

INDEPENDENT BEVERAGE GROUP – Joe Thompson 843-384-0828



**Investing
in
Performance**

www.independentbeveragegroup.com





***“Amazon’s goal is to take a cut of all economic activity.” – Ben Thompson
Stratechery.com, Monday, June 19, 2017***

Amazon is changing the way consumers shop

- Dominate with “Superior cost and superior selection”
- Amazon Prime – “Free” shipping
- Over 50% of all online shopping
- Whole Foods – Distribution points
- Airbnb - hotels
- Uber – cabs
- iTunes - music
- Internet Libraries – law firms
- Starbucks pre-order “Skip the line”

amazon





Forbes 2017 World's Biggest Retailers:

- #1 Walmart
- #2 CVS
- #3 Amazon
- #6 Alibaba (only foreign)
- #9 Target

Walmart – it takes seconds for them to tell which field a slice of mango came from in South Africa

- Walmart and other retailers
 - Order online and pick up at curb
 - Employee delivery
 - 1.5M employees
 - 90% of US population lives within 10 miles of a store



Drone Delivery:

China – reduce delivery cost 70%
currently has a drone that can carry 2000 LBS

Norway – ship to dock drones will cost \$150 per deployment vs. \$1500 for small vessels (uasmagazine.com May 24, 2017)

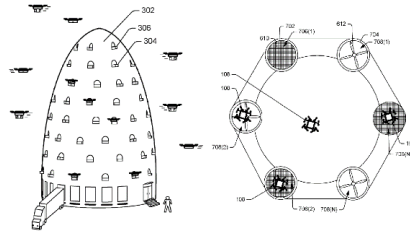
Amazon Patents shipping label with built in parachute for drone deliveries (money.cnn.com May 31, 2017) where they would drop the delivery, not land the drone

86% Drop size 5LBS <

UPS makes 120 stops/day per delivery truck

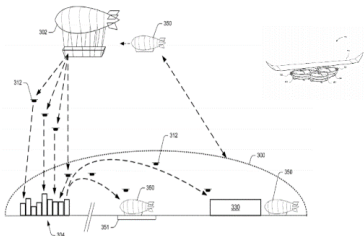


Beehive Warehouses

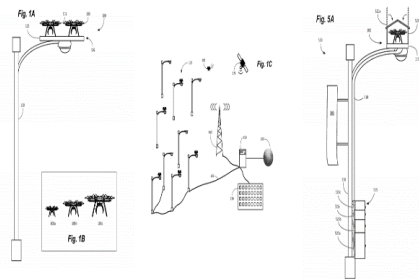


Amazon Patents:

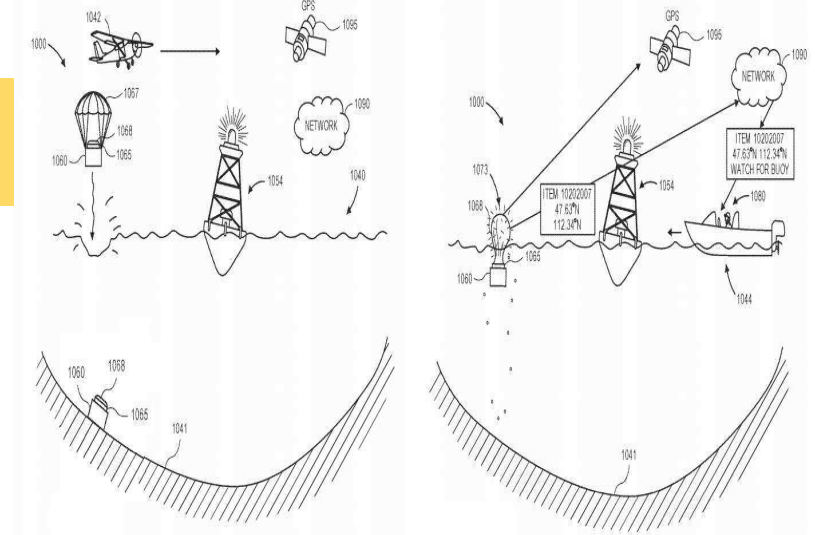
Airborne Fulfillment Centers



Multi-use unmanned aerial vehicle docking station



Underwater storage and retrieval – “Bladder” attached to container would expand to raise the package.



