2013 American Homebrewers Association Industry Workshop

Agenda

- 1:00 Introduction
- 1:15 Shop Survey Results
- 2:00 Retailing Like A Retailer
- 3:00 Break
- 3:15 Retailer Panel
- 4:00 Wholesaler/Supplier Panel
- 5:00 – 7:00 Social Hour at the Field House

Antitrust Guidelines for Meetings

We cannot discuss any of the following topics:

- Prices, pricing procedures, margins, what constitutes a fair profit level, changes in or stabilization of prices, terms or conditions of sale.
- Pricing practices of any industry member.
- Forecasts of price increases or decreases.
- Specific credit terms, discounts, rebates, freight allowances, profits, profit margins or costs, market shares, allocation of markets, any limitation on sales, sales territories or distribution practices.
- Selection, rejection, boycott, refusal to deal with, or termination of any suppliers or customers.

AHA Governing Committee Industry Subcommittee

Chair: Jake Keeler, AHA GC Chair

Reed Antis, Saratoga Zymurgist

John Blichmann, Blichmann Engineering

Juno Choi, BSG HandCraft

Justin Crossley, AHA GC, The Brewing Network

Michael Dawson, Wyeast

Chris Farley, Northern Brewer

Gary Glass, AHA

Chris Graham, MoreBeer!

Duke Green, FH Steinbart

David Kidd, Midwest Supplies

Chris Opela, BrewMaster

Steve Parr, AHA

Chris Sjorthum, BrewCraft

Brad Smith, BeerSmith

Brian Wright, LD Carlson

What is the Industry Sub-Committee?

Committee's function

The Industry Subcommittee was formed during the National Homebrewers Conference of 2010.

The committee’s primary goals are to foster better communication between the AHA and industry entities, as well as provide resources, assistance, and guidance to the AHA based on concerns brought forward by said members of the homebrewing industry.

