



# *Investing in Performance*

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## Outline:

- Industry
- What Has Consolidation Accomplished?
- Distributor Performance
- Conclusion

# *Industry*



## 2016 3-Tier Growth Strategies - Disconnect

Courtesy Bump Williams and Associates

### BREWER

1. Share of Mind
2. Expand Footprint
3. Brew Pubs
4. Direct to Consumer
5. Innovation
6. Seasonal Focus
7. IPA Flavors
8. Highest Bidders
9. Scorecards
10. Become Local

### DISTRIBUTOR

1. Delivery Efficiencies
2. Pick Up New Brands
3. Eliminate OLD Beer Losses
4. Identify Profitable Brands
5. Reduce SKU's in Portfolio
6. Reduce Headcount
7. Accountability
8. Cut Loose Brewers
9. Craft Spirits
10. "Feed Hot Hand"

### RETAILER

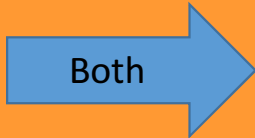
1. Foot Traffic
2. Space Mgmt.
3. Shopper Loyalty
4. Cross-Category
5. New Shoppers
6. Squeeze Margins
7. Cut Slow Movers
8. Variety
9. LOCAL, Flavors
10. High-End Focus

**Leading Brewers**

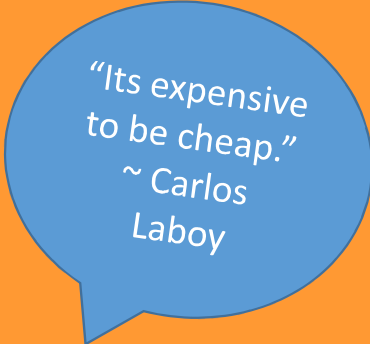
Reducing Cost  
Raising Prices  
Less Effective Sales & Marketing  
Losing Consumers

**Mega Distributors**

Reducing Cost  
Raising Prices  
Less Effective Sales Marketing  
Losing Consumers



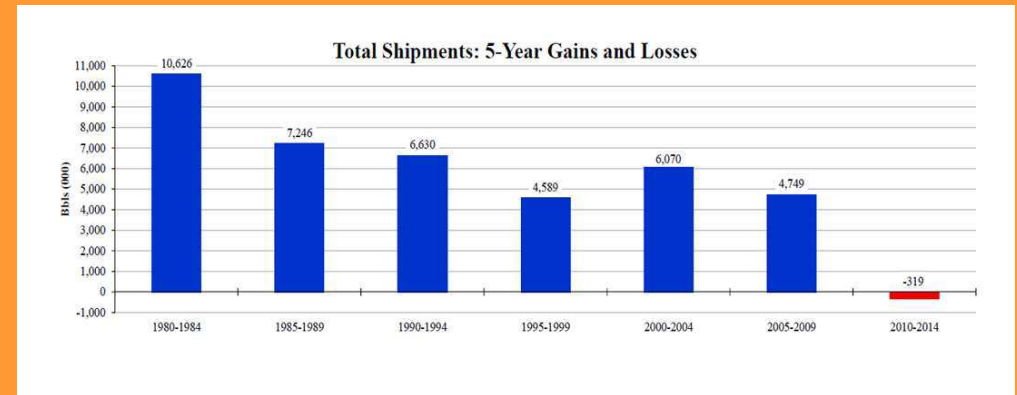
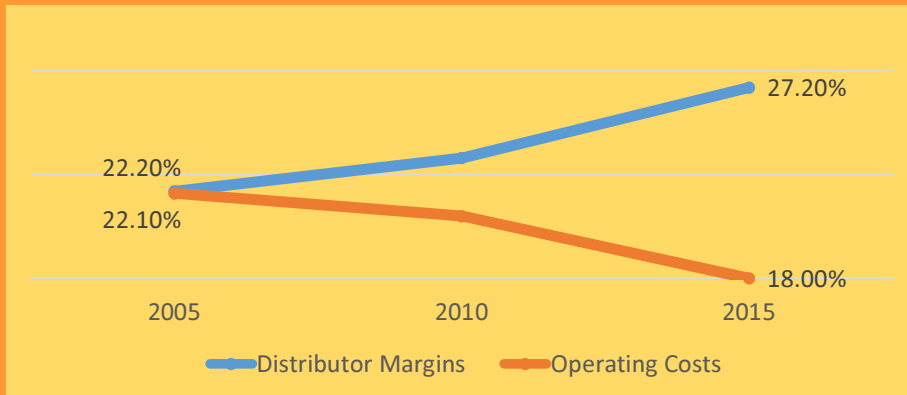
**More Profit**  
**Eroding Equity Value of Brands**  
**Less Effective Sales & Marketing**  
**Losing Consumers**



