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How to Get U.S. Market-Ready

Wines and Spirits

POSITIVE PRESS

U.S. Market: History

The modern Beverage Alcohol industry in America began with the 21st Amendment repealing Prohibition in 1933. New laws had to be established to control and regulate the sale of alcohol. Those new laws were focused on eliminating the monster created by Prohibition. That was 85 years ago when the world was a different place with gangsters like Al Capone, smuggling "rum runners" and bathtub gin as the problems of the day.

The Federal government had three priorities at that time: generating and collecting taxes, protecting public safety (product quality and standards) and preventing false advertising and consumer deception. At the same time, control was granted to the individual states on how to regulate, monitor, and manage sales of beverage alcohol. The structure of the industry that was established set up the "Three-Tier" system to prevent any one entity or category to have undue control or influence. The introduction of "Tied House" regulations limited participation of suppliers/importers, distributors from owning an interest in retail on or off-premise account.

1.Producer

- distiller
- winery
- brewer
- importer

2.Wholesaler

synonymous with distributor

3.Off and On premise

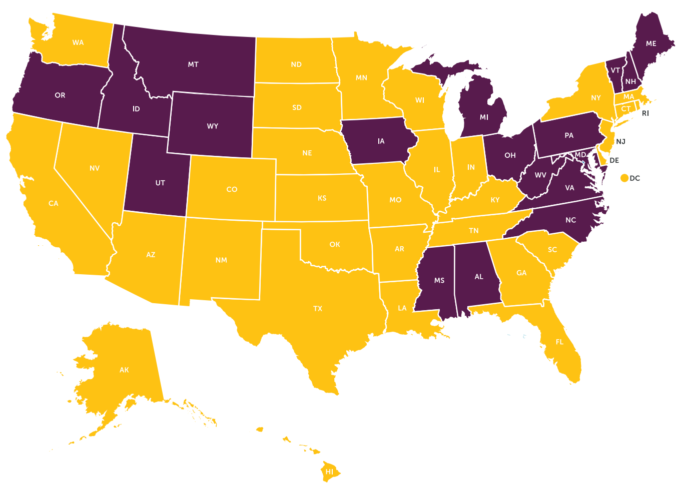
- Retailers
- HoReCa

The states correspondingly set up systems that fell into two broad categories: Open and Control. The "Control" designation essentially set the state up as either the distributor (e.g. MS) or distributor + retailer (PA, NH), essentially similar to "monopoly" countries like the Scandics. In "Open" markets, the state's role was less limiting, allowing free market participation by distributors, retailers and bars/restaurants. The net result is that there are 52 different regulatory entities. the 50 states plus Washington D.C. and Montgomery County, MD.

In the 85+ years since, only one state has changed its designation—Washington State—which voted to convert from Control to Open in 2011. Keep in mind that within those two basic categories there remain a kaleidoscope of state by state regulations. And that's what makes understanding the U.S. market such a challenge for exporters. Just two example of that complexity--some states were set up open for wine, but control for spirits (Michigan), and some states allow sales of wine and/or spirits in grocery stores (California) and some prohibit it (New York).

Control States in purple,

Open States in yellow.



Fast forward to today. What was once black and white has greyed over time and in fact there are many situations where the industry has evolved---Importers owning distribution companies, and distributors importing brands are just two examples.

And while breaking into the U.S. market is challenging, it is something that brands are successfully accomplishing on a daily basis.

Perhaps the most important thing to be stressed is that the U.S. market is its uniqueness. Duplicating strategies that may have made a given brand successful in its home or other export markets, often won't work here. So, it is critically important for exporters to learn how the market functions and develop custom strategies for penetration and growth. Another way to look at that is to reinforce that there is no "road map" to be followed. Indeed, many successful new brands have found that charting a new course with customized strategies has led to far more effective results than following someone else's footsteps.

Opportunities

Here's the big conclusion to keep in mind. YES! You can be successful exporting your brand in the U.S.

However I wanted to highlight here some of the key forces that are driving change in the U.S. market. These inflection or tipping points represent opportunities to deal with known, existing obstacles by navigating your way through, over or around them. I've cited some examples of brands that have leveraged these and urge readers to apply their creativity to do the same.