2012/2013 Activities

1. Expanded programming for the Industry Workshop (formally called Retailers Roundtable) and increased attendance.

2. Review and develop questions for the annual industry survey

3. Exploring the idea of creating an industry trade organization of some kind - perhaps through the AHA.

Overview

275 Responses, a 32% increase from 2012

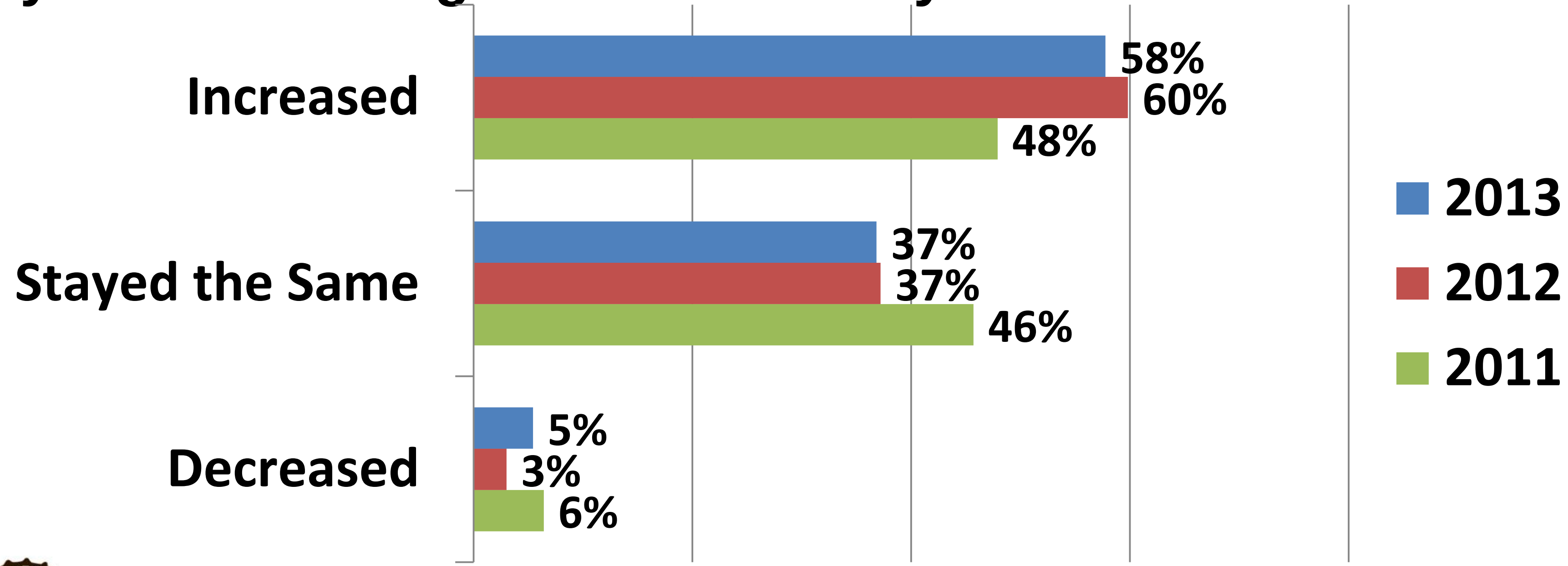
Shops from 47 states participated

Years in Business

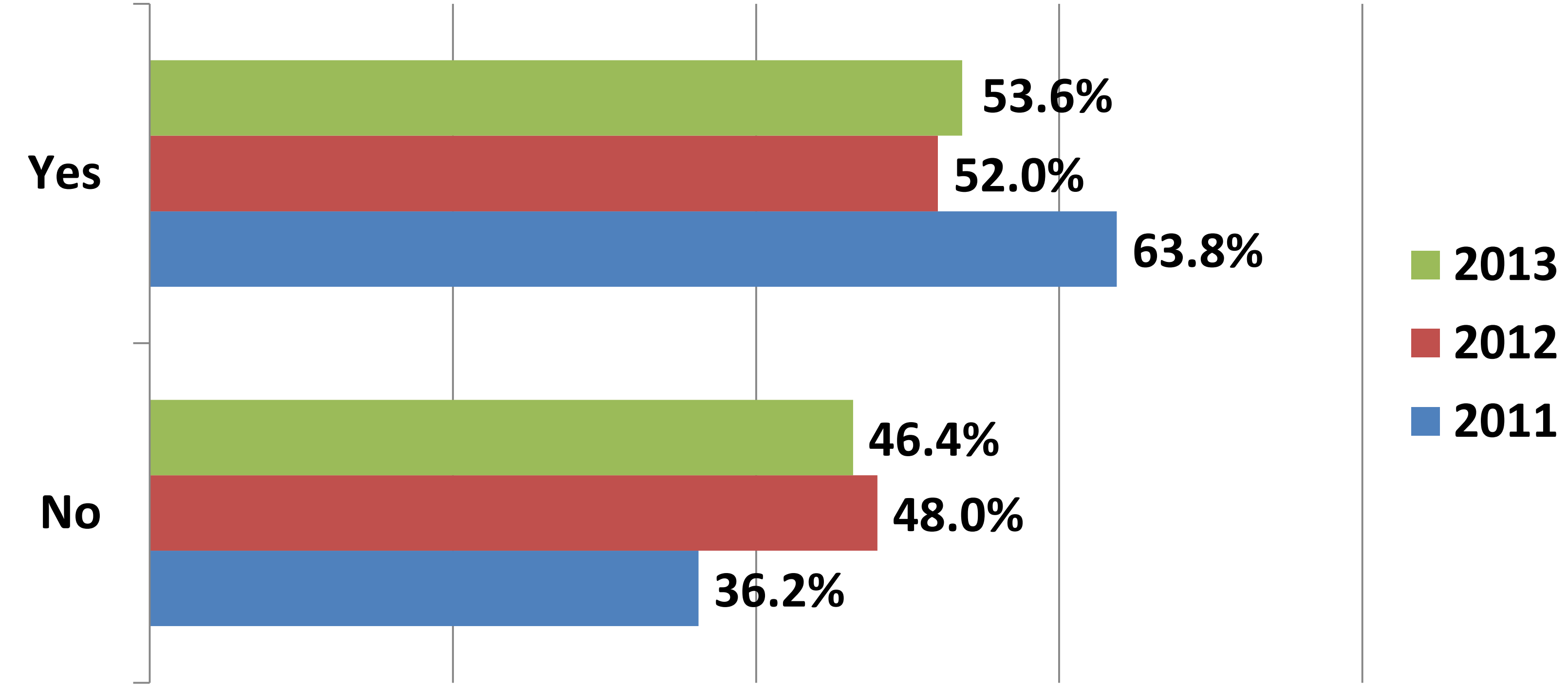
- Average: 10 years
- Median: 5 years
- 43% open ≤ 3 years (34% in 2012 survey)
- 7% open ≤ 1 year (11% in 2012 survey)

