



Winning Distribution Strategies

Sonoma State University
School of Extended Education
February 24, 2012

Winning Distribution Strategies

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AGENDA

- A. Introduction (**MCH, MAJ, Group**)
 - Michael Houlihan
 - Martin Jones
 - Houlihan & Jones
 - Group introductions & assignment
- B. The Barefoot Story (**MCH**)
- C. In the Beginning...*Putting distribution in context* (**MAJ**)
- D. Brand building; it's a process...*The wise man's guide to Marketing* (**MAJ**)
- E. 7 sales before the pour (**MCH**)
- F. Distribution: *The Distance between a Great Product and a Sale* (**MCH**)
- G. Navigating the US beverage alcohol market.... *From prohibition to present day* (**MAJ**)
- H. The Allied Domecq distribution strategy. *How the #4 company created the #1 distributor network and grew it's margins.* (**MAJ**)
- I. Group Challenges (**MCH, MAJ, Group**)
- J. Wrap-up (**MCH, MAJ, Group**)



WHO ARE WE

- Michael Houlihan:
 - Founder, CEO & “Head Stomper” *Barefoot Wine*, (a 19 year overnight success).
 - Author, business blogger
 - Management consultant
 - Non profit director
- Martin Jones:
 - Corporate CEO; 30 years sales, marketing and operating management in beverage alcohol
 - Management consultant
 - Public, private and non profit director
- Houlihan & Jones: “***...help wine business owners manage their operations better...***”
 - Business development, transition plans, exit strategies
 - Developing competitive advantage
 - Resource allocation, productivity, employee performance management, sales and distribution strategy
 - Optimizing value creation through brand building and operating effectiveness



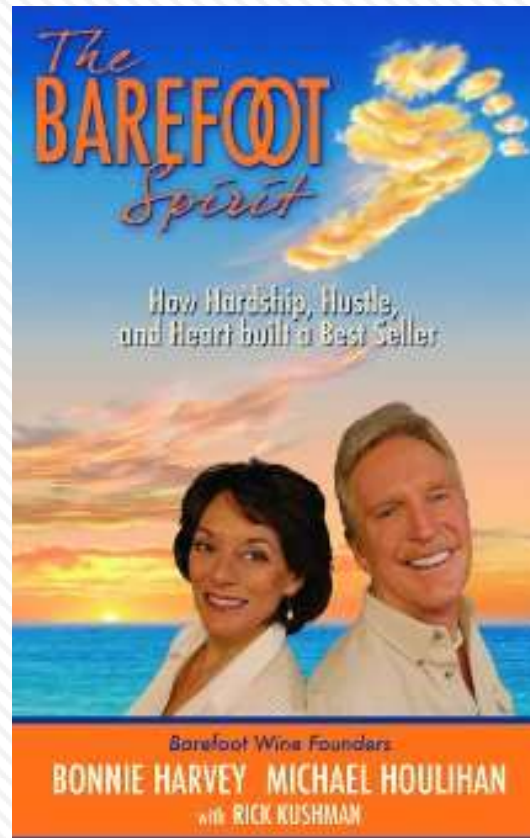
GROUP ASSIGNMENT

What are your distribution challenges?

- Securing distributor representation
- Building store distribution
- Building on-premise distribution, wine lists, WBG
- Increasing profitability in mainstream distribution
- Programming the distributor and/or retailer
- Regional staffing – representation
- Retail visibility - merchandising the product
- Supply chain logistics