**How long can we sustain this?**



## Distributor % Margin and Operating Costs as a % of Sales and Volumes



## MC/ABI Revenues v Volumes 2009-2016

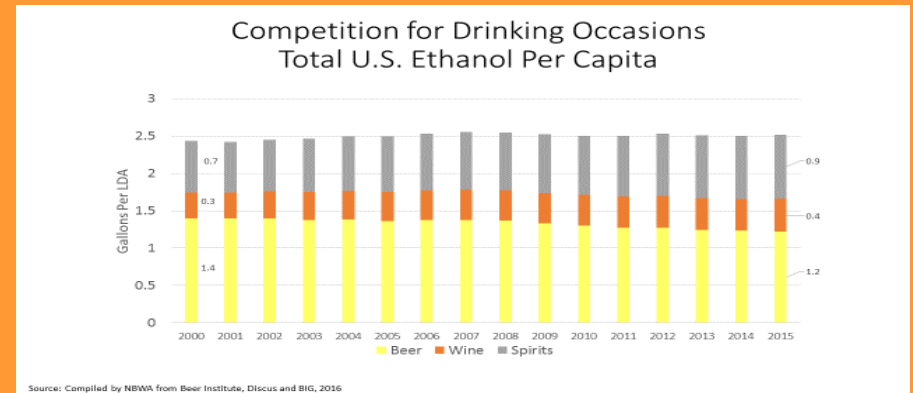
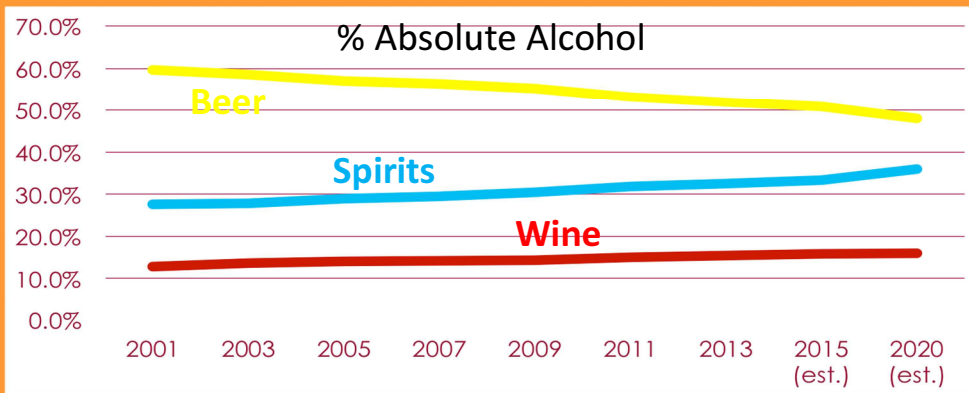
	2009	2010	2011	2012	2013	2014	2015	2016E
MillerCoors								
Volume	81.085	78.82	76.65	76.30	74.27	72.67	70.60	69.35
Revenue	7574.3	7,571	7,550	7,761	7,801	7,848	7,726	7,672
COGS	4720.9	4,686	4,648	4,690	4,724	4,744	4,548	4,394
MG&A	1937.9	1,775	1,769	1,829	1,770	1,756	1,829	1,835
EBIT	915.5	1,112	1,135	1,243	1,308	1,352	1,353	1,424
EBIT/hl	11.29	14.10	14.81	16.29	17.61	18.61	19.17	20.53

	2009	2010	2011	2012	2013	2014	2015	2016E
ABI (US)								
Volume	123.04	118.24	114.76	115.78	112.98	111.63	108.45	107.07
Revenue	13,524	13,229	13,173	13,822	13,908	14,103	13,867	13,835
COGS	6,860	6,295	6,090	6,009	5,902	5,792	5,575	5,276
SG&A	2,472	2,195	2,208	2,827	2,937	3,228	3,474	3,667
EBIT	4,244	4,799	4,923	5,039	5,134	5,383	4,867	4,953
EBIT/hl	34.49	40.59	42.90	43.53	45.44	48.22	44.88	46.27