Number of Shops In Area

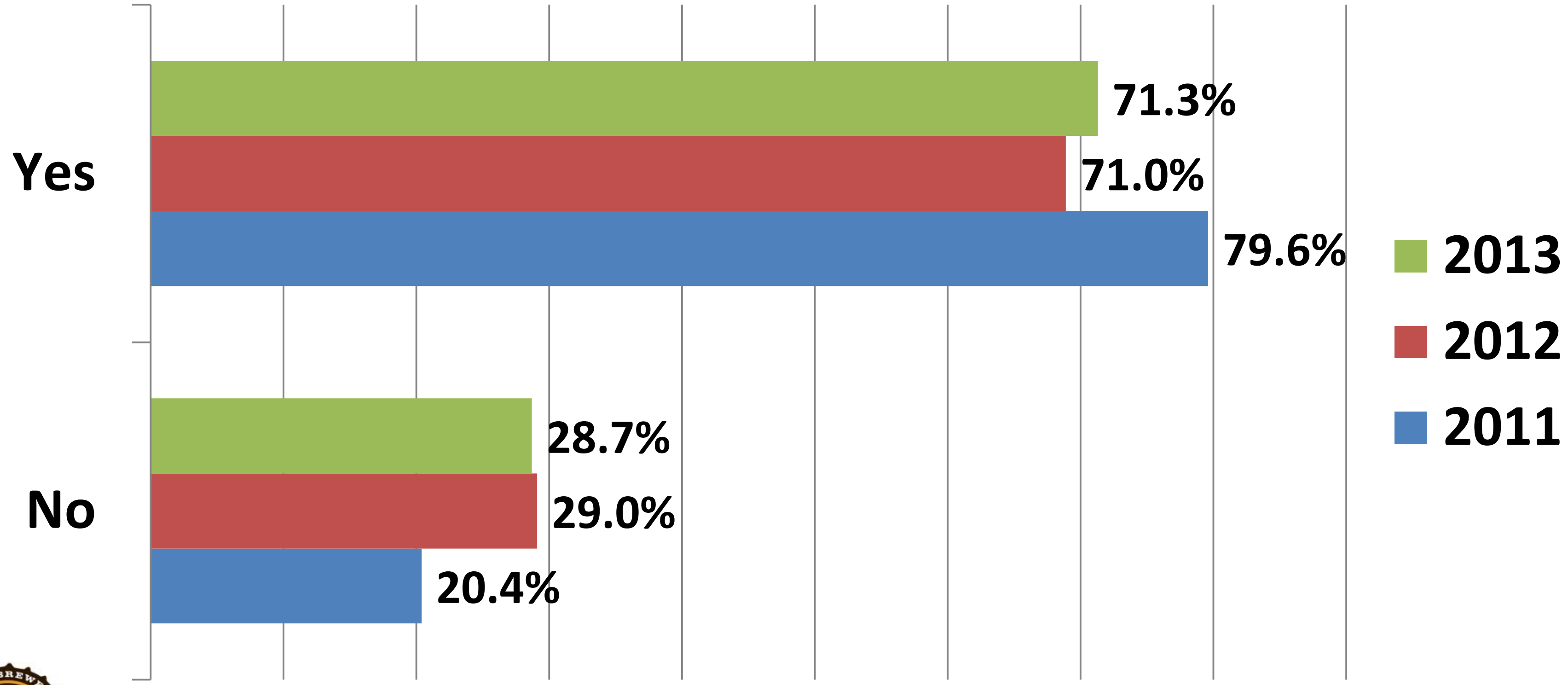
How has the number of home beer and wine retailers in your area changed over the last year?



Is the shop the primary source of income for the proprietor?



Is selling home beverage making supplies the primary source of income for the shop?



Revenue 2012 & 2011

All Shops

Gross Revenue				
	2012	2011	2012 % Change	2011 % Change
Average	$1,213,444	$961,692	26.2%	20.1%
Median	$265,000	$245,000	-	-

Net Revenue				
	2012	2011	2012 % Change	2011 % Change
Average	$118,643	$101,993	16.3%	20.7%
Median	$60,000	$52,000	-	-

Average Net Revenue is 9.8% of Average Gross Revenue

Revenue 2012 & 2011 Cont.

Shops selling home beverage making supplies as the primary source of income

Gross Revenue				
	2012	**2011**	**2012 % Change**	**2011 % Change**
Average	$1,343,478	$1,043,999	28.7%	23.9%
Median	$250,000	$225,000	-	-

Net Revenue				
	2012	**2011**	**2012 % Change**	**2011 % Change**
Average	$120,954	$103,228	17.2%	25.0%
Median	$51,000	$45,000	-	-

Average Net Revenue is 9.0% of Average Gross Revenue

Revenue 2012 & 2011 Cont.

Primarily home beer & wine, not those with 70+% sales online

Gross Revenue				
	2012	**2011**	**2012 % Change**	**2011 % Change**
Average	$476,048	$390,402	21.9%	19.30%
Median	$220,000	$192,000	-	-

Net Revenue				
	2012	**2011**	**2012 % Change**	**2011 % Change**
Average	$58,361	$47,969	21.7%	17.6%
Median	$35,000	$38,000	-	-

Average Net Revenue is 12.3% of Average Gross Revenue

Revenue 2012 & 2011 Cont.

Primarily home beer & wine, not those with 70+% sales online, in business 5+ years

Gross Revenue				
	2012	**2011**	**2012 % Change**	**2011 % Change**
Average	$576,600	$472,868	21.9%	18.35%
Median	$250,000	$250,000	-	-

Net Revenue				
	2012	**2011**	**2012 % Change**	**2011 % Change**
Average	$68,507	$57,394	19.4%	15.5%
Median	$51,000	$47,500	-	-

Average Net Revenue is 11.9% of Average Gross Revenue

Revenue 2012 & 2011 Cont.

NOT primarily selling home beverage supplies

Gross Revenue			
	2012	2011	2012 % Change
Average	$720,879	$682,636	5.6%
Median	$302,000	$280,000	-

Net Revenue			
	2012	2011	2012 % Change
Average	$93,373	$90,207	3.5%
Median	$73,088	$56,509	-

- On average, home beverage supplies made up 22% of total sales for this group of retailers
- Average Net Revenue is 13.0% of Average Gross Revenue

Analysis of Gross Revenue

57% ≥ 10% growth in 2012 (65% in 2011)

40% ≥ 20% growth in 2012 (41% in 2011)

18% experienced a decline in 2012 (10% in 2011)