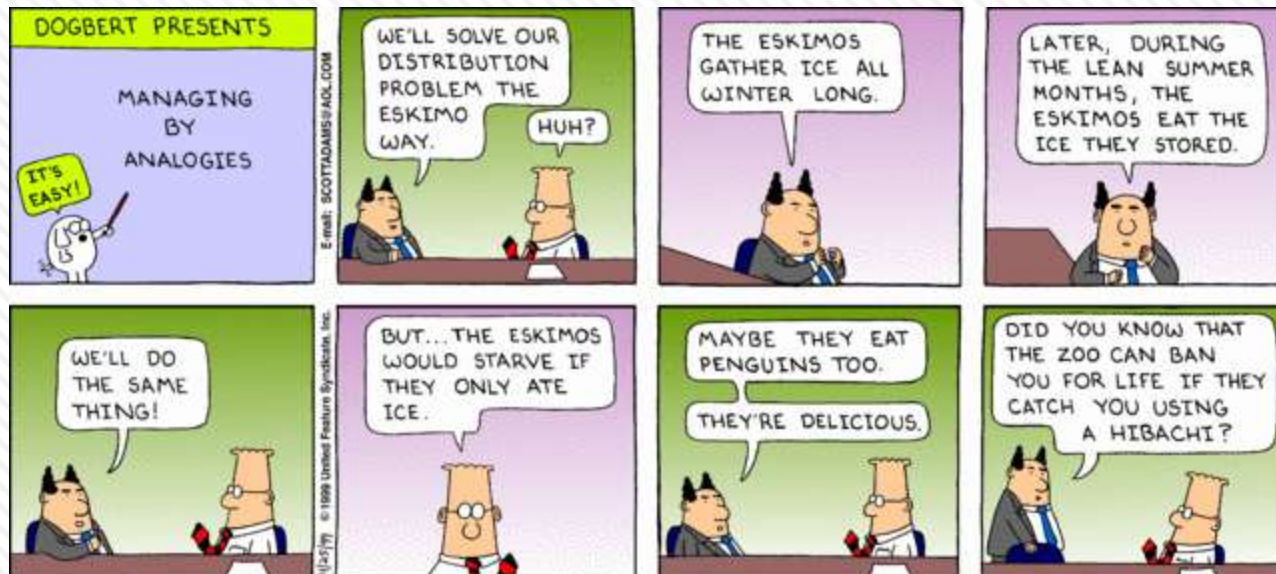
THE BAREFOOT STORY



HARMONY — (*Putting Distribution In Context*)

The Marketing Mix

- Product
- Price
- Promotion
- Place



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MARKETING MIX



RELEVANT BRAND PROPOSITION

Understanding the market and the consumer.

1. Brand position - (*Distinguishing characteristics - competitive advantage*)
2. Access to market strategy
 - Channels
 - Distributor management
 - Direct to consumer
3. Pricing strategy - trade and consumer.
4. Communicating with the consumer



MYTHS AND REALITY

Brands are not:

- Packages
- Labels
- Names
- Trademarks
- Advertising
- Wine

Brands are *an experience*:

- Experience + Context = Brand Impression

Customers define value

- Branding adds value, but value is not price.
- “Price is what you pay, value is what you get” (Warren Buffet)
- Acquiring a new customer costs five times more than retaining an established customer
- Consumers won’t spend ten times more for something that is only three times better.
- Deliver brand values that reflect your consumer’s values: (*cause marketing, “green”, artisanal, etc.*)
- Perception = Reality

Relationships make brands successful

- People make brands personal, memorable
- Luxury brands require personal contact, interaction, exclusivity



THE WISE MAN'S GUIDE TO MARKETING

By: Martin Jones - *(with help from Al & Laura Ries – “22 Immutable Laws Of Branding”)*



THE WISE MAN'S GUIDE TO MARKETING

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1. Be singular and direct – don't overextend the brand.
“The power of a brand is inversely proportional to its scope”.



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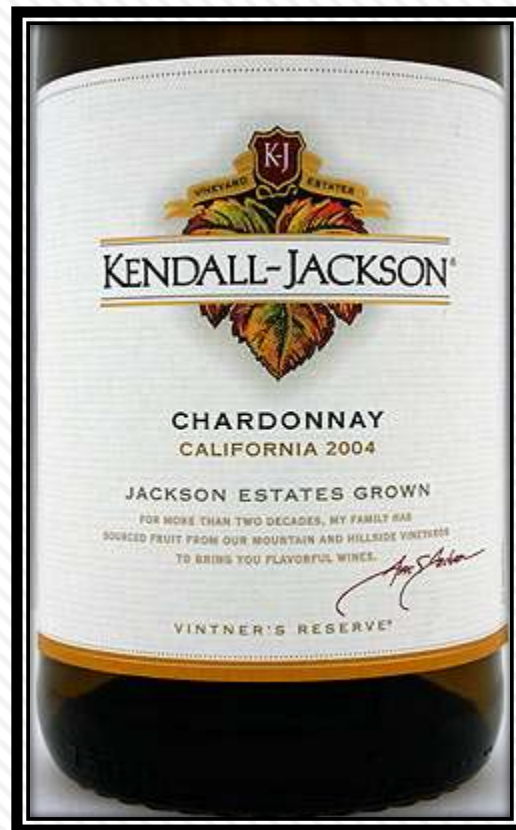
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THE WISE MAN'S GUIDE TO MARKETING

