350</td>
<td>1,775</td>
<td>1,350</td>
</tr>
<tr>
<td>2005</td>
<td>21,485</td>
<td>22,895</td>
<td>4,365</td>
<td>4,365</td>
<td>3,655</td>
<td>6,480</td>
<td>2,350</td>
<td>8,765</td>
<td>21,485</td>
<td>2,350</td>
<td>1,775</td>
<td>1,350</td>
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<tr>
<td>2010</td>
<td>30,385</td>
<td>32,250</td>
<td>5,575</td>
<td>5,575</td>
<td>3,655</td>
<td>7,465</td>
<td>2,350</td>
<td>11,750</td>
<td>30,385</td>
<td>2,350</td>
<td>1,775</td>
<td>1,350</td>
</tr>
<tr>
<td>2015</td>
<td>35,405</td>
<td>37,750</td>
<td>5,525</td>
<td>5,525</td>
<td>3,655</td>
<td>7,465</td>
<td>2,350</td>
<td>11,750</td>
<td>35,405</td>
<td>2,350</td>
<td>1,775</td>
<td>1,350</td>
</tr>
<tr>
<td>2017</td>
<td>35,405</td>
<td>37,750</td>
<td>64.4%</td>
<td>64.4%</td>
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<td>64.4%</td>
<td>64.4%</td>
<td>64.4%</td>
</tr>
</tbody>
</table>

Sources: Impact Seminar, Park Street Analyses
Southern Glaziers Wine & Spirits is Leading the Distribution Tier with Revenues of Over $17.5BN

### US wine & spirit wholesalers, by revenue (2017 projected)*

<table>
<thead>
<tr>
<th>Wholesaler</th>
<th>Dollars, Billions</th>
<th>Market share (2017) %</th>
<th>Total states covered</th>
<th>Accessible market** %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Glazers Wine &amp; Spirits</td>
<td>$17.5</td>
<td>31.8%</td>
<td>44</td>
<td>85.2%</td>
</tr>
<tr>
<td>Republic National</td>
<td>$7.5</td>
<td>13.6%</td>
<td>22</td>
<td>35.1%</td>
</tr>
<tr>
<td>Breakthru Beverage</td>
<td>$5.5</td>
<td>10%</td>
<td>20</td>
<td>48.4%</td>
</tr>
<tr>
<td>Young’s Market</td>
<td>$3.0</td>
<td>5.5%</td>
<td>10</td>
<td>24.7%</td>
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<tr>
<td>Empire Merchants</td>
<td>$1.9</td>
<td>3.5%</td>
<td>1</td>
<td>7.4%</td>
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<tr>
<td>Johnson Bros.</td>
<td>$1.89</td>
<td>3.4%</td>
<td>22</td>
<td>52.3%</td>
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<tr>
<td>Martignetti Companies</td>
<td>$1.25</td>
<td>2.3%</td>
<td>5</td>
<td>5.6%</td>
</tr>
<tr>
<td>Allied Beverage</td>
<td>$0.8</td>
<td>1.5%</td>
<td>1</td>
<td>4.2%</td>
</tr>
<tr>
<td>Fedway Associates</td>
<td>$0.8</td>
<td>1.4%</td>
<td>1</td>
<td>4.2%</td>
</tr>
<tr>
<td>Horizon Beverages</td>
<td>$0.7</td>
<td>1.3%</td>
<td>5</td>
<td>5.2%</td>
</tr>
<tr>
<td>All other wholesalers (incl. control states)</td>
<td>$14.2</td>
<td></td>
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</table>

Source: Impact. * Some control state revenue not captured (e.g., broker commissions); ** as % of cases sold in the US
Southern Wine and Spirits has been the most aggressive consolidator in the wine and spirits distribution business in the US.

An important driver that accelerated the consolidation was Diageo’s Next Generation Growth initiative in 2002, which awarded their business to Southern and Glazer’s in several states. More importantly, Southern understood that this was a new era and was quick to position itself for similar processes by other suppliers.

The merger with Glazer’s in 2016 paved the way to an almost complete national footprint, allowing suppliers to pursue simplified route to market strategies in the US with reduced requirements for dedicated supplier salesforces outside the distributor.