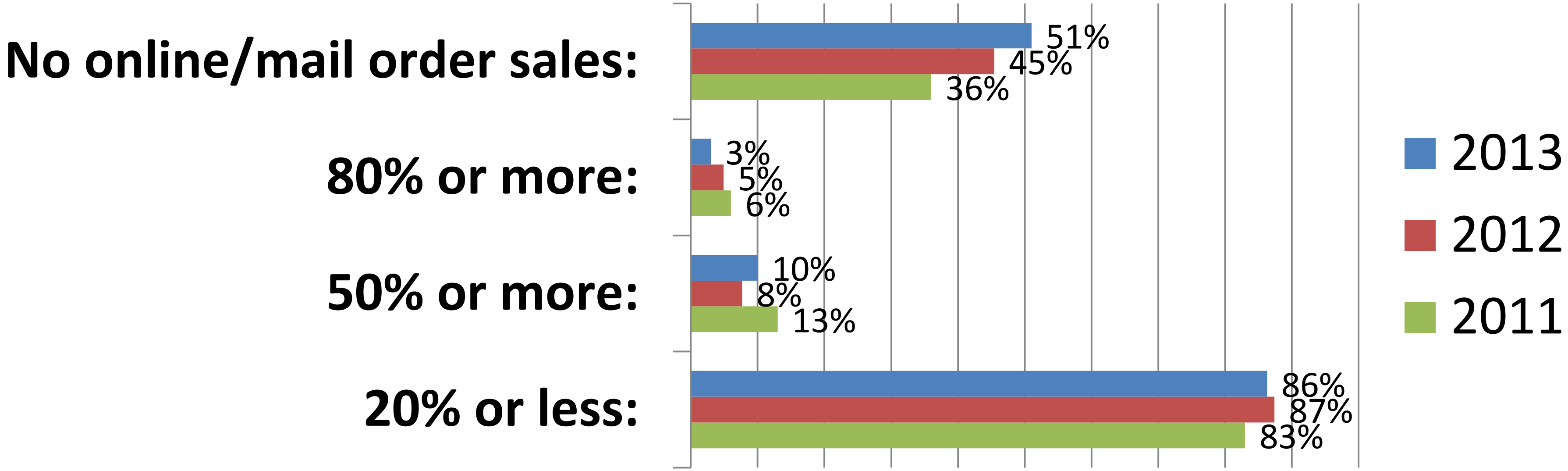
Analysis of Net Revenue

46% ≥ 10% growth in 2012 (71% in 2011)

35% ≥ 20% growth in 2012 (53% in 2011)

23% declined in net revenue in 2012 (17% in 2011)

What percentage of your total sales revenue comes from online or by mail-order?



	2013	2012	2011
Average:	9.7%	10%	14%
Median:	0.0%	1%	2%

What percentage of your total sales revenue comes from online or by mail-order?...Cont'd

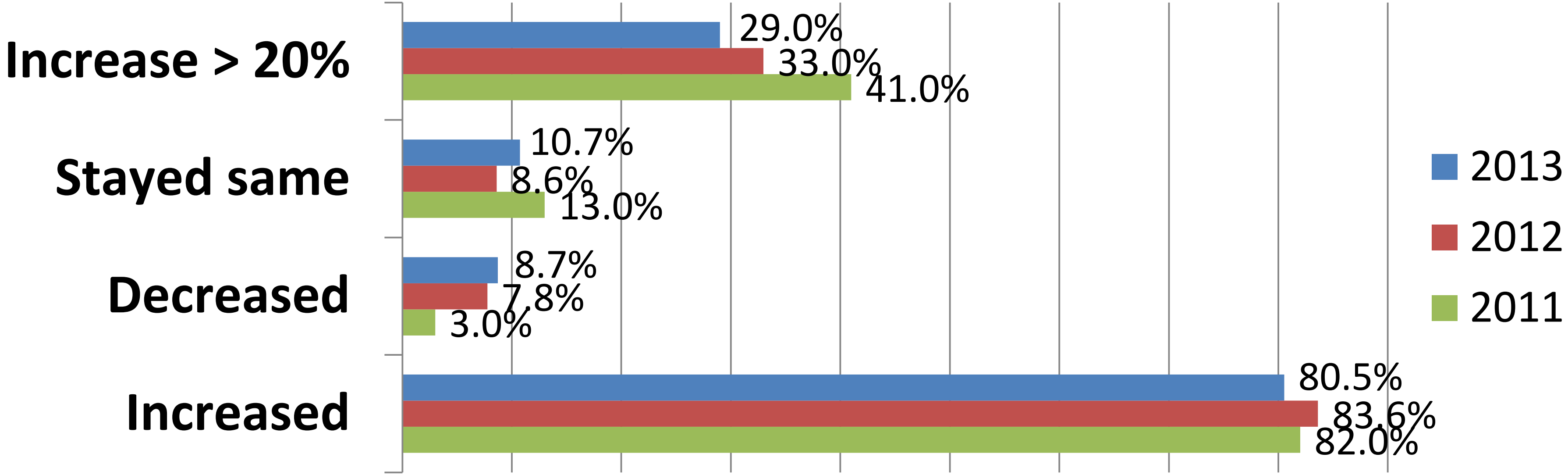
- **There is a direct correlation between years in operation and the percentage of sales conducted online or via mail order:**