1. Think outside the "agency brand" model.

While some brands have had luck catching the eye of an existing U.S. importer, the reality is the odds do not favor the vast majority of smaller and specialty brands vying for entry. A better strategy is to look at this as a two-step process: short term and long term. By that I mean don't think that you have to find your "forever" importer first. It makes more sense to start with an importer guaranteed to say "yes" (known as service importers such as MHW or Park Street) to get started with while you learn the ropes and establish that all-important case history of success in a limited number of markets and accounts.

And that's just one of nine other import options to be considered which you'll find outlined in detail in Chapter 2

2. Distributor Consolidation can be considered a constraint... or an opportunity.

With the Breakthru/RNDC merger scheduled to close in 2018, the top 10 importers now represent 73% of total sales of wine and spirits in the U.S. That's up from 48% in 2010 and just about double the 38% that characterized the market in 2000.

Logic dictates—and reality confirms—that distributors spend the lion's share of their attention on the brands that represent volume, revenue and profits. Sure, they're interested in new brands. But faced with the reality of thousands of producers clamoring for the attention of the guy (and yes, it's usually guys) at the door, we've seen a lot of brands have success by following this strategy: creating a success story with metrics that document repeat orders at retail, and then trumpeting that success through the trade press.

Result: interested distributors will call you because they are looking for the brands that stand out from the crowd and have demonstrated traction with both consumers and the trade. Check out the Eppa Sangria story which started with Park Street and ultimately was acquired by Deutsch. It was a grass roots, low budget strategy that flouted the common perceptions of the category as being cheap and sweet. Higher price meant higher margins, and higher quality helped reignite consumer interest in a category that was given short shrift in that market.

3. E-commerce

It's no secret that e-commerce represents a huge opportunity for wines and spirits in the U.S. True, current regulations have slowed the momentum of the channel in the last two years, but as you'll see in Chapter 2, the smart money is betting that consumer demand and economic realities will inexorably force open the DtC (Direct to Consumer) e-commerce market.

And that means new-to-the-U.S. brands need to be exploring and testing ways they can work within the online bev. alc. ecosystem, but are more tailored to their needs. There are two that I want to highlight here.

4. Evolving Demographics:

Millennials have grabbed the headlines in terms of redefining how the new generation discovers new (to them) wine and spirits. Social media has been the engine that has transformed word-of-mouth from the face-to-face 1:1 conversations that used to take place around the office water fountain, to the exponentially greater reach of 1:many.

Smart marketers are recognizing that being creative in using new communication tools to capitalize on an entire generation's interest in discovery, sharing and experiencing. Case in point is the 19 Crimes brand. They were one of the first to use Augmented Reality to tell a story in a spectacular way. If you haven't seen it, head on over to the Living Wine Labels app and experience it yourself. Results? The brand was introduced in 2013, and sold just 7,000 cs. as it tested the market. And remember, that was a period when premium wine from Australia was effectively considered an oxymoron. From there, the brand grew dramatically and in 2017 literally doubled its volume from 500,000 to over 1 million cases and there's no sign yet of that growth slowing down.

5. Better Data

OK, I'm a little biased. My friend Cathy Hughye came up with a brilliant idea to create a new company called Enolytics. The brilliance lay in the fact that the service was data-source agnostic. That means Enolytics didn't rely on just Nielsen, IRI, Diver or Beverage Information Group as individual data sources. Instead, they pioneered a way to integrate multiple "Big Data" sources to identify and graphically identify insights, anomalies and trends that were previously buried or hidden. The value of that insight benefits the client's brands, but they're finding that by using it as a tool to help the trade leverage these new-found facts, they're expanding distribution, improving sales efficiency, and providing added value to the stores and on-premise accounts they service. Check out Enolytics.com for some case history examples.

3x3 Insights is another service that's mining data on an individual store level and comparing it to a larger industry-wide data set. They're finding new ways of teasing out insights at the account level to help retailers increase margins, improve shelf sets and promotions, and capitalize on the unique attributes of their store location and clientele.

Other creative spins on accessing and using data include suppliers such as CityHive and Drync which create free websites for retailers, with the added value potential of helping them leverage and grow their business to increase both revenues and margin.

6. Premiumization: seek to enter and grow in more profitable categories, don't just chase volume

The global trade press is rife with quotes from the titans of the industry on the "premiumisation" trend. The significance to brands angling for U.S. market entry is that it highlights the strategy of focusing on brand, not liquid.