Sources: Impact Seminar, Park Street Analyses
Southern Glazer’s Wine & Spirits – Current Landscape

- SGWS currently has operations in 44 states, the District of Columbia, Canada, and the Caribbean
- The states within the US without SGWS operations are WI, GA, NJ, CT, RI, & MA
- SGWS’ supplier portfolio contains all leading brands at least in some areas and they are aligned nationally with suppliers, such as Pernod Ricard, Beam Suntory, Campari, and Bacardi
- Additional deals to expand are feasible in the states without a current presence, but franchise laws complicate these deals as supplier leverage is typically absent
RNDC Breakthru would be the result of several rounds of mergers and acquisitions:
- In 1994 Charmer Group and Sunbelt Beverages merged to create Charmer Sunbelt
- In 2007 Republic Beverage Company merged with National Distributing Company to create RNDC
- In 2015, Charmer Sunbelt and Wirtz merged to create Breakthru Beverage
- In 2017 RNDC and Breakthru announced their potential merger without providing guidance on a new name

Sources: RNDC, Breakthru, Impact Seminar, Park Street Analyses
- Once completed RNDC Breakthru will operate in 27 US states and Canada
- California and New York are two large markets that are not covered by RNDC Breakthru
RNDC Breakthru – Missing Markets and Future Pathways

- Young’s Market Company covers states solely in the western part of the country and California is their home market.
- RNDC Breakthru is not currently selling in California, which is the largest spirits market in the US.
- In 2011, RNDC entered the Arizona market through a partnership with Young’s Market. At the time, Young’s was the fifth largest distributor in the US.
- Charmer Industries merged with Peerless Imports in New York in 2007, which formed Empire Merchants.
- While Breakthru’s Co-Chairman, Charlie Merinoff, co-owns Empire, Breakthru does not and as a result, neither Breakthru or RNDC are present in New York, the third largest spirits market in the US.

- Market rumors had suggested that the RNDC Breakthru partnership had tried to include Young’s and Empire in the original deal
  - It is very difficult to imagine that top brand suppliers will not put their weight behind these deals and the industry expects deals once the RNDC/Breakthru merger is completed
  - If deals don’t materialize, the Wine Warehouse in CA and a strategy of buying smaller distributors in NY as a start could be options and could force Young’s and Empire to the table

Sources: Beverage Information Group, Wine & Spirits Daily, Park Street Analyses
A Merger between RNDC Breakthru, Young’s, and Empire Would Create Another Distributor Powerhouse

- $17.9 billion combined revenue from 2017 (projected)
- 37 number of markets
- Market share 32.6%

<table>
<thead>
<tr>
<th></th>
<th>SGWS</th>
<th>RNDC Breakthru, Young’s &amp; Empire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets</td>
<td>44</td>
<td>37</td>
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<tr>
<td>Accessible Market %</td>
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<td>82.7%</td>
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<td>Revenue</td>
<td>$17.5 billion</td>
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</tr>
<tr>
<td>Market Share</td>
<td>31.8%</td>
<td>32.6%</td>
</tr>
</tbody>
</table>

If RNDC Breakthru is able to complete deals with Young’s & Empire, the result would be a formidable competitor to SGWS with regards to scope of activities in the US market.

Sources: Impact Seminar, Park Street Analyses
Once RNDC Breakthru Young’s Empire becomes reality, it will be a duopoly for top brand suppliers.

RNDC Breakthru Young’s Empire will likely offer below cost deals to lure top brand suppliers nationally aligned with SGWS away, with the likely outcome of more demands for larger margins from small and medium suppliers.

Both distributor groups will be lower costs than other distributors in the areas they serve and they will have the highest service levels for accounts (customer service, frequency of visits, value added services).

Both groups will have at least one division that will sell the balance of the portfolio.

Both groups will try to have a fair share of market specific craft products in their portfolio.

Both groups will likely ask for national distribution option agreements in case the brand wants to expand beyond their own home state.

Sources: Impact Seminar, Park Street Analyses. Footprint: graphs represent possible distribution pathways.

*Assumes Young’s Market & Empire merge with RNDC/Breakthru
Distribution in Open Non-Franchise States – Several Valid Options Beyond National Footprint Distributors

**Other Top Supplier Distributors**
- Other top supplier distributors also work with leading suppliers, but they are not fully aligned due to their more limited reach
- May operate in markets with franchise laws where it is difficult for national footprint distributors to expand to

**Second Tier Distributors**
- 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

**Alternative Distribution Options**
- 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

**From a strategy perspective, national footprint distributors and other top brand supplier distributors typically 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
- Payment history should be taken into account when making route to market decisions

Sources: Park Street Analyses, Interviews
“The route-to-market in a highly regulated red tape environment that demands three tiers”

“Vulnerable first tier Goliaths with David winning, not necessarily alone, but as a group”

“The second tier on a fast track to a duopoly with some alternative options for starters”

“The higher the relevant differentiation and badge value for the brand, the easier the route to market battle”

“The start close to home and a focus on a success blueprint that can be replicated in other markets”

“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”
Starting Point for the Route to Market Strategy Should be the Target Consumer

- 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?