2. Narrow your focus. Contraction can build power.



THE WISE MAN'S GUIDE TO MARKETING

3. Publicity creates brands; advertising reinforces and expands awareness.



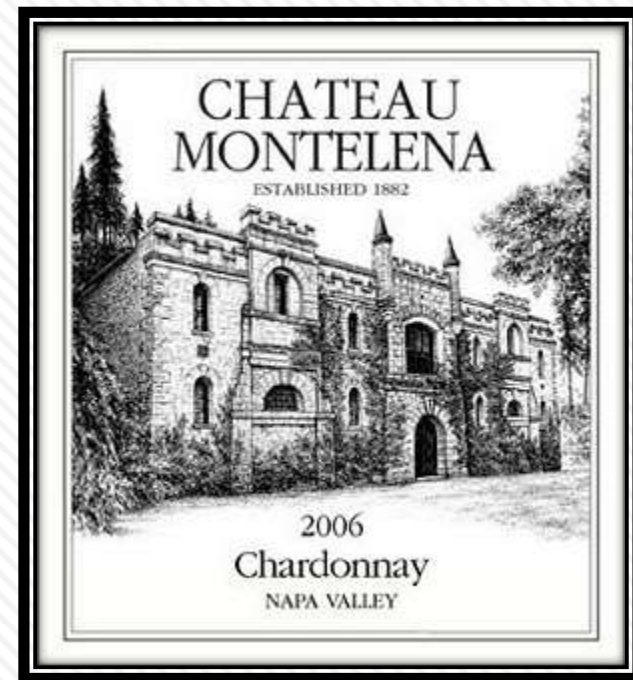
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4. Names and words must be owned to have strong meaning – there's no place for generics.



THE WISE MAN'S GUIDE TO MARKETING

5. Build credentials – the crucial ingredient in success is its claim to authenticity.



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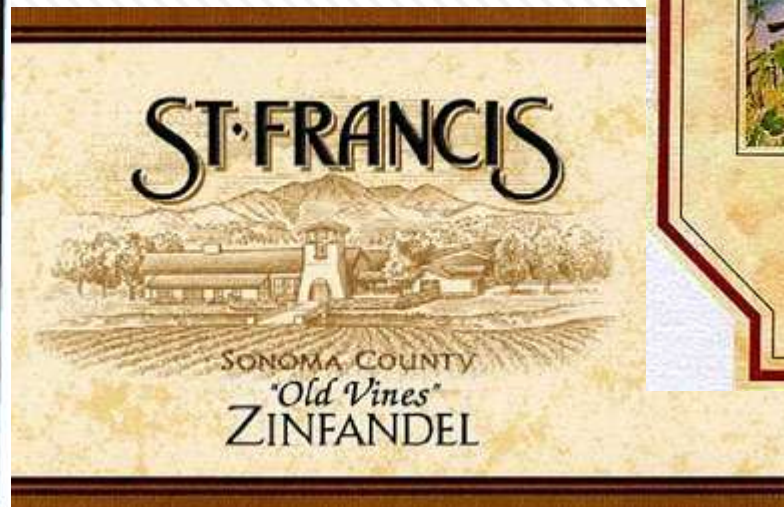
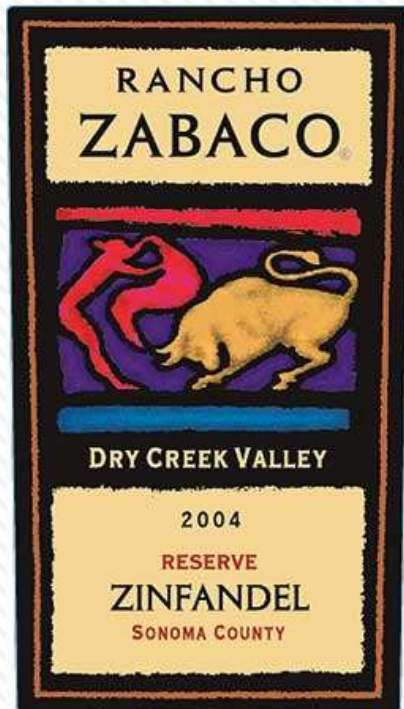
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6. Quality is important, but brands aren't built on quality alone.