Source: Robert Ottenstein, Evercore ISI



## Absolute Alcohol Changes & Occasions



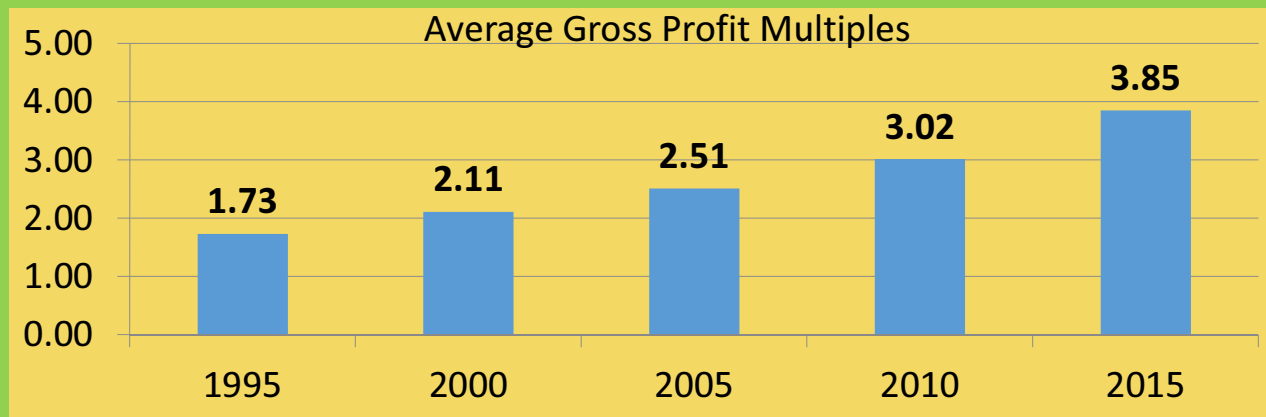


# *Consolidation*



## What has Consolidation accomplished?

Given Sellers an economic reason and process to exit



Every transaction is unique.

## What has Consolidation accomplished?



### Early Stages of consolidation:

- Past – it was a way of life
  - Reduced the emotional attachments
- 1+1=3
  - Industry learned the math of synergies
- Pain/Pleasure concept
  - Sellers often need both
  - Buyers were sold on sharing synergies

## What has Consolidation accomplished?

Taken cost out of the distribution system

Savings (rule of thumb)

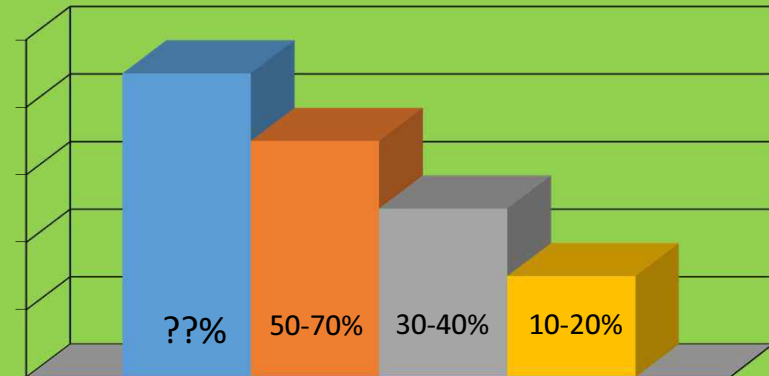
Vertical consolidation – 50-70% selling distributors operating cost to buyer as savings