Years	Average
< 1	1.7%
< 3	3.6%
< 5	6.9%
10+	14.2%

Revenue Per Square Foot

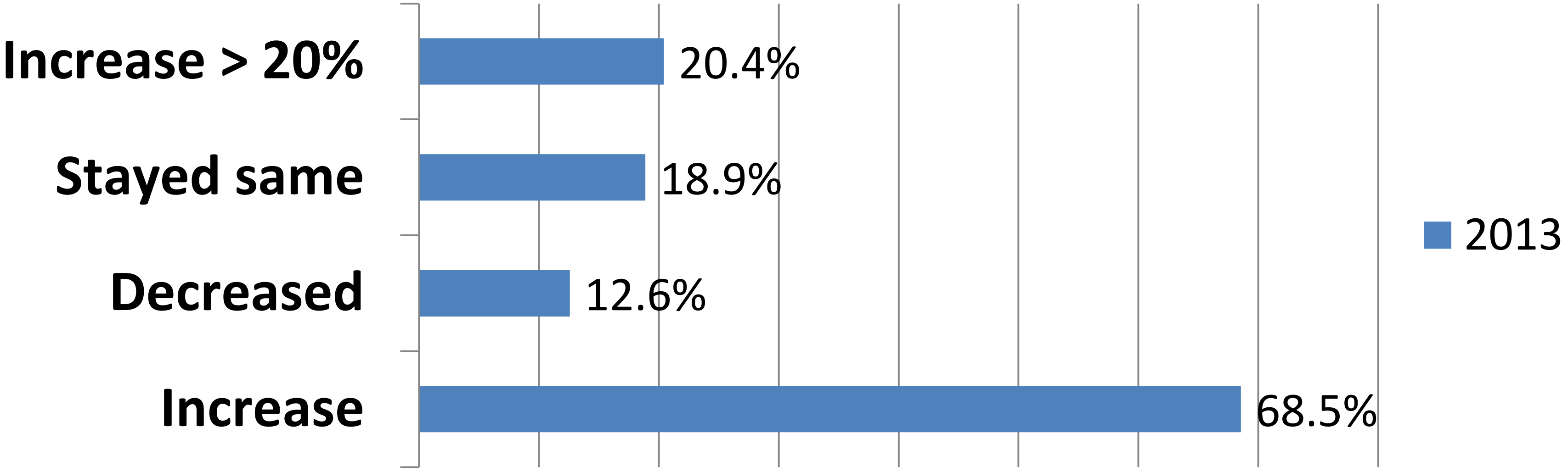
	2012	2011
All Shops	$275	$ 219
Home Beverage Making Only (HB)	$297	$ 265
HB, Without 70% Online	$164	$ 154
HB, Without 70% Online, Open 5+yrs Only	$177	$ 164

