BUSINESS INTELLIGENCE & ANALYTICS

for Wine, Spirits & Beer Retailers

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MARKET PULSE

– Wine & Spirits –

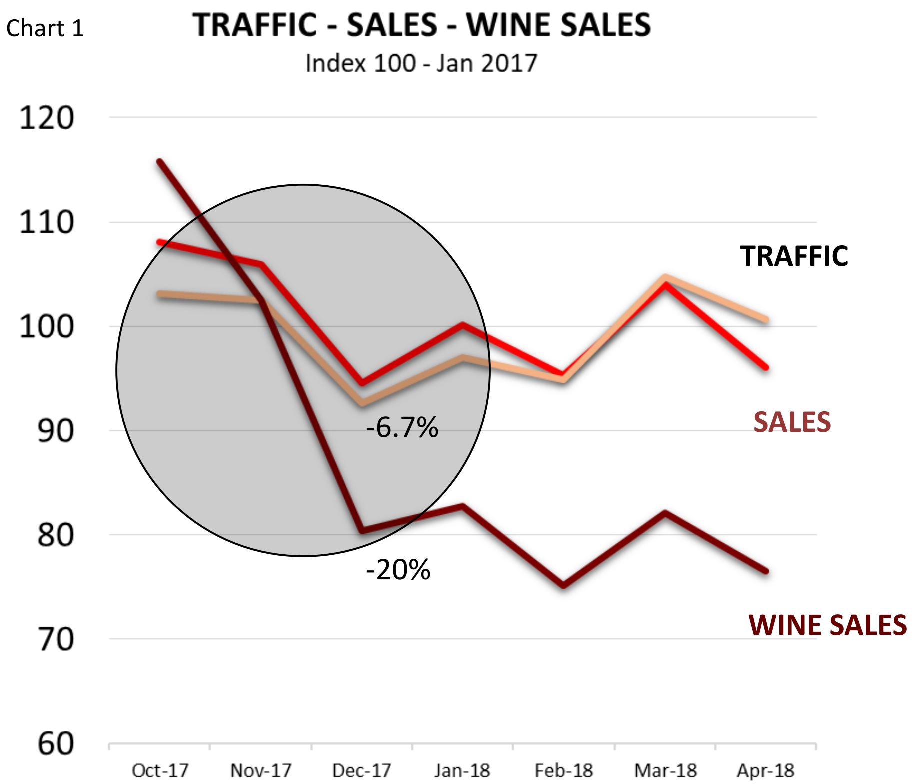
JUNE 2018

LIFE AFTER NOV.16 …

The good news? It is happening to everyone. The bad news? The hit was as strong as expected. The introduction of wine in grocery stores has impacted every liquor store in Arkansas. **Overall the average liquor store saw a total sales decrease of -5.5%.**

Not every store was impacted the same way. The variation of sales impact was highly correlated with the product mix (wine sales %) of each store. Our research shows a sales variation between -1% to -34% in the month of December 2017 (the month with the most violent drop in the 6 months). The market landscape of liquor stores was divided into two categories: The liquor stores and the wine stores. LIQUOR stores (wine sales representing below 10% of total sales) were the least impacted with an average -1% sales decrease while WINE stores (> 40-50% of sales in wine) saw an average decrease of 15% - 28%. As expected, grocery sales did not provide any compensation for the wine sales drop. Grocery sales at best provided 0.7points of product mix increase. Surprisingly however, liquor sales were up across the state and compensated on average for a third of the loss produced in wine category.