Horizontal consolidation – 30-40%

Non-Contiguous – 10-20%

**Higher costs  
savings  
leads to higher  
value**

“Each  
transaction is  
unique”  
~ Joe



■ Brand Consolidation  
■ Horizontal Consolidation

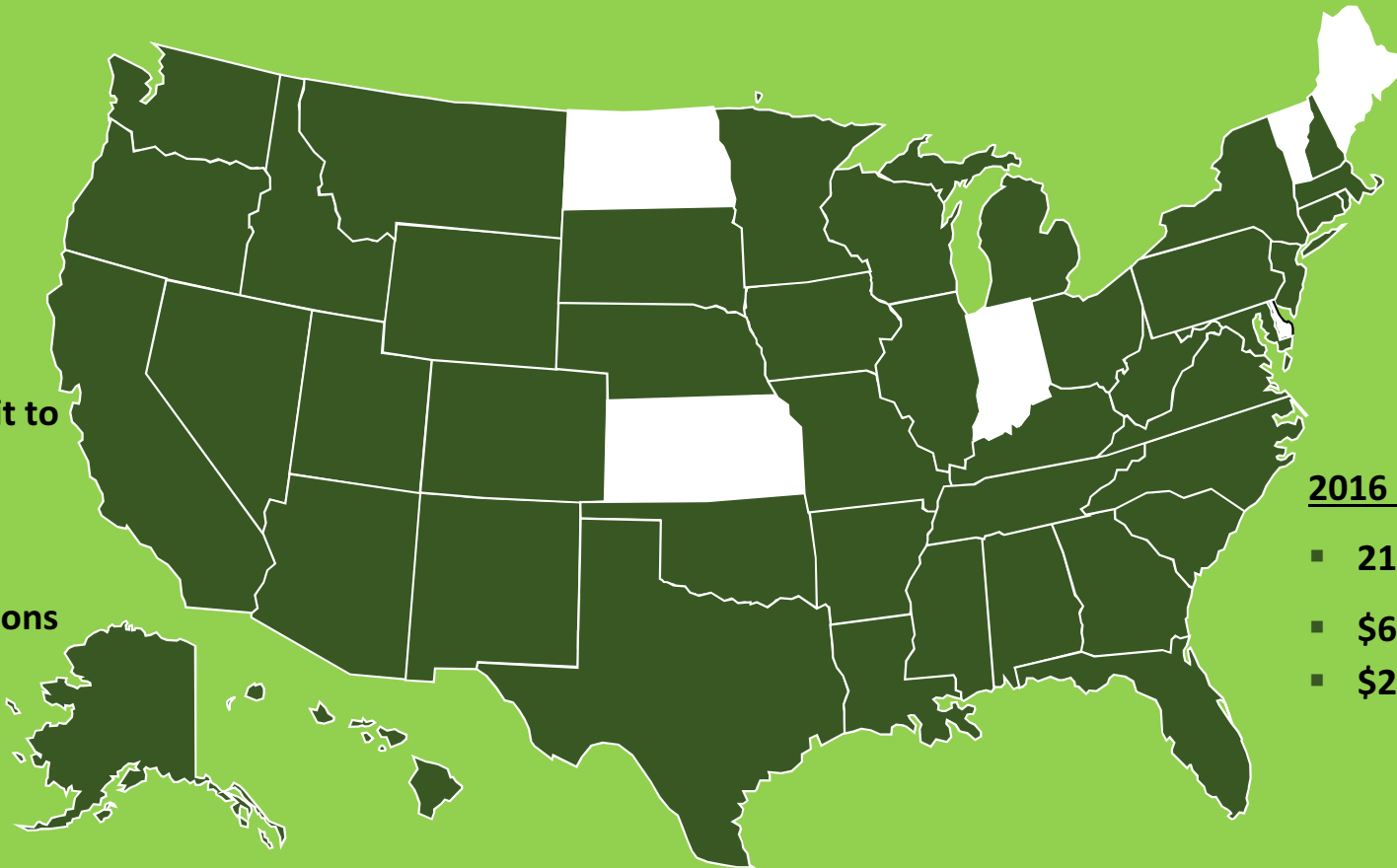
■ Vertical Consolidation  
■ Non-Contiguous

IBG History

\$1 Billion in cost removed from Distribution System

\$500 Million in incremental profit to the distribution system

- 160+ transactions
- 30 years



2016 results:

- 21MCE consolidated
- \$60M cost take out
- \$25M incremental profit



## What has Consolidation done?

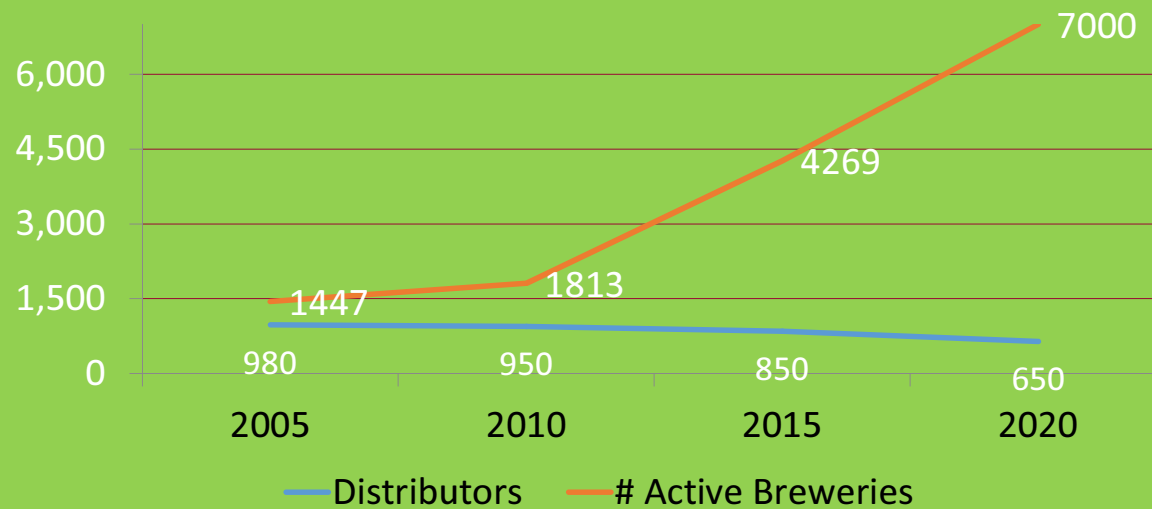
### Created “Mega Distributor”