Beginner Beer Equipment Kit Sales



	2013	2012
Average	23.1%	16.4%
Median	18.0%	10.00%

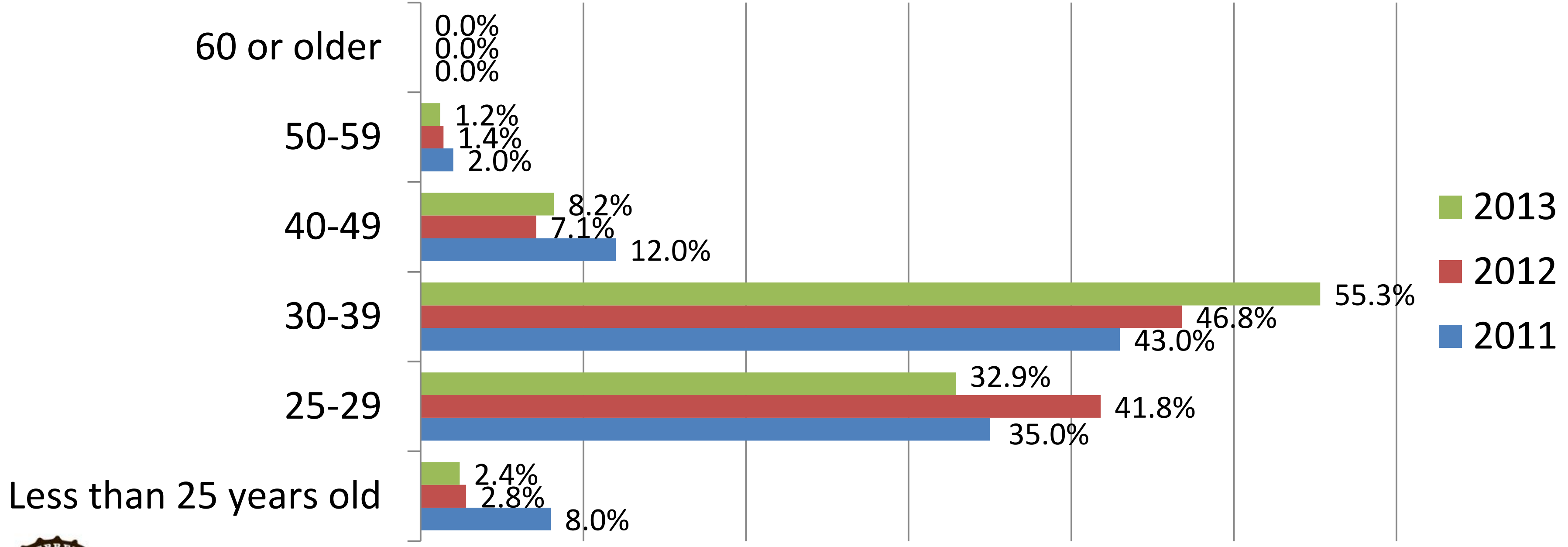
Beginner Wine Equipment Kit Sales



	2013
Average	15.3%
Median	8.0%

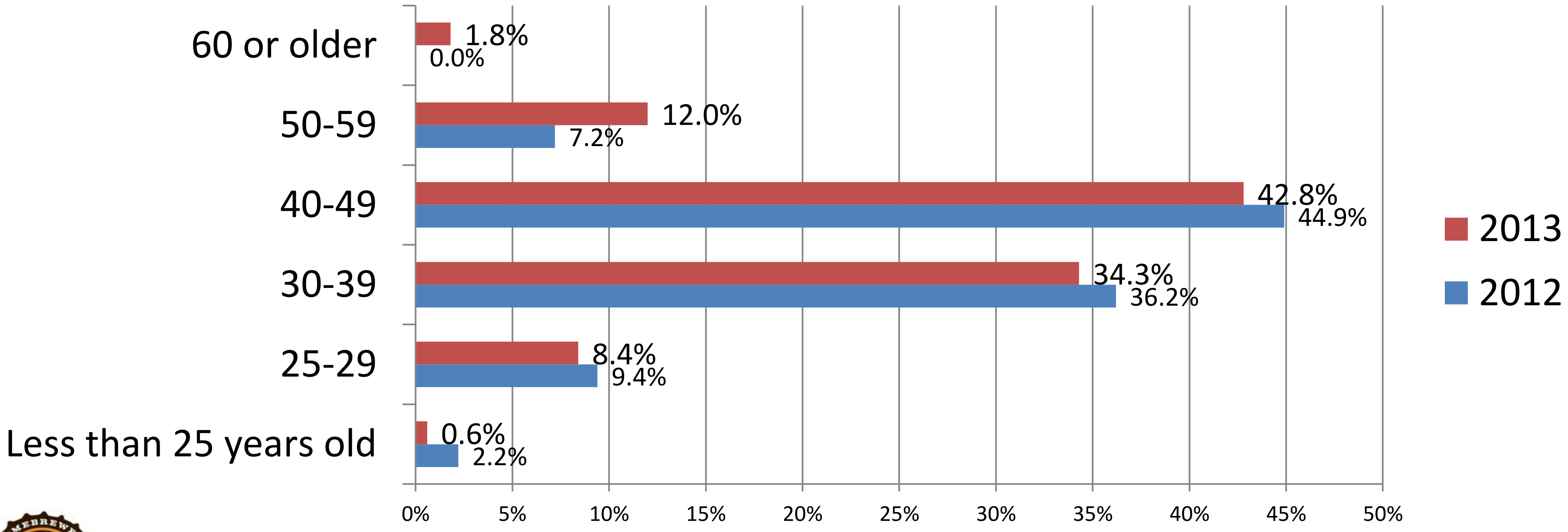
Beginner Kit Sales Cont'd

Among the customers who buy beginner **homebrew** kits at your shop, please estimate what would be the most common age group