PACKAGE DROP & STORAGE

*Image labels provided by CB Insights

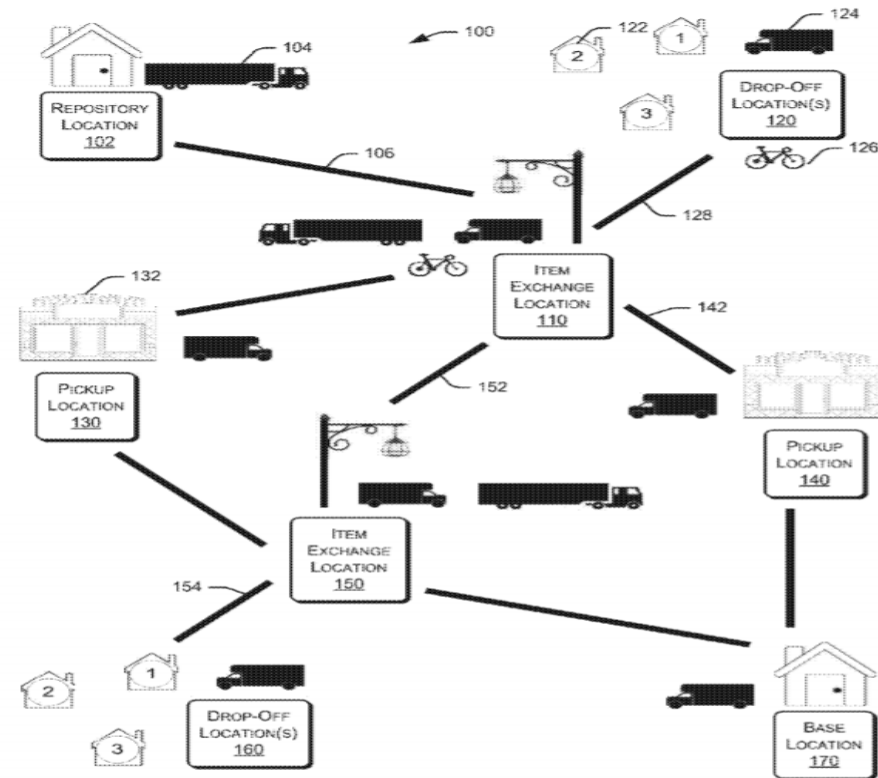
PACKAGE RETRIEVAL

Transient Warehouses

Amazon Patents:

Specifically set up to address issues in the last mile of delivery, a transient warehouse can be established that allows a wide variety of transport vehicles to access items from a more convenient location than a brick-and-mortar location. The transient warehouse can be established in a parking lot or on the side of the road, so that other transport vehicles can access the transient warehouse quickly and deliver items to item requesters more efficiently from a centralized location. The transport vehicles can also pick up items from item providers to replenish items for the transient warehouse, the transient warehouse can access items from a brick-and-mortar location, and/or the transport vehicles can travel to multiple item requesters through optimized transport routes. The meeting location of the transient warehouse may also be optimized based on various constraints (e.g., time of day, seasonality concerns, etc.).