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 new spirits brands

Drink local  Drink healthy  Drink hip

Sources: Web Search, Park Street Analyses, Interviews
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
Relevant Differentiation: 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 premium tequilas and mezcals have been able to create badge value for the category
- Individual 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

Sources: Dictionary.com, Brand Aid by Brad VanAuken
“The route-to-market in a highly regulated red tape environment that demands three tiers”

“Vulnerable first tier Goliaths with David winning, not necessarily alone, but as a group”

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Home Games vs. Away Games

- 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 in launch market
- Take advantage of slightly preferential treatment by the referees/gatekeepers
  - Define launch market as home market and gain home crowd support
  - Distributors
  - Retailers (on and off)

Sources: MLB, NFL, NBA, MLS, Scorecasting by Toby Moscowitz and Jon Wertheim, Park Street Analyses
### Retail Account Selection

#### Good Volume Opportunity
- Interesting for proof of concept when used for tastings
- Floor placement almost mandatory for new brand

#### 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

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<table>
<thead>
<tr>
<th>On</th>
<th>Independent</th>
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<tbody>
<tr>
<td>Off</td>
<td>Chain</td>
</tr>
</tbody>
</table>

**Size of account:
- Lower level of complexity and difficulty
- Higher level of complexity and difficulty

**Premise type:
- Independent
- Chain
- Off
- On
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

Comments
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Source: Park Street Analyses
Example of Helping the Retailer Move Product: Get on the Floor and do Tastings
Blueprint for Home Market can be Replicated in Expansion Markets

1. Before expanding into a new market, the blueprint for success in the home market should be clarified.

2. After the blueprint is clarified, the market characteristics of the expansion market(s) should be researched in light of the home market blueprint.

3. The sales and marketing strategy in the expansion market(s) might have to be tested and reworked as needed.

*Blueprint defined: The blueprint includes items such as target consumers, target accounts, push and pull tactics, and more.

Source: Park Street Analyses
When Selecting the Launch State(s) Beyond the Home Market There are Several Choices to Consider

- 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 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

- 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 evaluated as each market has its own pros and cons
- The odds of being able to successfully replicate or successfully adjust the home market blueprint to expansion markets need to be considered
- 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

Sources: Park Street Analyses, Interviews
- “The route-to-market in a highly regulated red tape environment that demands three tiers”
- “Vulnerable first tier Goliaths with David winning, not necessarily alone, but as a group”
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Distribution Paradox

- 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.

“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

Sources: Web Search, Park Street Analyses, Interviews
## Allocation of priorities based on fair share of attention - conceptual

<table>
<thead>
<tr>
<th>Supplier tier</th>
<th>Annual gross profit contribution range in $m</th>
<th># of suppliers in portfolio</th>
<th># of top priorities</th>
<th># of top priorities / supplier</th>
<th># of other priorities</th>
<th># of other priorities / supplier</th>
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<tr>
<td>Top suppliers</td>
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<td><strong>Total</strong></td>
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<td><strong>5</strong></td>
<td><strong>20</strong></td>
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</table>

### 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

**Large supplier – distributor cycle**

- **Supplier sets business goals and demands**
- **Distributor buys according to plans and sets priorities for salesforce based on supplier demands**
- **Retailer buys in; rejects when inventory is too high**
- **Distributor inventory rises; when inventory is too high, pushes back with supplier**

**Small supplier – distributor cycle**

- **Retailer asks for product and places order**
- **Distributor recognizes the growth and starts opening up priorities for supplier**
- **Supplier sets business goals and demands (ask for favors)**
- **Distributor buys small quantities, doesn’t set salesforce priorities, but allows retailers to place orders**

**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**

Sources: Web Search, Park Street Analyses, Interviews
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 sales-people and their account universe can help create mini success stories that are newsworthy within the distributor.
- Attention will come through awareness and success.

Sources: Park Street Analyses, Interviews
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

Sources: Park Street Analyses, Interviews
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. 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.

- **Push = Pull**: 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.

Sources: Park Street Analyses, Interviews
## New Brand Launch – With Success the Power Balance and Route to Market Change

<table>
<thead>
<tr>
<th>Phase</th>
<th>Test market phase</th>
<th>Roll out phase</th>
<th>Hot brand phase</th>
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<tr>
<td>Cost to serve/case</td>
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<td>Total revenues</td>
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</tr>
<tr>
<td>Total sales infrastructure costs</td>
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</tbody>
</table>

### Objective for brand owner
- Proof of concept
- Make it a business
- Generate cash or sell it

### Objective for distributor
- No distraction
- No inventory write-offs
- Option to sign a winner
- Manage conflicts
- Manage margins and generate cash
- Do not lose the brand