Case in point on the brand vs. land issue, consider "The Prisoner." The brand was developed by a serial Napa Valley based wine entrepreneur and was subsequently purchased by industry luminary Agustin Huneeus in 2010 for $40M when it was doing 70,000 9L cases. He in turn grew the brand when he purchased it for $40 million and then turned around and sold it to Constellation, for $280 million after growing it to 175thousand cases. What was most significant is that it was purely a brand... there were no vineyards, no winery, no physical presence at all really, just a brand concept.

7. Influence the Influencers.

Another strategy that has proven successful is aligning with the mixology trendsetters. Steven Soderbergh's Singani 63 connected with Alex Day of Death & Co. speakeasy and book fame to reach consumers looking for the new and different. On the wine side, the same holds true for leveraging new ways of reaching Sommeliers via SommCon, TexSom and SommJournal magazine. One example of how this can work is when an influential somm becomes an advocate for a brand or production philosophy that is close to their hearts.

Plan your work, work your plan

Breaking into the U.S. market is no easy task. And it's an even tougher challenge if you haven't developed a plan. And whether you are a small winery producing 50,000 bottles or a multinational spirit company selling millions of cases, the scale and scope of the planning may be different, but its importance is equally critical.

The key to the whole process is not so much the form or template that you use, but rather that sufficient thought be given to setting the strategy and making the tough decisions on how, where, and what resources need to be allocated. A great metaphor I like to use is to think of the U.S. market as a series of three locked gates to go through, with a brick wall at the end. Gate 1 is an import solution, Gate 2 is a distribution solution, Gate 3 is a retail/on-premise solution, and the brick wall you'll have to get through, over, under, or around is a plan to get the end-consumers' interest, attention and advocacy. Having a solution for the first gate is great. But if you haven't through the whole process, including the brick wall, chances are the most you'll accomplish is to give yourself a bloody nose.

So, let's get started.

1. Route-to-Market Strategy

Import options. What structure is right one for your brand? And be open to considering a two-step solution. First a short-term solution to get started, and the longer-term arrangement for expansion and growth. It might surprise you to learn there at least 10 options.

Distributor choices. A narrower range of options exist here, but the order in which you make decisions on launch markets and distributors/networks will have a major impact on what your distribution options are as you go down the road. Think outside the box, for example, consider control states as a place to start, or franchise states because the distributor options are wider there.

Sales Management. This is a critical decision that falls into two basic categories that need to synch: building the distributor network with longer-term decisions on how you are going to manage sales execution.

- Managing selling the brand into distributors at the senior level
- Managing the actual selling to on- and off-premise accounts at the field sales level.

Marketing. Obviously, this is a critically important strategy, but one that needs to be flexible enough to evolve along with the brand's development in the market. Tools you might use for launch may be very different from those used for roll-out and growth. Think beyond the basic "Four P's" of product, price, place, and promotion, and consider ways to engage your audience to tell your story in their words to their friends.

Brand Ambassadors/"Feet on the Street." Having in-market sales support has become practically mandatory for new brand entries to get through the first and second gates. We're seeing innovative solutions to address this fact going beyond expensive brand ambassador agencies, to now include shared or part-time sales (Bon Vivants, Bevstrat) or automated promotion (Merchant 23), and Direct to Consumer (DtC) channel solutions such as e-commerce for retail stores (CityHive, BevSites).

2. Brand Positioning

Product: Having a high-quality product is necessary but not sufficient. Get consumer and trade feedback on liquid, labels, messaging, bottle size/shape/color, closure, reshipper (outer carton). You can do this through formal market research, or more simply by visiting a few stores and on-premise accounts.

Defining a competitive set and ***Point of Difference that Makes a Difference*** to each tier in the system. Ask yourself where does your brand fit relative to other products not just in the minds of consumers but also physically in the store?

Creative "look and feel." Every brand should have a written brand guide. It doesn't have to be long and involved. It simply has to say and show what is part of the brand's DNA and what is not. Color palette, imagery, typeface, label design, meme, "lockup" of the logo can all be components. You should also create a suite of graphic elements to manage how your brand is presented by anyone who might be using your brand imagery (e.g. retailers in their ads, wholesalers making shelf talkers, journalists covering your brand.) This should include high resolution files of your logo in both horizontal and vertical formats, 4-color, black and white and transparent versions, and guidelines on where and how the logo should be used. The trade expects to find this information and the supporting files in multiple formats on your website.

Basic suite of Point of Sale materials. At minimum have a single page sell sheet, case card, shelf talker, brand press release, high resolution images of bottle and label, reviews and ratings, cocktail recipes for spirits and food pairings for wine.