~<http://www.freepatentsonline.com/y2015/0269520.html>



Robot Delivery

- Estonia and London – delivery robots on already on sidewalks!
- Virginia and Idaho have authorized
- San Francisco proposal to make illegal
- Friction with low income employers





SURGE PRICING:

Trading Period	6	KALAMAZOO BEER EXCHANGE		03:36
Bells Two Hearted	\$2.75 ▼	Fuller ESB	\$3.75 ▼	
Dark Horse Rasp Ale	\$2.75 ▼	Dogfish Head 60 MIN	\$3.25 ▼	
Arcadia Hopmouth	\$3.25 ▼	Left Hand Nitro Milk Stout	\$3.50 ▼	
Anchor Steam	\$2.75 ▼	Smithwick	\$2.50 nc	
Michelob Ultra	\$2.00 ▼	New Holland Cabin Fever	\$3.25 ▼	
Ace Pear	\$3.50 ▼	Founders Dirty Bastard	\$3.25 ▼	
Livery Steep Canyon	\$3.25 ▼	Ommegang Abbey	\$3.75 nc	
Berry Weisse	\$2.25 ▼	Rolling Rock	\$1.50 ▼	
Brooklyn Winter Ale	\$2.75 ▼	Lagunitas Sumpin	\$2.75 ▼	
Magic Hat Wacko	\$1.50 ▼	Labatt	\$1.75 ▼	
Tucher Hefe	\$3.50 ▼	McSorleys Black Lager	\$2.00 ▼	
Stella Artois	\$3.75 ▼	Pere Jacques	\$3.50 nc	
Shorts Black Cherry	\$2.25 ▼	Coors Light	\$1.75 ▼	
Lion Stout	\$2.50 ▼	Bud Light	\$1.75 ▼	
<small> Bell's Two Hearted \$2.75 ▼1.25 Fuller ESB \$3.75 ▼0.75 Dark Horse Rasp Ale \$2.75 ▼1.25 Dogfish Head 60 MIN \$3.25 ▼0.75 Arcadia Hopmouth \$3.25 ▼1.25 Left Hand Nitro Milk Stout \$3.50 ▼1.75 Anchor Steam \$2.75 ▼1.25 Smithwick \$2.50 ▼0.75 New Holland Cabin Fever \$3.25 ▼0.75 Founders Dirty Bastard \$3.25 ▼0.75 Ommegang Abbey \$3.75 nc Rolling Rock \$1.50 ▼0.50 Lagunitas Sumpin \$2.75 ▼0.75 Labatt \$1.75 ▼0.75 McSorleys Black Lager \$2.00 ▼0.50 Pere Jacques \$3.50 nc Coors Light \$1.75 ▼0.75 Bud Light \$1.75 ▼0.75 </small>				

Kalamazoo Beer Exchange in Kalamazoo, MI

"...the drinks are the stocks and demand drives the prices (Patrons hope for a market crash) as more patrons select a particular beer, the price for that specific beer goes up. There is a stock market type board for patrons to see the current price of their chosen drink. "

A Bell's Oberon will start at \$4.50, but can max out at \$5 if there is heavy demand, Flora said. The staff can choose when to "crash the market," bringing every beer on the menu to its absolute lowest price for five minutes. That's \$2.50 for an Oberon or \$1.50 for a Miller High Life, Flora said." The Tennessean 9/20/16