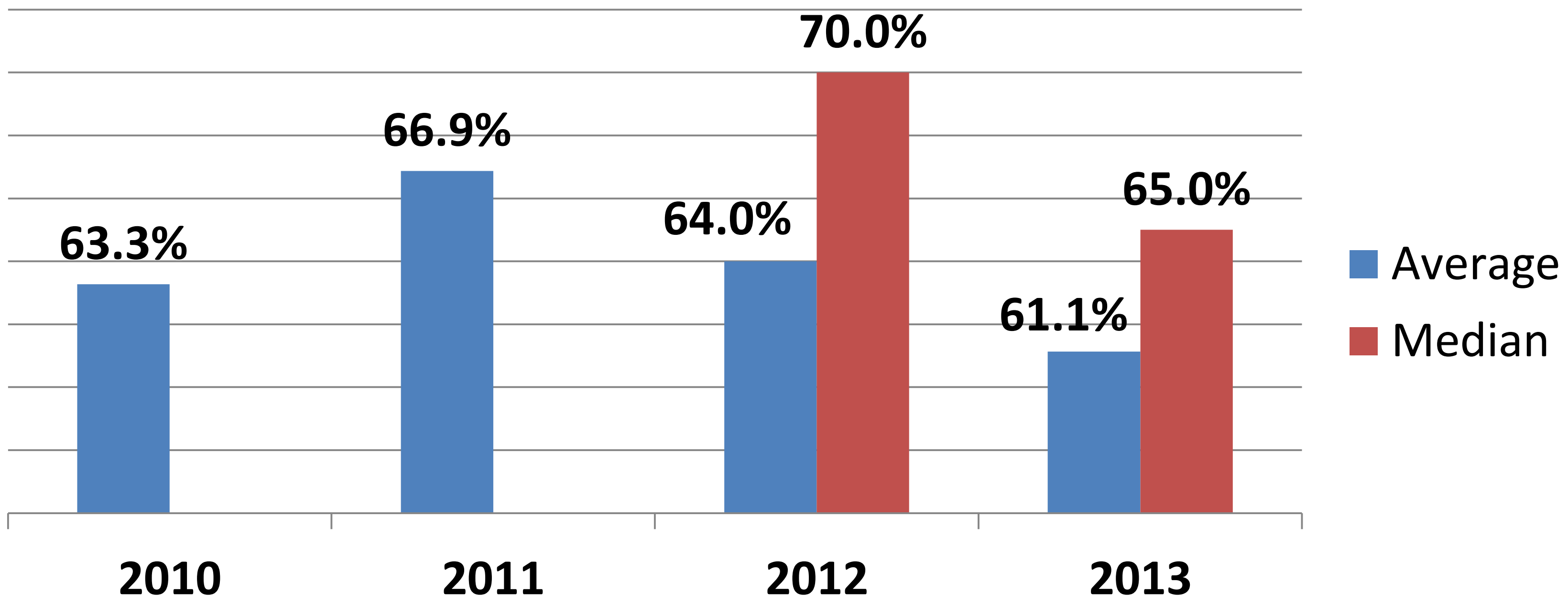


Beginner Kit Sales Cont'd

- Among the customers who buy beginner **winemaking** kits at your shop, please estimate what would be the most common age group for:



% Of Purchases That Include Malt Extract



Major Take Aways

- Overall revenue growth: 26%. Up from 20% in 2011
- Growth in new shops:

  43% open ≤ 3 years (34% in 2012 survey)

  7% open ≤ 1 year (11% in 2012 survey)

Potential Red Flags

- 18% experienced decline in gross revenue. Up from 10% in 2011.
- 23% experienced decline in net revenue. Up from 17% in 2011.

2013 Home Beer & Wine Maker Survey

AHA national survey of home beer and wine makers will gather information on:

- Demographics
- Hobby practices
- Purchasing habits

2013 Homebrew Media

- **YTD: AHA has sent 9 press releases.**
- **Generated 125 media hits.**
- **Range: beer blogs to major metropolitan newspaper and radio coverage**

2013 Homebrew Legislation

Homebrewing Legalized: Alabama & Mississippi

Transportation: Georgia, Illinois, Iowa, Kansas, Missouri

Brewing & Sampling for Retail Demo: Illinois

Questions/Suggestions

Retailing Like A Retailer

Tracy B. Neal
Homebrewer, Beer Industry Veteran

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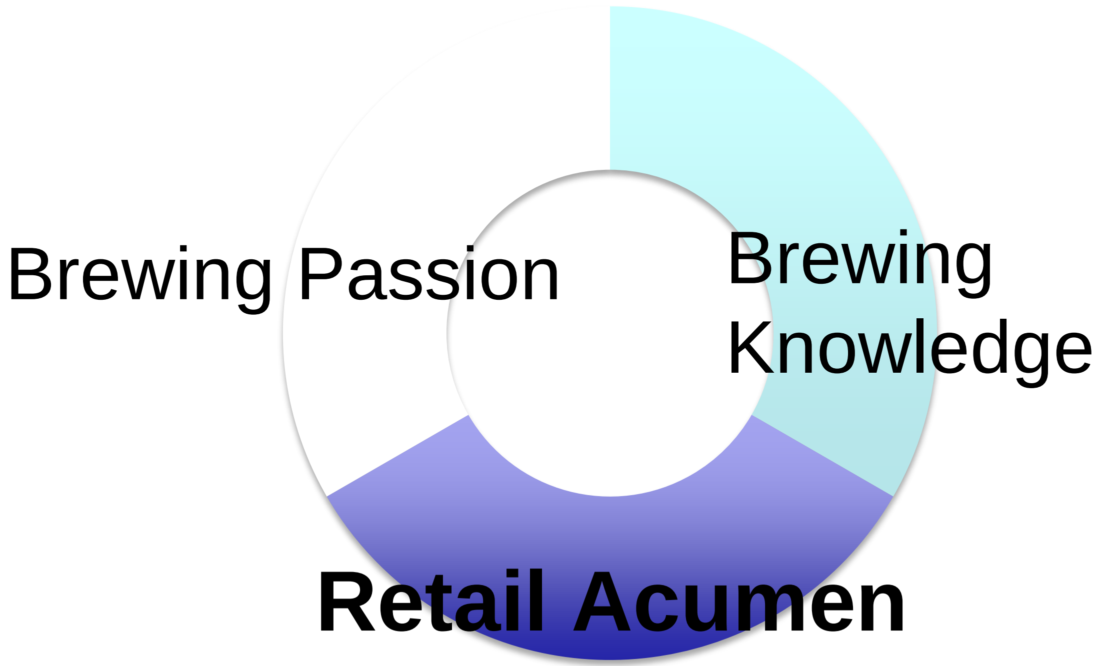
Necessary ingredients for a successful homebrew shop



Lesson One, Two Things!

1. When in doubt, go shopping!

2. Two-Tier Pricing Makes $$$!

Embrace Retail!

- Consumers love shopping!
- Shoppers are conditioned by big stores!
- Shopper behavior is predictable!

Self-Evaluation

No, No, and No I don't!