### Main distributor function
- “Order taking”
- Deliveries
- Customer service
- Programmed execution
  - Limited priorities
  - Target accounts
- Dedication
- Accountability

### Supplier sales support
- Brand owner/shared sales/dedicated sales
- Brand owner/shared sales/dedicated sales
- Brand owner/shared sales / dedicated sales

### Type of distributor
- All types, large, second tier, clearing
- All types, large, second tier, clearing
- Large supplier distributor

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**Sources:** Park Street Analyses, Interviews

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The relationship between suppliers and distributors changes with the generation of consumer pull.
“The route-to-market in a highly regulated red tape environment that demands three tiers”

“Vulnerable first tier Goliaths with David winning, not necessarily alone, but as a group”

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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

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

**Bundled/Agency**
- Full service national distributor

**Unbundled**
- Front office
- Back office

Sources: Park Street Analyses, Interviews
### Assessment of Traditional Route to Market Options: Integrated and Bundled Approaches

<table>
<thead>
<tr>
<th></th>
<th>Front-Office</th>
<th>Back-Office</th>
<th>Examples</th>
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<tbody>
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<td><strong>Integrated</strong></td>
<td>In-House</td>
<td>In-House</td>
<td></td>
<td>- Undivided attention of the sales force</td>
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<tr>
<td></td>
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<td>- Full control of the marketing funds</td>
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<td></td>
<td>- Need large volume to cover high fixed costs</td>
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<td></td>
<td></td>
<td></td>
<td>- Long ramp-up time</td>
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<td></td>
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<td></td>
<td></td>
<td>- Scope and scale issues (e.g., specialist know how, relationships)</td>
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<tr>
<td><strong>Bundled/Agency</strong></td>
<td></td>
<td></td>
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<td>- Possibly lower fixed cost but high variable costs due to mark-up</td>
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<td></td>
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<td>- One stop shop</td>
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<td></td>
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<td></td>
<td>- Scope and scale advantages</td>
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<td>- Possible additional layer of divided attention</td>
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<td>- Possible conflict of interest due to lack of independence</td>
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<td></td>
<td></td>
<td>- Risk of comingling of marketing funds</td>
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<td></td>
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<td></td>
<td>- Lack of control</td>
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</tbody>
</table>

Sources: Park Street Analyses, Interviews, Web Search
Agency Brand Model Will Need to be Adjusted to Become a Credible Alternative

- Agency set-ups have traditionally not worked for both parties. In times of limited programming slots at distributors, agency brands have typically lost out.
- Many of today’s medium sized suppliers left agency set-ups due to disappointing results.
- In order to make the model work, the participants have to apply a set of principles:
  - Independence or quasi-independence of the sales infrastructure with brand owners controlling the infrastructure in a JV type governance with full visibility and transparency for all participants.
  - 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.

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

- Non-Agency Brands, +24.8%
- Agency Brands, -14.6%

Sources: Beverage Information Group, Park Street Analyses
The Unbundled Approach Combines Above Fair of Attention and Economies of Scale

Unbundled Route to Market

- Producer
- Front-Office
  - Distributor/control state board
  - On and off premise retailers
  - Consumers
- Back-Office

Above fair share of attention
Economies of scale and scope

Sources: Park Street Analyses, Interviews
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) – individual sales person

<table>
<thead>
<tr>
<th>Number of brands</th>
<th>Costs per sales pitch per brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Many</td>
</tr>
</tbody>
</table>

Number of sales pitches per day per brand by salesperson

Sources: Europa, Park Street Analyses, Interviews
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**

Sources: Park Street Analyses, Interviews
### 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
  - Business intelligence

### 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.

---

**Chart:**

**Costs of back-office infrastructure**

- **Total costs**
- **Number of cases**

**Comparison:**

- **In-house back-office infrastructure**
- **Outsourced back-office infrastructure**
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

<table>
<thead>
<tr>
<th>Examples</th>
<th>Company</th>
<th>Front-Office</th>
<th>Back-Office</th>
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<td><img src="image" alt="ALIGNED BEVERAGE SOLUTIONS" /></td>
<td>park street</td>
</tr>
</tbody>
</table>

Sources: Park Street Analyses, Interviews
Discussion Topics

- “The route-to-market in a highly regulated red tape environment that demands three tiers”
- “Vulnerable first tier Goliaths with David winning, not necessarily alone, but as a group”
- “The second tier on a fast track to a duopoly with some alternative options for starters”
- “The higher the relevant differentiation and badge value for the brand, the easier the route to market battle”
- “The start close to home and a focus on a success blueprint that can be replicated in other markets”
- “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”
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)

- 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.

- 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)

- 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.

- 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).

- 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.

- 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.