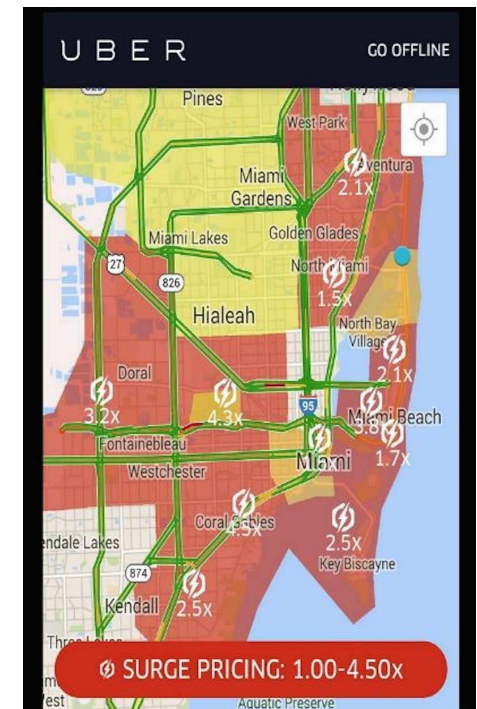
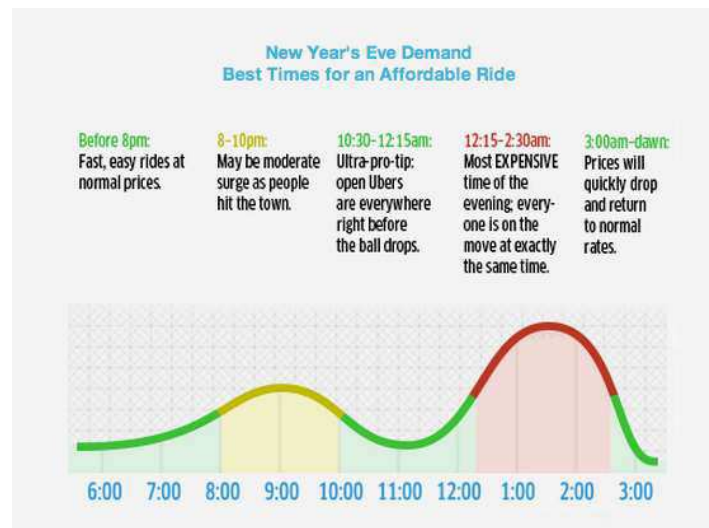




sURGE PRICING:

What if a brewery based FOB's on their production runs?

On Consumer Demand?



Self – driving (autonomous) trucks

Einride (pictured) – Tpod
electric hybrid
124 miles on 1 charge
15 Pallets
On Highway self driving – on certain roads remotely driven
By 2020 2 million pallets per year to 2 cities with 200 trucks
Otto Motors, Ft. Collins, CO



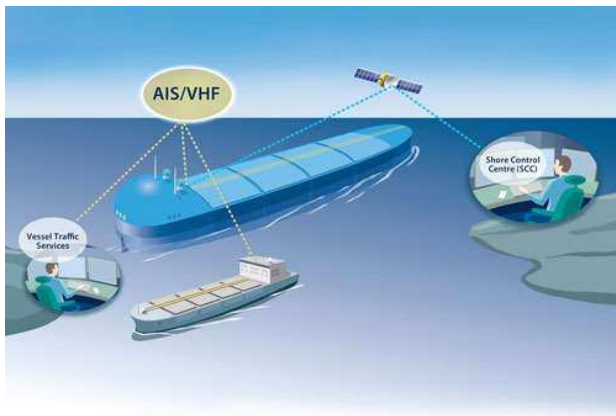
“Longest continuous journey by a driverless and autonomous lorry.”
51,744 cans of beer through downtown Denver, approx 132 miles
26 October, 2016

Otto Motors was acquired by Uber

1 June, 2017 Colorado passes law to regulate driverless vehicles - the 17th state to pass legislation
Driverless cars are being tested on California, Arizona, and Michigan roads

Self – driving (autonomous) other

Waymo, Uber, Daimler-Mercedes
developing self navigating and remote controlled ships
developing massive drones



Augmented reality: shopping



Radio-Frequency identification

slow to develop/replace bar codes
but gaining steam



Autonomous Retrieval Systems:

- Quickly retrieves items from large inventory systems
- “Chloe” at Best Buy
- Amazon in Modesto, CA uses a system like this
- University Libraries





Concerns:

- Puts low income people out of work
- Our education system comes back to hurt us - need to train people to use the technology
- Wind, collisions, and people destroying
- Older (over 35) generation ability and desire to adapt to change

Marijuana:

- Hurts discretionary income of lower income consumers
- Heavy beer drinkers consume a disproportionate amount of industry volume
- Current Federal administration is for legalizing marijuana and is spending funds on research for the efficacy of medical marijuana.
- 2016 – Legal Cannabis was a \$7B industry in the US Alone, it is expected to grow to \$20B by 2020





