



August 2009

The purpose of this “Summer Situation Paper” is to lay out IBG’s view of a few of the influences wholesalers often face when considering whether to buy/sell/merge or stay the same. Let’s start by saying we believe most of the easy consolidation is done. Moving forward we expect all transactions to involve more people with different agendas thus making every situation more complicated. The remaining distributors are the ones who didn’t want to get out. They have endured the pain and resisted the pleasure.

We accurately predicted the slow down of consolidation. We stated there was a “Value Bubble” and there was. We said money would be harder to get and it is. IBG’s extensive beer experience and ability to recognize emerging trends has paid off tremendously for our clients during these difficult times.

1. Family circumstances - If you have talented, dedicated, capable family members who wish to work and make a career of the beverage industry you may chose to invest to accommodate them. IBG completely understands and strongly supports families that wish to continue long standing traditions. But, always remember that the business they will be managing will be very different from the one you succeeded with. They will most likely be asked to acquire brands, buy other wholesalers, and operate more efficiently with less profit per case.
2. Supplier relationships – It helps to have cooperative relationships with suppliers. IBG’s experience is that in some cases friendships can be as important as performance. We are not saying that relationships rule the day but we do believe they can give you a second swing at important issues. Ultimately the vast majority of suppliers will do what they perceive to be in their best interest with very little regard for good or bad relationships. It is simply less personal for suppliers.
3. Profitability – IBG sees a lot of financial reports and what we see is bothersome. The reasons vary widely by market but right now profits are solid but slipping. Our view is that it will be difficult for wholesales to equal the past 5 years in terms of profit performance. We can not cut cost and raise prices forever. We do not see the imports improving, consumers trading up or suppliers reducing their effort to get distributors money.
4. Duopoly Consolidation

- (A) ABI – There has been a lot of conversation about how ABI will approach consolidating their distribution system. While they have consistently stated they favor consolidation they have so far have been willing to let distributors control the pace. We do not see ABI getting extremely aggressive in buying branches. IBG does believe they will begin putting downward pressure on distributor’s profits. This will improve ABI’s profitability and speed up consolidation. It makes economic sense for them to (1) expand their branches with contiguous market acquisitions, (2) eliminate underperforming branches, (3) let small or underperforming distributors quietly know they want them to sell, (4) take any deal they like for themselves in the approval process. We do not see any grand scheme for ABI to massively buy distributors. We see an accelerated but not hectic process.
- (B) MC – We see MC continuing to push consolidation but less visibly. While they have received a somewhat negative reaction to their aggressive approach to consolidation they are not pulling back. MC is pushing to get one distributor per market and consolidate their allied brands. Where there are 2 distributors in one market there are often sales and marketing problems. These will only get worse over time.

IBG tries to be a leader in the process of consolidation. We do not sit on the sideline; we actively participate in the debate. Anyone can discuss the past but it takes leadership to look forward and succeed. We hope the brief discussion above helps. Our goal is to help everyone be better informed so you can make the difficult decisions that best suits your business and the brands you represent.

Below are our recent closings. Our success speaks for itself. If you want to discuss IBG’s performance with any of our customers feel free to contact us and we will put you in contact with them.

Finley, OH	Jacksonville, NC	York, PA	Seattle, WA
Stockton, CA	San Jose, CA	Tewksbury, MA	Anchorage, AK
Napa, CA	Altus, OK	San Bernardino, CA	Greenville, SC
Romulus, MI	Sioux Falls, SC	St. Peters, MO	Jackson, WY
Chattanooga, TN	Sacramento, CA	Torrington, CT	

*5 ABI – 13 MC

Visit our web site at independentbeveragegroup.com or you may contact us if you are considering buying/selling/merging at the following:

Joe Thompson (Hilton Head)
Office: 843-681-6333
Cell: 843-384-0828
Email: ibg@hargray.com

Todd Arnold (Denver)
Office: 303-410-7748
Cell: 719-331-9517
Email: toddarnold88@msn.com

Gary Styles (Sacramento)
Office: 916-791-3505

Jeanette Foley – Corporate Office
(Fayetteville)

Cell: 916-801-9898
Email: gstyles1@me.com

Office: 770-487-0277 or 888-354-0066
Email: ibg@hargray.com