Website Key functionalities to incorporate include where to buy information for consumers, and for the trade, who your distributors are in each market. Also, brand story, ratings/reviews/scores, trade page with images/logos, etc.

3. Pricing

Do a detailed ***price structure*** for each individual market incorporating individual state taxes, factoring in timing for price posting states, frontline price, multi-case discounts, and target retail. Bottom line: don't leave pennies on the table. What I mean by that is that if a price structure yields a $19.28 price point, then work it back from your FOB to yield a retail price of $19.99. Someone is going to "keep the change", and it might as well be you.

Make sure that the formulas, jargon and formats you use are in synch with how the distributor does it... ***adapt to their systems, don't make them adapt to yours***. Case in point, in New Jersey, it's all about RIPS (retail incentive programs).

4. Market Selection

Use quantitative criteria to segment and prioritize among the 52 markets.

Market Selection Tool: we have a tool we use for market selection which factors in... well, facts and numbers. Yes, you can add qualitative criteria to help narrow down choices, but it's important to make the first cut based on priorities that are definitive and determinative for your brand. We look at both absolute numbers as well as ratios for things like: LDA

(Legal Drinking Age) population, category volume, per capita consumption, CDI (Category Development Index), BDI (Brand Development Index), whether sampling is legal on- and off-premise, competitive brand/set trend by market, control or open state and if the latter, franchise state or not, proximity to each other for efficiencies in travel time and sales coverage. Clients commonly tell me in our introductory meetings that their plans are to launch in NY and CA because they are the biggest markets. That is often a bad decision for a number of reasons, but perhaps the most compelling one is that they are 3,000 miles apart. It's simply inefficient to have limited resources...often just one person... working markets that far apart. Think about it, just one meeting in CA would take a rep out of the other markets for three days. It would be like sending the export manager from Italy to Kazakhstan. (Well in terms of distance rather than market potential.) You can further inform and qualify these facts and numbers with subjective things that are important to you such as cost of media/communications, geographic proximity of target states and to stateside staff, distributor alignment, existing relationships with your executive team, et al

5. Exit Strategy

Your exit strategy: It's an often overlooked or assumed factor that absolutely needs to be incorporated at the very start of planning. If your exit strategy is to rapidly grow the brand in a limited number of markets, then catch the eye of a multinational and flip it for millions, that's going to dictate an entirely different set of strategies than for an estate-produced wine.

Our POV is that it is better to learn, fail, correct, refine in less visible or difficult markets. It's sort of like having World Cup aspirations. It's a noble goal, but don't forget, you have to win your league title first.

Size of the Prize: Recent Sales

Brand	Buyer	Year	Reported Price Paid	Actual Cases at Time of Sale	$/case
Vodka					
Grey Goose	Bacardi	2004	$2,000,000,000	1,400,000	$1,429
42 Below	Bacardi	2006	$107,000,000	89,000	$1,202
X rated/ Jean Marc XO	Campari	2007	$40,000,000	60,000	$667
Svedka	Constellation	2007	$384,000,000	1,100,000	$349
Absolut	Pernod Ricard	2008	$8,300,000,000	7,700,000	$1,078
Effen	Constellation	2008	$28,000,000	60,000	$467
Pinnacle (2,7MM) and Calico Jack (400K)	Beam	2012	$605,000,000	3,100,000	$195
SKYY	Campari	2002/2006	$207,500,000	1,400,000	$148
Tequila					
Herradura+El Jimador	Brown Forman	2006	$873,600,000	1,780,000	$491
Cabo Wabo	Campari	2007	$100,000,000	56,000	$1,786
Avion	Pernod Ricard	2014	$100,000,000	52,000	$1,923
Casamigos	Diageo	2017	$700,000,000	170,000	$4,118
Other					
Hpnotiq	Heaven Hill	2003	$40,000,000	50,000	$800
Chambord	Brown Forman	2006	$255,000,000	133,000	$1,917
Constellation orphan brands	Sazerac	2009	$248,000,000	1,700,000	$146
Skinny Girl Margarita	Beam	2011	$25,000,000	150,000	$167
Grand Marnier	Campari	2016	$700,000,000	488,000	$1,434
Whiskey					
Wild Turkey	Campari	2013	$575,000,000	800,000	$719
Gin					
Bulldog Gin	Campari America	2017	$58,000,000	150,000	$387
Rum/Cachaca					
Sagatiba	Campari	2011	$26,000,000	112,000	$232
Appleton	Campari	2012	$415,000,000	3,500,000	$119
Ypioca Cachaça	Diageo	2012	$475,000,000	6,000,000	$79
Wines					
Mark West Wine	Constellation	2012	$160,000,000	600,000	$267
The Prisoner	Constellation	2017	$280,000,000	175,000	$1,600
Meiomi	Constellation	2017	$315,000,000	550,000	$573