- I have a hard time ***not*** offering a discount to my friends.
- I feel guilty when somebody spends more money than I would on something.
- I feel bad offering the overly-expensive version of a product.

Consumer Thought Process

- What is it?
  - Packaging
  - Positioning
  - Adjacency
  - Value
- Is it for sale?
  - Standard offer (price)
  - Special offer (price)
  - Exclusive offer (price)

*Programmed Purchase

- Value Purchase
  - Saves time
  - Saves money
  - Increases quality
  - Makes me happy
- Impulse Purchase
  - I didn’t know I needed that
  - Limited product offer
  - Limited pricing offer

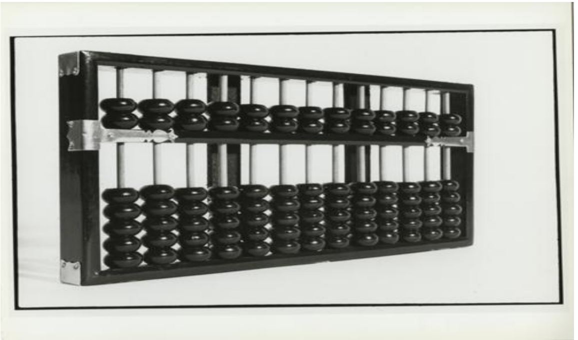
** Complimentary Purchase

Non-Shelf Inventory

- Displays
  - Communicates a special offering
  - Offer the best value for the price
  - Yes, on sale, but sales are planned
  - Blended margin of on-vs.-off sales weeks
  - AKA, 2-Tier pricing

Two-Tier Pricing

- Frontline Price: $17.99
  - 12 weeks
  - 100 units per week, 1200 units per year
  - Margin = 50%
- Sale Price: $14.99
  - 36 weeks, 3 on (frontline), 1 off (sale)
  - 300 units per week, 10,800 units per year
- Blended price: $15.29
  - $14.99 x 10,800 = $161,892
  - $17.99 x 1,200 = $21,588
  - Total: $183,480 / 12,000u = $15.29



Shopping Carts

- Without them
  - "please only buy what you can carry"
- Selecting a cart is a commitment to spend $$$

Destination Items

- Safeway – Milk in the back corner of the store
- Homebrew Shop – grains at the back, longest walk

- Goal: to get customers to walk and shop every aisle, parting with their money as they “consume” ***value*** and ***service*** from your offerings

Brand and Product Ribboning

- Shelf-Ribboning = Vertical, not horizontal
- Higher priced items are to be reached up for
- Lower priced items are to be reached down for
- Put the highest product up top, the middle on in the middle, the low end offering on the bottom.
- But I don’t carry a low end item…. Ah-Hah!
- Know the Law of Compromise Effect!


MALT'S
BEER
SUNTORY
YEBISU
Premium
YEBISU TRADITIONAL BREW
GUINNESS
DRAUGHT
SAPPORO
King Solomon
NEW
サッポロ 冬物語
330ml
268円
197円
1,458円
268
300
249
123
205
228
CLASSIC
LAGER BEER
Diet
White Ale
24 1:46 AM

Loyalty Programs

- ***Gamification*** of buying
  - Introduction of game-like challenges and rewards in a non-game environment to improve engagement and participation
- Loyalty = 3rd tier pricing!
  - Frontline Price
  - Sales Price
  - Member Price (exclusive)
- Acquisition of shopper demographics

A Clean Store

You won’t notice the gradual dirt and dust build up over time, but your customers will!

Homework

- Stand in your shop (blindfolded) for 10 minutes.
  - What do you hear?
  - What do you smell?
  - What are your customers doing before they check out?

- Go across the street from your store and sit in a chair for 30 minutes.
  - Predict what customers will purchase before they go in?
  - Profile their brewing needs?
  - Then check receipts to see what they did purchase.
  - Ask yourself what they ***didn't*** purchase and why?

Lesson One, Two Things!

1. When in doubt, go shopping!

2. Two-Tier Pricing Makes $$$!

Q & A

Tracy B. Neal

Homebrewer, Beer Industry Veteran

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Retailer Panel

- David Kidd | Midwest Homebrewing Supply | "Managing Online & Retail Channels“

- Jason Harris | Keystone Homebrew Supply | "Roles and Challenges of Local Homebrew Supply Shops“

- Reed Antis | Saratoga Zymurgist | "The Small Retailer's Guide to Success"

Wholesaler/Supplier Panel

- John Blichmann | Blichmann Engineering
- Juno Choi | BSG Handcraft
- Chris Opela | Brewmaster, Inc.
- Brad Smith | Beer Smith, LLC
- David Stuart | LD Carlson Co.

Industry-Only Homebrew Expo

Thursday, June 27, 10:30 a.m. – Noon

Philadelphia Marriott Downtown

Franklin Hall, 4th Floor

Bring your Industry Workshop Badge

Social Hour(s)

5:00 – 7:00 p.m.

Field House Sports Bar – cross the 3rd floor skybridge to the Pennsylvania Convention Center. Down the escalator and immediately behind the escalator.

Complimentary Appetizers and Beverages.

Drink tickets in your badge.

Thank you for coming!

HomebrewersAssociation.org