Chart 1

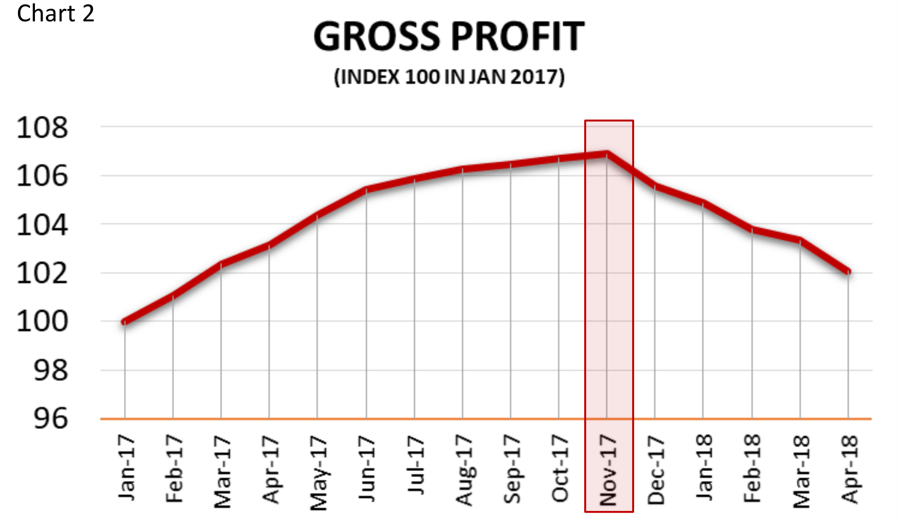


SOURCE: THEREinsights

When comparing traffic between December 2016 and 2017 the average drop is 6.7%. It was the lowest point of last 6 months.

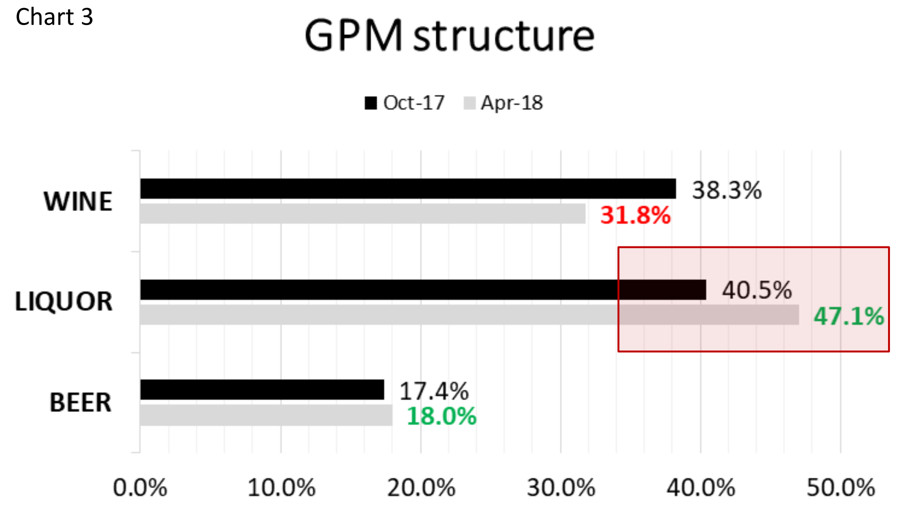
The greatest decline in wine sales happened in December with a drop of 20 points in one month. The lowest point in wine sales was actually in February. The industry seemed to respond unilaterally from that point on. Sales are stabilized and traffic is back on a positive trend.

Chart 2



SOURCE: THEREinsights

Chart 3



SOURCE: THEREinsights

LIQUOR NOW DOMINATES PROFITS

Prior to wine in grocery stores, Wine gross profit was the leading category alongside with Liquor (40% of the total store's GP).

After November, the product mix of wine sales plunged on average by 5 to 10 points which altered greatly most stores' gross profit structure. In chart 3, we can clearly see the shift happening across Arkansas where wine stores are turning into liquor stores with an average of 47% of gross profits produced by liquor (wine lost 7 points).

Since November 2017, the average liquor stores' gross profit index dropped by 6.8 points (chart 2). This drop is to be added to the 12 months rolling 6% growth momentum stores were experiencing prior to Nov. 2017. Overall, liquor stores saw their gross profit on average drop by over 10%. That's $2,000 to $3,000 profits less per month. The equivalent of 1.5 – 2% of GPM (Gross Profit Margin). Quite enough to place pressure on the marketing / payroll budgets and on the ability to pick up some larger spot deals..

Stores' response to the new price war was not a consensus. Some stores aligned prices with Sam's Club. Others raised prices on brands presenting sales drops. Some stores took a costly chance on deeper liquor deals to increase GPM by a few bps while burning a lot more cash. These latest industry price changes is reshuffling the competitive market landscape adding more financial pressure on keeping up with deeper spot deals.

LAUNCH BRANDS

We projected in November that brands receiving the most pressure were going to be the ones priced between $10 and $15.

This projection held true, however the hits were a lot more brand focused than expected. Kendall Jackson and Barefoot sales were down in all stores yet the drop was most of the time limited to around 25%.