6. Don't Make the Same Mistakes Others Have Made, Again, for the First Time.

Learn from the past. There is a ton of information readily available on the key factors that made some brands successful. Equally, if not more important, is to analyze the failures to learn the hard lessons they've learned from their experience. A valuable thought to keep in mind, experience is what you get when you don't get what you want. We recommend that new brands educate themselves on the U.S. market by subscribing to trade magazines and industry newsletters and read both regularly. Also attend trade shows and do your own, personal sleuthing. It's amazing what you can learn by just walking and talking at a trade show and visiting stores and bars. You can find a list of important U.S. market trade shows, Trade Magazines and Newsletters in Chapter 2.

7. Set a Pragmatic and Fundable Budget

Be disciplined and set a real budget. And not just for the intro period in the intro markets, but also covering the costs to maintain that level of support, and what it will take to expand.

You cannot fund growth from profits of existing business. Let me repeat that… you cannot fund growth from profits on existing business. That's because there won't be any profits for the developmental period which can be measured in years. There may be revenue, but don't confuse that with profit. As sales grow your out of pocket investments calculated on a per case base should decline. Also make sure to negotiate with your importer and/or distributor so that they contribute to the programing. Getting them to share costs is critically important and must be discussed and agreed to in the initial negotiations.

Recognize ***it takes more money, not less to keep it growing***. So as sales grow the per case might go up but the OOP investment goes down. Most programs should be structured to pay out on sales --no sales/no spend.

8. Set Realistic Objectives for Volume, Time to Establish Traction, and Triggers for When to Roll out to New Markets

Clients commonly come to us with a ***volume forecast*** based on market share. "If the vodka market in the U.S. is 75 million cases, then I ought to be able to capture 1% of that, so my target is 750,000 cases." That's not only bad planning, it's based on an unrealistic assumption. It's far better to start from scratch and build up a forecast using factors such as: how many accounts can be called on by what number of people—Brand Ambassadors/Market Reps + Distributor sales, how long it takes to scale up to "run-rate" distribution, a reasonable and repeatable reorder rate at retail and on-premise using different rates for "supported" and unsupported accounts and factoring in an estimate of per case spending for new distribution.

Chances are your estimates will be wrong for both methods, but the second one at least allows you to learn, apply and reforecast in the process. That's much better for long term utility in forecasting and strategy development.

One HUUUUUUGE caution that applies to everyone reading this book. Don't expand to new markets before you're ready. Let me repeat that one again too: "DON'T EXPAND TO NEW MARKETS BEFORE YOU ARE READY." We can tell you that's advice that is violated frequently and is the most common reason many brands fail. And define "ready" with quantitative parameters that are measurable. This another common mistake, and often the primary reason many brands fail…they expand beyond their capacity to support the brand, or equally important - cut funding in intro markets to support roll out markets.

9. Marketing Plans

The key operating word here is plan. While the big brands may be doing advertising, PR, ad spend on social media, e-commerce, incentive programs, distributor trips etc., small/new brands simply cannot afford to play that game.

Better to identify the few things that you can do really well and concentrate funding and other resources against them. Set quantitative objectives and measure the heck out of them in real time. If something is working, feed it. If it's not working, kill it.

Focus resources on the points of leverage that drive the key metric that matters…sales. Some of the tried and true aren't the sexiest, like in-store tastings. But the fact is, they work. New brands need to find ways to "own" an in-store tasting that not only generates consumer sales, but also gets the retailer to recognize that your promotion is helping them by getting customers:

* to spend more money per visit

"You cannot fund growth from profits on existing business."

* come in more frequently
* to tell their friends about the unique program in that particular store and
* getting more traffic in their store, and bring in new customers.

Beyond in-store tastings, do your homework to find out what programs work best in each market/store, and then develop executions that can build both your business and the retail or on-premise accounts.

