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Special Report

U.S. Beer Wholesalers Take On Array Of New Trade Channels

AS U.S. RETAIL CHANNELS CONTINUE TO blur, beer is being offered in a wider array of outlets than ever before. Beer marketers and retailers welcome the opportunity that the widening availability of malt beverage sales brings, but for beer wholesalers, any benefit could be years down the road.

Among the emerging retail accounts for beer are dollar stores, fast-casual and fast-food restaurants, as well as movie theaters. Even the Bed, Bath & Beyond home goods chain is exploring the sale of beer and wine. Added to the thousands of Walgreens drug stores that have introduced beer to their

offerings, the ranks of malt beverage retailers have increased exponentially in recent years. These non-traditional beer retailers "see beer as a good way to satisfy the shopping needs of their core consumers," says Bump Williams, CEO and president, Bump Williams Consulting, which works with alcoholic beverage suppliers, distributors and retailers. "With the way the economy is, they're looking to persuade their shoppers to spend more money in their stores, as they save themselves a trip to another store."

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Exclusive: "Blue Chip Brands"

Industry's Stars Carve Out Big Gains

IMPACT'S "BLUE CHIP BRANDS" ARE, IN SHORT, THE DRINKS BUSINESS'S BIGGEST STARS. While the vast majority of spirits, wine and beer brands come and go at a rapid pace, the 51 entries on the latest edition of the Blue Chip roster have combined enviable stability with impressive growth. Each of the honorees has risen steadily since the start of the new millennium (at least 10 consecutive years of volume growth or an average annual compound growth rate of at least 1% from 2001-2011 while achieving increases in at least eight of those 10 years) while also generating big returns for its owners and marketers (all Blue Chip Brands had gross margins of at least \$25 million in 2011). Amid the myriad flashes in the pan that faded as quickly as they burst upon the scene, IMPACT's Blue Chip Brands have proven over the past decade that they're here to stay. As impressive as they've been, many appear to have their best days ahead of them.

Spirits List Expands To 23

The list of spirits that achieved Blue Chip honors has picked up the pace—while two brands departed, five more entered its ranks. And four of those are from the vodka category, which continues to show its staying power. Vodka dominates the list, representing some of spirits'

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Prevalence Of New Trade Channels Generates Hurdles, Opportunities For U.S. Beer Wholesalers

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Discount or dollar stores have been among the most aggressive new retailers seeking permits to sell beer in recent years. Dollar General Corp., the rapidly expanding operator of some 10,200 stores in 40 states, has been receiving and petitioning for beer permits in numerous markets. Based in Goodlettsville, Tennessee, Dollar General—which declined comment—has more retail locations in the U.S. than any other retailer, and earlier this year, opened its first store in California. The company plans to open some 625 new stores this year alone, located in suburban, rural and metropolitan communities. Another dollar-store concept, Matthews, North Carolina-based Family Dollar—with more than 7,200 locations in rural and urban settings across 45 states—has also taken on beer, and has plans to open up to 500 new stores in its current fiscal year.

On the on-premise side of the business, fast-casual and even quick-service restaurants have begun to explore the sale of beer and wine. In addition to the much heralded testing of beer and wine at Starbucks, fast-food concepts like Burger King, Sonic Drive-In and White Castle are experimenting with beer, while expanding chains like Chipotle Mexican Grill, Noodles & Co. and Baja Fresh have featured beer for some time. Newly emerging fast-casual chains such as Smash-burger and Shake Shack offer beer whenever possible.

Volume Small at Dollar Stores

Despite the vast number of outlets in operation, dollar stores aren't yet accounting for big volume beer sales. Generally, selection at the stores is comprised of mainstream domestic brews, in a range of package sizes, including single bottles, six-packs, 12-packs, suitcases and 30-packs. Williams says that the chains buy from distributors for quantity discounts and offer low prices to consumers. In Florida—one of the markets where Dollar General has been actively pursuing beer licenses—the chain and others within the channel are “very low-volume accounts,” reports Frank Schwiep, CEO at Gold Coast Beverage Distributors in Florida, which represents MillerCoors and numerous importers and craft beer marketers.

According to Tom Fox, partner, CM Profit Group, a Detroit-based beer sales and marketing development firm, leading beer marketers have become enthralled with the dollar-store channel even though malt beverage sales there remain modest. “Suppliers are driving the charge [behind dollar stores] to the dismay of many distributors,” Fox remarks.

Indeed, executives at both Anheuser-Busch and MillerCoors confirm that the channel has become an important one.

“The expansion into the drug and dollar channels has proven to be very beneficial to brewers, including A-B,” says Chris Williams, vice president of national retail sales at Anheuser-Busch. “Not only has new distribution yielded more dollars, it has grown awareness around our products.” Kevin Doyle, chief customer officer at MillerCoors, says, “Dollar stores and other emerging retailers are an increasingly important part of the beer retail environment and we expect this trend to continue. We are working hard to bring these retailers business solutions that will help drive the size and value of their beer categories.”

The emphasis by suppliers on the emerging channel, coupled with the still small volume sales, has proven to be a challenge for some distributors. “Wholesalers are not embracing [dollar stores at this point],” concedes Bump Williams. “From a dollar and cents standpoint, these are still small drops,” the consultant explains, adding that, in light of continuing consolidation among beer wholesalers, most distributors are now concerned with “how can I make larger drops?” Fox agrees that a financial incentive remains lost in the mix, saying that so far, beer wholesalers are finding that “gross profit by stop” at dollar stores is not measuring up to that of other trade channels.