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7. Build the category, while building the brand.



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8. Be visible – be intrusive.

- Can your label be read from 20 feet?
- Is your brand part of the culture its attempting to reach?



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THE WISE MAN'S GUIDE TO MARKETING

9. Be consistent – brand success is measured in decades, not years.



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THE WISE MAN'S GUIDE TO MARKETING

10. Change to remain relevant – consistency does not mean avoiding change or ignoring a changing consumer.



THE WISE MAN'S GUIDE TO MARKETING

11. Mortality is a reality – no brand lives forever. Know when to cut your losses. Be objective.



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THE 7 SALES



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YOUR OWN STAFF

- Proud to represent your product
- Knows what it takes to keep the quality up, the cost down, and the pipeline filled
- Knows how their compensation ties directly to customer service and profitability
- Knows how their skills contribute to the company's success
- End-user to paycheck money flow chart



YOUR DISTRIBUTOR'S OWNERSHIP

- Your product may fill a void in their book
- They want to keep it from competition
- Business with an important retailer
- You “back doored” it already



YOUR DISTRIBUTOR'S SALES MANAGER

- It's easy to sell or has a unique appeal
- Support with program dollars
- A representative in their territory
- Meet his numbers



YOUR DISTRIBUTOR'S SALES PERSONS

- Sell it for them
- There is a bonus in it for them
- Retailers will appreciate them
- Make their jobs easier
- More money in their pockets



YOUR DISTRIBUTOR'S RETAILERS

- Effective point-of-sale
- Endorsements, ratings and accolades
- Demonstrations, in-store tastings
- Dependable supply and access
- Send in customers – events, outreach
- Personalized attention – regular visitation



THE RETAILER'S CLERKS

- Customer appreciation – recommends with confidence
- Personalized attention – your rep has a relationship
- Merchandising help – stacks and sets
- Personally educated about products
- Legal gifts
- Excellent POS



THE GENERAL PUBLIC

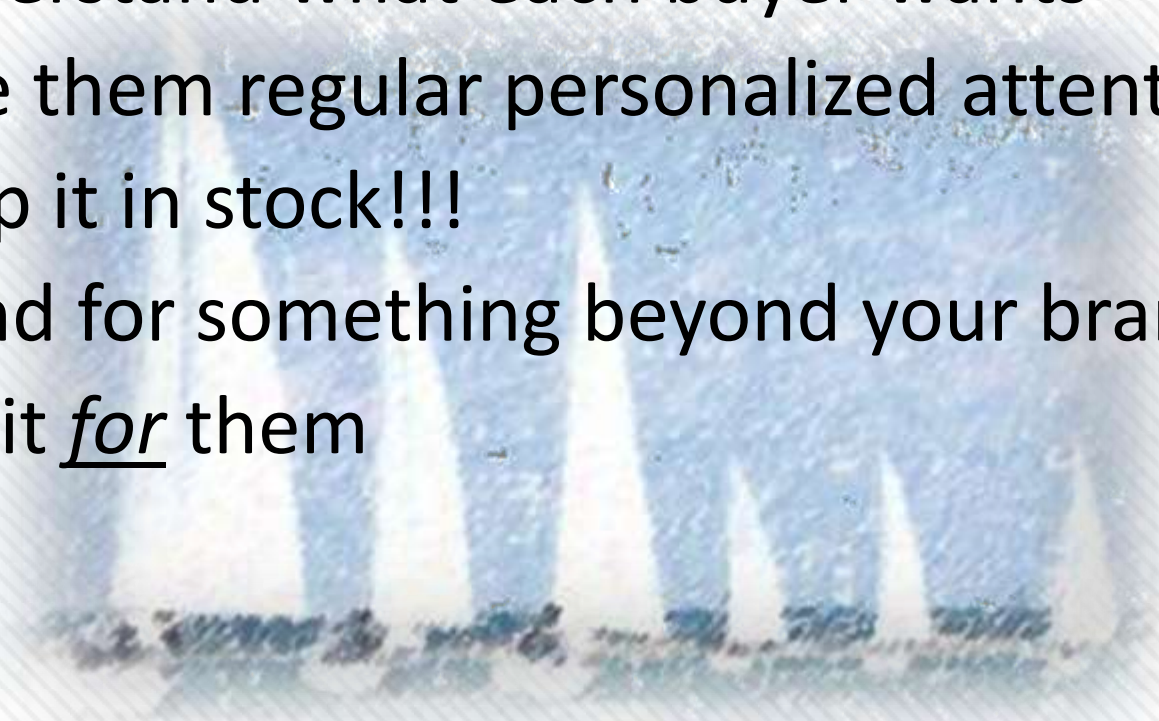
(IF YOUR LUCKY)