Distributor Performance

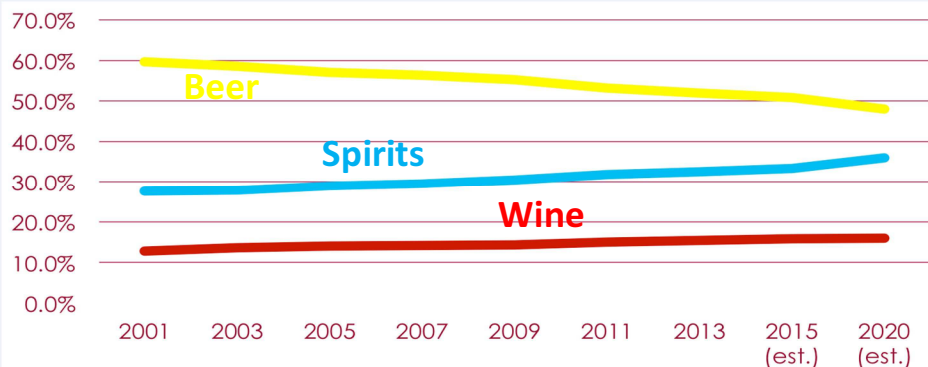




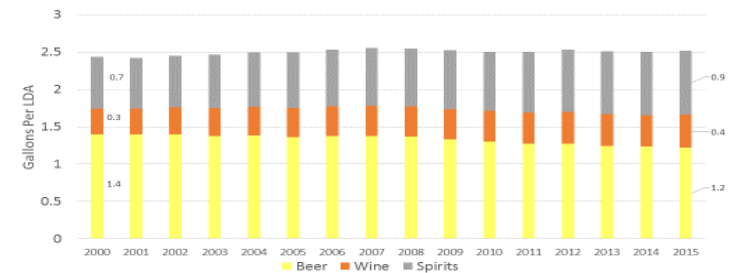
Myths of Distributor Performance

- It's a distributors' job to get the product on the shelf, but it's the brewers job to get it off the shelf!
- A distributor cannot significantly influence a consumers' purchase decision.
- There is not much a distributor can do in chain stores because ultimately everything is set at headquarters.
- The beer distribution business is, and always will be, a fun and profitable business!

% Absolute Alcohol



Competition for Drinking Occasions
Total U.S. Ethanol Per Capita



Source: Compiled by NBWA from Beer Institute, Discus and BIG, 2016





Experience tells me!

- The three tier system, at its very best, is the most efficient and effective push/pull system for beverage brand building
- If a brand is in the “acceptable” set of brands with a consumer, **then**
 - Consumers make 50-70% of their purchase decision in the retail account
 - The “acceptable” set of brands is unique to every market with today’s consumers
 - Factors that influence consumers purchase decision – occasions, events, economic situation at the time, etc.
 - In-Outlet factors that influence the consumer purchase decision – eye level, price, display, handle not hinge, POS, music, sampling (sight, sound, smell, taste, touch)
 - Retailization™ the In-Outlet marketing of a consumer product
- Over a 5 year period, a “very good” distributor can out-perform an under-performing distributor by an average of 2-4% per year





Sample Beer Distributor with Synergies – it pays to *perform*

Before change:

Add: \$600k increase to sales/mkt per year
Volume increase 2%

Assumptions:

Volume:	2M cases
Total expense/sales	22%
Future volume increase	0%
Future price increase	2.6%
Future expense increase	3.0%
Gross Profit:	\$11,560,000
Multiplier:	3.85

Assumptions:

Volume:	2M +2%
Total expense/sales	23%
Future volume increase	2%
Future price increase	2.6%
Future expense increase	3.0%
Gross Profit:	\$12,763,171
Multiplier	3.85

