



## IMPACT OF CONSOLIDATION

November 2005

All wholesalers should consider the impact of consolidation on their business!

The trend toward consolidation is again gaining momentum. Suppliers have entire departments devoted to reducing the number of wholesalers and accomplishing their consolidation objectives. Powerful retailers are attacking the three-tier business model with super-efficient warehousing and delivery systems. There is a need to take costs out of the distribution system and add value with larger, more sophisticated wholesalers.

Whether you want to stay the same, buy, sell, or merge businesses or brands we urge you to carefully explore your options. Like it or not, your business is only a small piece of a bigger puzzle. Unfortunately, the way others put the pieces of the puzzle together has a huge impact on everyone. IBG feels you can objectively evaluate where you “fit” into the picture and take control of your own destiny.

One of the first things everyone should do is determine the value of their business. The confusing part of this is that your business could have several values depending on your circumstances. Each market is unique and our experience and insight into the process can be extremely helpful. After several years of dealing with all forms of consolidation we have learned that beer wholesalers generally fall into one of these value categories. Remember, any business is only worth its ability to make money for you or someone else.

\* Stand Alone Value – An outside party (out of market) purchases your business. No synergies exist and the value is determined by the ability of the company to generate future cash flows.

\* Strategic, Contiguous or Horizontal Value – Some synergies can be expected when a wholesaler purchases his neighbor. It usually has some cost savings in G & A but not usually warehousing and delivery.

\* Synergistic or Vertical Value – One wholesaler buying another in the same market. Savings are created through closing of warehouse(s) and the reduced number of people and equipment needed. The seller should receive a premium price.

\* Brand or Break Up Value – Individual brands are purchased by more than one competitor sometimes resulting in increased value because the parts may be worth more than the whole.

Determining your true maximum value is difficult and getting top dollar is complicated and time consuming.

Timing is critical. When or if you allow your business to be put into the puzzle is one of the most difficult decisions a wholesaler will ever make. If you decide to stay the course you should know the risk of gaining or losing value. While the economics of this decision are important we realize that personal, family, and outside influences often dictate timing. The difference between the environment today and the past is the speed and unusual number of ways circumstances can change.

IBG is offering to assist you in carefully assessing your options In order to help you decide where you fit, what you are worth and when it's time to do something (or nothing). IBG is offering to visit your market, in person, at our expense. (This costs you nothing but your time). A candid, independent discussion can be extremely beneficial from an emotional and economic standpoint. Regardless of the brands you sell, you should consider our proposition.

This is the second time we have volunteered this free service and the many wholesalers that took us up on our past offer were extremely pleased with the results. With our experience, knowledge, and proven track record we can work with you to determine how consolidation will likely impact you and your market in the next few years. Meeting with IBG to discuss consolidation is not a violation of any suppliers' contract. Strict confidentiality will be maintained at all times.

The pressure to take cost out of the beer distribution system will intensify. There is too much money on the table for Wal-Mart/Costco or suppliers to back off. Millions of dollars and thousands of jobs are at stake and making the right decisions at the right time will be easier if you are prepared. An independent look at your specific situation can only help make reality more clear. When wholesalers do not understand their options, outside forces can dictate the course of events. This can be avoided. We are ready to travel and look forward to spending a couple of hours with you.

IBG is totally committed to the success and viability of the three-tier system. We believe suppliers and wholesalers have earned the right to be treated with respect and compensated fairly.