- In stock and on the shelf
- Good shelf - set position
- Value, price, packaging, and dependability
- Third-party endorsements
- Personal experience
- What your brand stands for



MAKE ALL 7 SALES

- Understand what each buyer wants
- Give them regular personalized attention
- Keep it in stock!!!
- Stand for something beyond your brand
- Sell it for them



DISTRIBUTION - *The distance between a great product and a sale*



STOP! WHILE YOU ARE STILL IN THE DESIGN PHASE AND ASK QUESTIONS

- Package requirements
- Market pricing
- Shelf position
- Competitive practices
- Competitive experience
- Supply chain, inventory standards
- Selling tools



REMEMBER THERE IS LIMITED SHELF SPACE

- What is it replacing?
- Am I going to have to give up an existing product to sell this one?
- Return on inventory investment; wholesale, retailer



CATEGORY MANAGEMENT IS BASED ON GROUPING PRODUCTS

- Like products determine shelf placement
- What's the competitive set?
- “Game-Changers” can cause problems
- Can I leverage off of my existing portfolio
- Its easier to give birth than to raise the dead



EFFICIENT SHIPPING THROUGHOUT THE DISTRIBUTION SYSTEM

- Truck loads, container loads – capacity opportunities and limitations
- Cross docking opportunities can eliminate costs and middle-men ('direct sales')
- Consolidating shipments with other wineries
- Current wholesaler and retailer shipping practices
- Delivered price opportunities



“EVERYBODY WANTS TO MILK THE COW. NOBODY WANTS TO RAISE THE CALF”

- Creating “*traction*”
- “Manageable” territories
- Engineering sell-through
- Tracking results



HOW WILL YOU STAGE YOUR PRODUCT FOR SHIPMENT?

- Servicing the customer, (pallets vs. slip sheets)
- Optimal configuration
- Package codes and markings
- Re-packagers for box stores



WHO BENEFITS IN THE DISTRIBUTION CHANNEL?

- Advantages to the distributor; (blocking a competitor, profit margin in \$ not just %)
- Advantages to the retailer
- Exclusivity
- Franchise – term assignments



WHAT ARE THE ALTERNATIVES TO MAINSTREAM DISTRIBUTION?

- Specialty start-up distributor (but will they pay?)
- Direct sale to retailer (but will they hold you hostage)
- Private label or portfolio selling to leverage access
- DTC, internet retail, “Flash” sights, *(3-4% of industry sales)*
- Can your DTC sales be used to “*prime the pump*”?



WILL YOU HAVE TO PROGRAM?

- Promotional calendars, seasonal selling, rotations
- Incentive programs -You get what you pay for
- Free goods
- Scans, TPR's
- Posting States
- Control states
- Chain policies



DOES YOUR DISTRIBUTOR NEED HELP?

- Regular product knowledge training
- Who will merchandise the product?
- Who will track placements, repeat purchases?
- Winery representative, brokers - pros and cons
- Your product is not selling, lower your price and send more POS! ...*NOT!*



TEST A SMALL MARKET

(Before jumping into a big one)

- Understand what is required to establish retail presence and keep it there
- Chose a nearby market that can be easily managed
- Understand the regional market conditions and needs before going national
- Develop a retail distribution placement strategy



PRICE YOUR PRODUCT FROM THE CONSUMER TO THE VINEYARD

- What the consumer will pay = the FOB!
- Competitive – velocity prices for your niche
- What are the direct promotional costs?
- What are the “push” costs for building distribution, discounting, displays?
- Taxes, freight allowances, incentives
- Budget to produce what the customer will pay!



GET LOCAL CUSTOMERS

- Create “*Pull*” with Advertising, events, social media, local accolades, promote the local store, use local tactics
- Deliver consumers
- Help the retailer; (staff training, demos, tastings)
- Co-op advertising
- Worthy cause marketing



STACK IT!