Sales Price Distribution Rights: \$44,506,000

Sales Price Distribution Rights: \$49,138,208

\$4.6M increase in Sales Price Distribution Rights in today's dollars

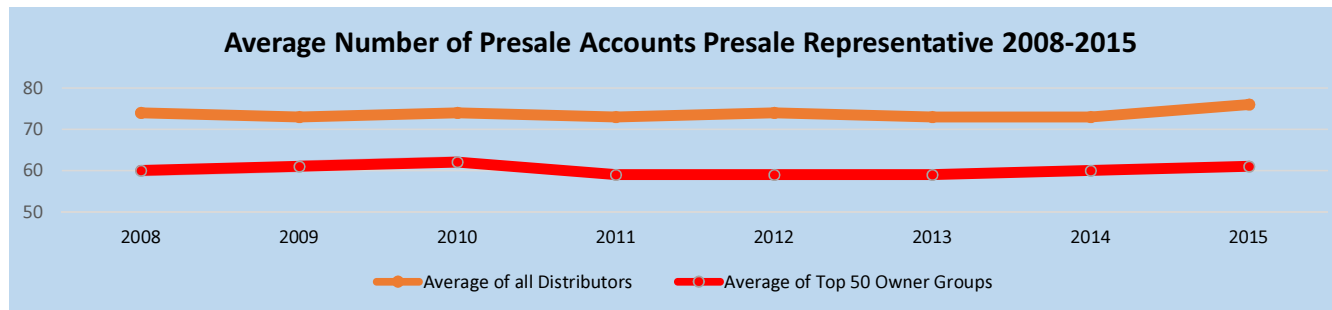




What does a “Good Distributor” look like?

Under-performing distributors are like porn “You know it when you see it!”

1. Selling structure that provides **time** for **selling** and **marketing**
 - a) Extremely talented, trained, compensated, and highly motivated people in your best accounts
 - b) Emphasis on the “pull” responsibility of everyone in the organization
 - i. Push mentality is no longer sufficient to succeed
 - ii. Expect brand loyalty from all of your employees
 - iii. There are several ways to get sales people more time to sell





What does a “Good Distributor” look like?

2. Support teams to facilitate execution, efficiency, and brand building
3. Accounts segmented to a finite level, no more “One Size Fits All” mentality
 - a) Demographics detailed by zip code for your footprint
 - b) Match your sales, marketing and personnel with demographics
 - c) Extremely low volume accounts can receive fewer deliveries
 - i. Minimum drops with mid-management having the ability to override
 - ii. Very professional inside selling team



More of what a “Good Distributor” looks like?

4. Email address of every “legal drinking age” consumer in your footprint and communicating frequently
5. Ability for your retailers to order by email, text, social media, twitter, phone, etc. (EDI)
6. Time on Task – still a personal services contract
 - a) Civic participation
 - b) Calling on accounts, including chain calls
 - c) Political involvement, Local, State and National participation
 - d) Letter to retailers with owners’ contact information



Scale Matters – Today's Math

Average cost as a % of sales today is 18%

- Sales 6%
- Warehouse 4-5%
- Delivery 6-7%
- Admin 2-4%

High Scale Distributors 14-16%

Low Scale Distributors 19-22%



Conclusion

Delivery Methods will continue to evolve and become more autonomous

Warehousing methods are changing rapidly

Drones, robots, remote control

Last Mile Delivery – will face many hurdles

Surge Pricing will show up in more environments

ABI/MC – Will focus on paying down debt

Not likely to grow volume

Raising prices with more aggressive discounting

Crown is KING

Craft, Imports, FMB's, Cider – Consolidation already picking up the pace

Many different types of buy/sell/merge transactions

Volume will grow single digit because of local brewery trends

Pricing will be an issue due to overcapacity

Distributor consolidation will continue to gain momentum

“Mega” Distributors will grow through acquisition

Rising interest rates will put pressure on selling prices of distributors

Performance will improve

More competition from “other distributors”

Portfolios and demographics will become more important

Brewers and Distributors need to focus on taking consumers away from spirits



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