It is a different picture when looking at the top 4 brands with largest hits Josh, Apothic, Black Box and Meiomi. Three fourths of stores saw these brands go down by close to 50% or more.

Box wines in general were down by 30% and was probably the wine category that took the impact consistently across all stores in the state. This was the obvious result of new shopping convenience for customers.

Other brands such as Lamarca, 14 Hands or Korbel do not appear in the top 20 brands but experienced severe back and forth swings month to month since November.

Identify brands not currently on grocery stores' shelves and operate in a "blue ocean" model

EST. % OF STORES IMPACTED	TOP 20 BRANDS	SALES IMPACT (vs same time period last year)
100% of stores	KENDALL JACKSON	< 30%
	BAREFOOT	< 30%
75% of stores	JOSH	< 50%
	FRANZIA	< 30%
	APOTHIC	< 50%
	BLACK BOX	< 50%
	MEIOMI	> 50%
50% of stores	BERINGER	< 50%
	LIBERTY CREEK	> 50%
	BOTA BOX	< 30%
	WOODBRIDGE	> 50%
	MIRASSOU	< 30%
	19 CRIMES	< 50%
	CAVIT	< 50%
	SUTTER HOME	< 30%
	CUPCAKE	< 50%
	YELLOWTAIL	< 30%
	ECCO DOMANI	< 50%
	FRANCIS COPPOLA	> 50%
30% of stores	LOHR	< 30%
	YELLOW TAIL	< 50%
	LAMARCA	< 50%
	BOGLE	< 50%
	ANDRE	< 30%
	COOK'S	< 30%
	KORBEL	> 50%

SOURCE: THEREinsights

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June 2018

THE INDUSTRY FOR SALE ?

Consumers realized that pricing points nor selection were going to be the advantage for shopping at a grocery store. The pendulum of consumers' purchasing habits started shifting back last month towards liquor stores. In May, we noticed some of the most price aggressive grocery stores reverting to a higher margin strategy.

Still with the damage done to the market, around 10% of the industry is for sale. The stores leasing their space are at a stronger risk than stores already owning their property. We estimate that around 40% of the industry currently rents and over 60% does not own in full the real estate property.

It is our estimates that 25% - 30% of the industry will close doors or shift hands in the next 12-18 months. For the past 7 years, the industry has been progressing towards a forest of large trees but in lower numbers. The current stress on the market is only accelerating this shift and is probably shortening the transition by 10 years. The outcome for stores successful in passing through the storm could be a significant increase of their average annual revenue (industry average could move from $1.5M to $2M per store) and should compensate the loss of GPM.

ABC introduced new regulations (contact UBRA) which provide liquor stores with advanced competitive tools. These tools allow a better understanding of their consumers' behavior. Stores can then benefit from this knowledge by adapting their sales/marketing strategies to focus on targeted consumer needs.

We believe at There Insights that **liquor stores still have a number of competitive tools available** up their sleeves to maintain sales and profit growth despite the market shift. If you still enjoy the industry and believe in the phenomenal opportunity resulting from the recent reshuffling of the cards, you should contact our research and data team at There Insights and get started on building a stronger future.

Want to read more market research?

$2 Million

New annual average revenue for Liquor Stores in next 18 – 24 months

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Our team offers solutions to help you :

1. Boost **Gross Profits**
2. Boost Traffic & **Sales**
3. Optimize inventory & **cash management**
4. All based on **research & data** analytics

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We have advised wine & spirit stores in Arkansas at all stages of their business cycle. Our team relies on our diverse industry network and thorough market research to provide you with the most accurate insights & innovative growth strategies in the industry. We guide our clients through a full range of business planning with strategies that maximize your cash flow and keep you on track toward achieving your financial goals.

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OUR SOLUTIONS

- INVENTORY Optimizer
- GROSS PROFIT Booster
- STORE SET UP / BUSINESS PLAN
- SALES Booster
- CUSTOMER Intelligence
- MARKET ENTRY / EXIT strategies

Data sources: This research report was produced with the use of qualitative and quantitative data points from the Arkansas market. Trends identified during consumer surveys as well as onsite meetings with retail store owners were verified with quantitative data sourced from public websites (ABC, bizbuysell) and extract samples from THEREinsights' proprietary database of retail stores located in all key centers (central AR, west AR and NWA) across the state of Arkansas. Sampled retailers included stores with opposite product mix profiles (liquor / wine mix dominant) prior and after November 2017.