- Dominate your territory, broadcast your presence (where the customer, product, and decision all come together)
- Engineer success in nearby retailers to demonstrate credibility
- Use independents to build credibility before going to the chains



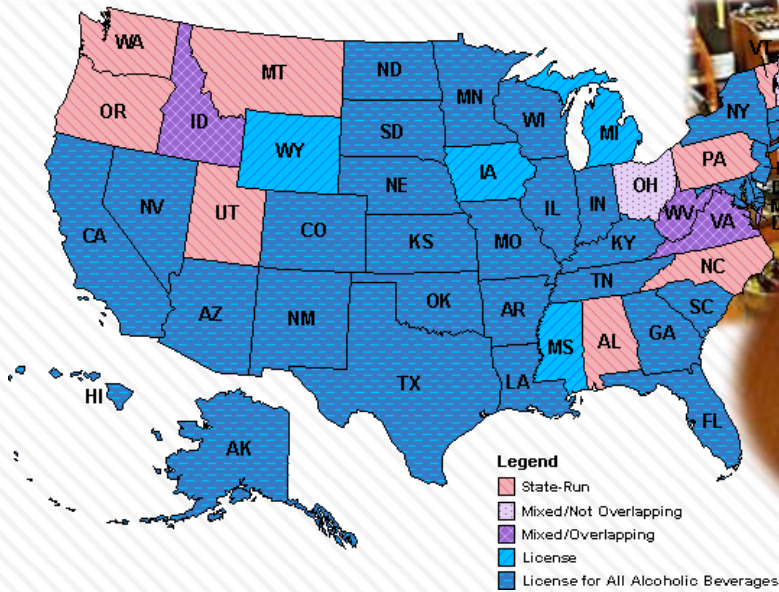
REPLACEMENT!

MORE IMPORTANT THAN PLACEMENT!

- Eternal vigilance at the retail level is essential
- Track turnover vs. inventory - (especially when the product is new)
- Help the distributor's salesperson
- Out-of-stock is a gift to the competition
- Bonus for multiple reorders, not for the 1st order!



NAVIGATING THE US MARKET



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THE THREE “ATIONS”

Consolidation, Globalization, Liberalization

Supplier

- 7000+ wineries – Top 30 = 90% of sales
- Spirits = 2X the economic value of wine, (beer = 3X)
- Global supply and demand
- Servicing the retailer and consumer
- Capturing distributor margin

Wholesale

- 200+ wholesalers 2012 vs. 2400 in 1985
- Top 5 wholesalers control 50+%
- Logistics and fulfillment operators, (Berkshire Hathaway's McLane Co.)
- Regional marketing specialists



THE THREE “ATIONS”...(cont..)

Consolidation, Globalization, Liberalization

Retail

- The billion \$ retailers
- Private/control labels
- Capturing distributor margin
- Deregulation/liberalization (2.5 tier, Sunday sales, wine in grocery stores)
- Multi-national chains
- Largest wine retailer in country is Costco

Consumer

- Widening consumer base, (millennials substituting beer)
- More consumption occasions
- Demands convenience
- Expects quality and value
- Fueling cross channel development (consumption, travel, leisure)
- Communication is two-way



THE THREE “ATIONS”...(cont..)

Consolidation, Globalization, Liberalization

Conclusion – Two Forces (*consumer & scale*)

1. **Consumer force ultimately prevails;** *“Increasing consumer demand – for variety, convenience, value, personal experience and communication – is distinctly at odds with three-tier alcohol beverage distribution” (Perfect Storm Pt.4; Steinthal, Hinman & DeGalan)*
2. **Big begets big!**

Implications for Wineries – Opportunities for Competitive Advantage

- Product and brand differentiation
- Global supply sourcing
- Superior customer and/or consumer service
- Low cost producer
- Control/private label *“door openers”*
- Strategic marketing alliances, *(portfolio selling opportunities)*
- CRM intelligence, *(social media, DTC)*
- Sales channel specialization
- Regional development strategies, *(brand ambassadors, wholesale and marketing specialists)*
- Bailment inventory
- Beer distributors
- Superior profitability throughout the supply chain, *(winery personnel, brokers, distributors, retailers)*
- *“Flash”* sales to build awareness, trial
- Export development
- Community involvement, *(worthy cause marketing, tasting events)*



THE METRIC\$

(Understanding Everyone's business & Sharing the Revenue)

- Different Rewards
 - Supplier/Winery = Profit generation, cash flow and value growth, (equity)
 - Wholesaler/Broker = Cash flow
 - Retailer = Profit generation, cash flow
- How do I make everyone happy?
- How do I manage it?