In an effort to service dollar-store accounts as economically as possible, Fox reports that distributors often will employ inside or “tell-sell” sales efforts. Bump Williams remarks that wholesalers may also have certain requirements in place for dollar stores, where legal, such as minimum purchase and day-of-delivery thresholds. Generally, however, he believes that most beer wholesalers take the position that “if there is a customer who wants beer, they'll get it to him.”

Beer distributors and industry observers say that to date wholesalers have generally not made big capital investments to service the dollar-store channel. While Schwiep from Gold Coast reports that the entry of dollar stores as customers in south Florida coincided with a realignment of his company's sales operations and was easily enough accommodated, he notes that other distributors have developed exclusive routes for the trade channel. “We're working closely with MillerCoors on emerging accounts” to ensure that they are properly serviced and economically viable, Schwiep says. “There is opportunity, but the challenge is that right now they represent very low volume per account. We're trying to figure out how we can service them now while looking toward the future and any long-term distribution needs that they may require.”

Full page ad

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WHILE BEER SALES AT DOLLAR STORES ARE NOW A SMALL PART OF THE BUSINESS, SOME WHOLESALERS BELIEVE THE CHANNEL HAS HUGE POTENTIAL.

Looking to the Future

Indeed, Fox says beer wholesalers should consider the future opportunity that dollar stores provide rather than current small-volume drops. “Distributors need to understand how this channel offers opportunity,” he remarks. “While dollar stores’ share of beer is very small today, in five years, it could be a different picture.” Fox points to the inroads that Walmart has made as a beer retailer. “Fifteen years ago, Walmart had a very small share of beer and distributors questioned why suppliers saw it as a big opportunity. Today, Walmart is massive.”

Moreover, Fox notes that supermarkets, the largest off-premise channel for beer, are losing share to emerging channels, and wholesalers should act accordingly. “The channel lines continue to blur and groceries continue to lose share of beer,” he says. Millennial consumers don’t shop like their parents, Fox continues, so distributors need to be open to new channels. “Right now, the metrics don’t work, but at some point distributors will have to make an investment in dollar stores. While gross profit today may not be competitive with that of other channels, 10 years from now that could be quite different.” In fact, Fox believes that because dollar stores typically employ just a handful of workers, the distributor who commits to servicing and merchandising the stores “can own the beer section.”

Gold Coast’s Schwiep agrees that the channel represents future opportunity. “Long term, there’s potential for dollar stores,” the distributor says, particularly if chains like Dollar General are successful in their efforts to obtain more and more beer licenses. Pointing to the blurring of channels and changing shopping patterns among consumers, Schwiep says dollar stores represent a “mid-to-long-term opportunity.”

Chain drug stores, meanwhile, are already well on their way to being a growing trade channel for beer and beer distributors. Walgreens now offers beer and wine at some 5,300 stores, and competitors CVS and Rite-Aid are responding by getting more aggressive with beer. “The drug-store channel is becoming more important to shoppers as a quick option to meet many needs with one trip,” remarks A-B’s Williams. “It’s not surprising that top drug-store chains want to expand their product offerings to include beer and capi-

talize on the 21% of U.S. beer shoppers walking through their doors.”

Among other off-premise purveyors of beer, Fox points to the growing clout of independent liquor store chains like Total Wine & More, BevMo and Spec’s, operations that, he says, beer wholesalers are fond of. “They are supermarkets dedicated to beverages,” Fox remarks of the likes of Total Wine, with 85 stores across the country, and growing. “Wholesalers are actively merchandising, stocking and seeking every opportunity to grab display space,” he says of the chains. “They do huge volume and carry a wide assortment of beer. There are smiles on wholesalers’ faces when they hear that one of these accounts is coming to their market.” Indeed, Fox comments that it’s not unusual for initial wholesale beer purchases to run well into “the six figures” when a new liquor megastore opens.

On-Premise Opportunity

While fast-food and fast-casual restaurants are increasingly dabbling in malt beverages, beer industry members and observers appear to be split on the overall opportunity for sales in the emerging on-premise outlets. A-B’s Williams says that in fast-casual dining outlets, “more and more often, beer is being added to the menu. Consumers can mimic the fine-dining experience, except with added convenience and at a lower price. The increase in occasions where beer can be enjoyed is great for A-B, our wholesalers and consumers.”

Bump Williams also reports that he sees a “huge upside in potential” for beer at the outlets, noting that the prime target consumer is aged 21 to 29, and that operators have found that malt beverages can be a big money maker. Moreover, he says that fast-casual restaurant operators typically support the local community, opening the door for locally produced craft beers.

Fox and Schwiep, however, say that fast-casual restaurants aren’t likely to offer near the opportunity for beer sales that dollar stores do. “Distributors aren’t getting as much pressure from suppliers [to service the accounts], even though they are higher-end accounts and offer an opportunity to make better gross profits,” Fox remarks. Schwiep reports that in Florida, the outlets’ entry into beer has so far been “very limited.”

Beyond restaurants, movie theaters are also emerging as a new venue for beer sales. According to Bump Williams, movie theaters are attractive as they “offer an additional purchase occasion that wasn’t there before. In the past the options were soft drinks and water, so with beer, there is new-found volume.”

Fox agrees, noting that in theaters where beer is sold, the selection tends to run upscale and margins are high. As with other emerging channels for beer, Fox says it’s healthy long term for the beer industry. “Distributors have to figure out how to service them,” he adds. “They’re not going away.”

—Terri Allan