Marketing plans should address the following:

* Trade at two levels: distributor senior and line management, as well as street level sales
* U.S. relevant ratings and reviews. And there are several that accept products that are not currently sold in the U.S.
    › Ultimate Wine Challenge, Ultimate Spirits Challenge
    › New York International Wine Challenge, NYI Spirits Challenge
    › San Francisco International Wine and San Francisco World Spirits Competitions
    › Beverage Testing Institute (BTI)
    › TexSom
* Trade show participation: which ones, when, why, how to staff, how much to spend, how to maximize the value of exhibiting
* Consumer awareness, engagement and action (call on premise, requests off premise):
    › Advertising
    › Public Relations
    › Social Media (Platforms such as Facebook/ Instagram), Tools (e.g. Wine-Searcher), Sites (Liquor.com, Vivino), Apps (Minibar Delivery, Drizly)

• Social media made simple

    * Get people to tell your story in their words to their friends
    * Go where your prospects are already gathered
- E-commerce
    * Personnel for back office, as well as marketing and sales
    * Blocking and tackling:
        › Getting listed in BevMedia and Seven-Fifty
        › Participating in importer portfolio or distributor holiday shows
- A timetable of who's going to do what, when, and a plan to hold those responsible for accountability.

10. Distributor Activation plan

Your goal is to get a disproportionate amount of time and attention from the distributor.

Here's how to do that:

- Be the squeaky wheel, but bring a *quid pro quo* to the party as well. And the best way to accomplish that is to bring new accounts to their business. That will get not only their attention, but their respect..
- Come with creative programming that includes training, leveraging the presence of brand ambassadors/local market sales, in-store/bar/restaurant promotions with a focus on ASP (Account Specific Promotions.)
- Develop sales incentive programs that meet both your goals and fit with the wholesaler's system. Make sure the wholesaler is part of the process in creating and fine-tuning programs.
- Account Specific POS. Most distributors can do this for you, but a creative Brand Ambassador or local market rep can often do a much better and more creative job. Give them the freedom and flexibility to be creative. And we know for a fact that account specific POS works... shelf talkers, bottle neckers, case cards, shelf danglers and even... or perhaps especially shelf talkers written by store staff.

- And think about other local programming from radio remotes, to food fairs to partnerships with other local stores that may not be able to sell beverage alcohol, but are relevant to the category.
- In-market sales support. As we've said, it's expected. So even if it seems at first glance unaffordable for you, put some creative thinking behind how you can provide that service. Remember, at the end of the day, it's the brand owner's responsibility to build a brand, not the wholesaler's.

11. "Thinking Tools" like S/W/O/T analysis.

The purpose of a S/W/O/T (Strengths, Weaknesses, Opportunities, Threats) is to help identify factors that are leverageable and exploitable. Examples include getting involved in Negroni week for a new Gin, or exploiting the Gambero Rosso tour for award winning Italian wines. Or programs by consorzia/conseils/consejos/comissãos and, like the Food and Wine promotion the Italian Trade Commission has done, a big trade push by a country. It's like Formula One racing...get in the slipstream of the car in front of you and get pulled along with him. You move faster and expend less energy on the way.

And a quick tip I learned that has helped me when working with S/W/O/T: Strengths and Weaknesses are internal, Opportunities and Threats are external.

12. Target Audience Definition

Here's a simple way to think about defining a target audience: ***behavior rules.*** The days of demographics driving targeting are long gone. What people actually do is more indicative of their future action than anything else...more than where they live, whether they went to college, how old they are or even what their household income is. These are certainly important facts, but on their own, demographics is just not enough.

And there's one tool that transcends anything else you can think of: label recognition technology. A number of sites (Wine-Searcher, Vivino) have it now and more are incorporating every day. But here's the real opportunity: if someone takes

"Get people to tell your story, in their words to their friends."

a pic of your label you now know two things about them: 1) they are interested in your product, and 2) they're holding it in their hands. The smart marketers of the future will find ways to identify and communicate with those people at the **precise moment in time they can buy the product.**

13. Trade Marketing

- Strategy for ratings/reviews/scores/points
- Trade advertising and PR
- Events

At Bevology, Inc., we've developed a proprietary planning program that incorporates the content of this chapter under the brand name "Get U.S. Market Ready." We've found that the usefulness is not just in the planning discipline itself. It is also in the range of subjects. Each one is the result of a success or lesson learned the hard way from projects we've done in the past which helps our clients avoid repeating the mistakes others have made before.