<u>PRICING MODEL</u>				
"ABC" Winery		<u>"XYZ" DISTRIBUTOR</u>		
Suggested Distributor Pricing		(State)		
Size: 750ml	12 Pack Cs.	Eff. Date:		
	ABC Cab.	ABC PN	ABC CHD	ABC SV
Winery F.O.B.	\$85.00	\$80.00	\$75.00	\$70.00
S.P.A.				
Freight	4.00	4.00	4.00	4.00
Duty FET	3.50	3.50	3.50	3.50
State Tax	1.50	1.50	1.50	1.50
Dist Cost	94.00	89.00	84.00	79.00
D.A. Allow				
Net Laid-In Cost	\$94.00	\$89.00	\$84.00	\$79.00
Distributor Profit				
List Price (@ Cost x 1.35)	\$126.90	\$120.15	\$113.40	\$106.65
Discount				
Split Case (Retailer Cost)	8.00	8.00	8.00	8.00
Net Retail Cost	134.90	128.15	121.40	114.65
Dist Profit \$	40.90	39.15	37.40	35.65
Dist Profit On Sell	30.3%	30.6%	30.8%	31.1%
Bottle Cost	\$11.24	\$10.68	\$10.12	\$9.55
City Tax Cs	0.00	0.00	0.00	0.00
Bottle Cost	\$11.24	\$10.68	\$10.12	\$9.55
Shelf Price				
Ret M.U.	35.0%	15.18	14.42	13.66
Ret M.U.	45.0%	16.30	15.48	14.67
Ret M.U.	50.0%	16.86	16.02	15.18
Ret G.P.	25.0%	14.99	14.24	13.49
Ret G.P.	33.0%	16.78	15.94	15.10
Ret G.P.	35.0%	17.29	16.43	15.56
Feature Price	\$16.99	\$ 15.99	\$14.99	\$13.99
Ret M.U.	51.1%	49.7%	48.2%	46.4%
Ret G.P	33.8%	33.2%	32.5%	31.7%
<u>Winery Expenses (per cs.)</u>				
Freight All., Reg. Wrhs.	\$7.50	\$7.50	\$7.50	\$7.50
Broker Comm. (@12% of FOB) :	10.20	9.60	9.00	8.40
Programming (Ad, Merch., Scan)	5.00	5.00	5.00	5.00
Total	22.70	22.10	21.50	20.90
Net Revenue to Winery	\$62.30	\$57.90	\$53.50	\$49.10



BECOMING THE PREFERRED SUPPLIER

How the #4 company created the #1 distributor network and grew its margins

Background

- Allied Domecq = fourth largest wine and spirits supplier, (by distributor margin)
- 6-7 major liquor companies controlling wine and spirit distribution
- International barriers causing over dependence on US market by suppliers - shareholders, (60-70% of profits)
- Wholesalers were beginning to consolidate into multi-state organizations; (*SW&S, Charmer-Sunbelt, NDC, Republic, Glazers, Wertz*)
- Still some major single state wholesalers; (Young's, Eber Bros., Peerless)
- Term, (franchise), protection had not been the practice with wholesaler assignments

Allied Domecq's Objectives

- Improve market presence
- Free up \$ within the revenue stream to invest on brands
- Maintain competitive supplier and wholesaler balance at local market level



BECOMING THE PREFERRED SUPPLIER

How the #4 company created the #1 distributor network and grew its margins

The Allied Domecq Distributor Strategy (1996-2000)

- Promote and maintain distributor competition - avoid assignments that fuel regional consolidation
- Keep options open – avoid dependence on any one wholesaler group
- Provide performance based term assignments and margin guarantees
- Pre-empt Diagio, BF, Seagram, Beam
- In return:
 - Distributor contributes to regional marketing costs
 - Distributor provides dedicated personnel
 - Distributor provides portfolio priority for AD products
- Results:
 - Leading industry share growth of +16% (1998-99)
 - Improved working capital ratios +10%
 - CAGR Profit growth of +8%



GROUP CHALLENGES

Q&A and discussion





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