- More sophisticated management
- Improved logistics
- Vastly improved technology
  - Able to handle more brands and categories
- Changed leverage with suppliers
  - Created duopoly in many markets
- Higher gross profit
- Increased Financial resources
- MC combination reduced/eliminated the AB distribution systems execution advantage

### Competitive Shifts 1996-2016

		1996		
Location	AB	Miller	Coors	Others
AZ	57.9	17.1	13.1	11.9
GA	54.0	22.6	6.1	17.2
FL	54.7	21.7	5.0	18.6
NM	52.1	13.2	17.7	16.8
		2016		
Location	AB	MillerCoors		Others
AZ	50.0	48.0		2.0
GA	50.0	48.0		2.0
FL	53.0	46.0		1.0
NM	45.0	55.0		0.0

## What has Consolidation accomplished?



### 2020 Forecast:

- 650 MC/ABI distributors will do 85% of the industry volume
- MEGA: 50% - 200
- Traditional: 35% - 450
- Other: 15% - 1000-2500
  - Self distribution, soft drink, w/s, specialty

Craft Brewers gaining influence

# *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!

## Experience tells me!

- The three tier system can be a very efficient, 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 outperform an underperforming distributor by an average of 2-4% per year

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

Before change:

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

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

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**

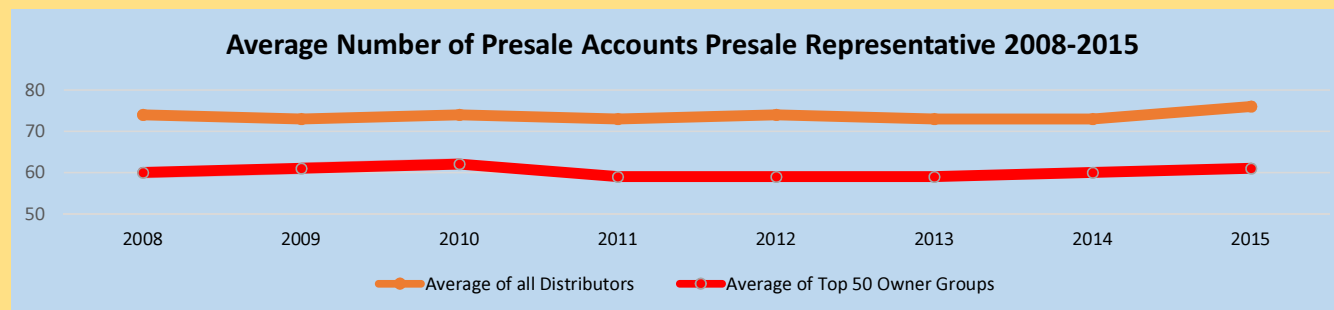
***\$4.6M increase in Sales Price Distribution Rights in today's dollars***



## 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 – how much time does the owner spend actually at work?
  - 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*





## Conclusion

ABI/MC – Will focus on paying down debt

Not likely to grow volume

More aggressive discounting

Craft, Imports, FMB's, Cider – Consolidation to pick up the pace

Many different types of buy/sell/merge transactions

Volume will grow single digit

Pricing will be an issue

Distributors will continue to consolidate at historical pace

“Mega” Distributors will grow

Rising interest rates will put pressure on selling prices of distributors

Performance will improve

More competition from “other distributors”

Beer Business Daily Jan 26, 2017

Portfolios and demographics will become more important (Crown is King)

Brewers and Distributors will begin to focus on taking consumers away from spirits

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