

Going Interstate, Going Global

Promoting Growth Within Virginia's Craft Brewery Sector



U.S. Small Business
Administration



Topics Covered



- Program Design
- Adapting to New Realities
- Serving the Industry
- Scaling Operations
- Neighboring State Profiles
- Distributor Relationships
- Export Readiness
- Top Export Markets
- Regulatory Requirements
- Market Selection
- Export Resources
- Conclusions

Program Design



- Craft Beverage Assistance program launched in Spring 2019
- Statewide service housed within International Business Development program
- Created to address particular needs of craft beverage industry
- Initially focused on growth promotion, added resiliency capacity
- Trainings and workshops, counseling, research, resources

Serving the Industry



- Alcohol producers face many industry-specific issues
 - High start-up costs
 - Significant state & federal regulatory burden
 - Issues of scaling
 - Beer: equipment costs
 - Wine & cider: agriculture
 - Spirits: production timelines
- Any attempt to support exports should account for these issues



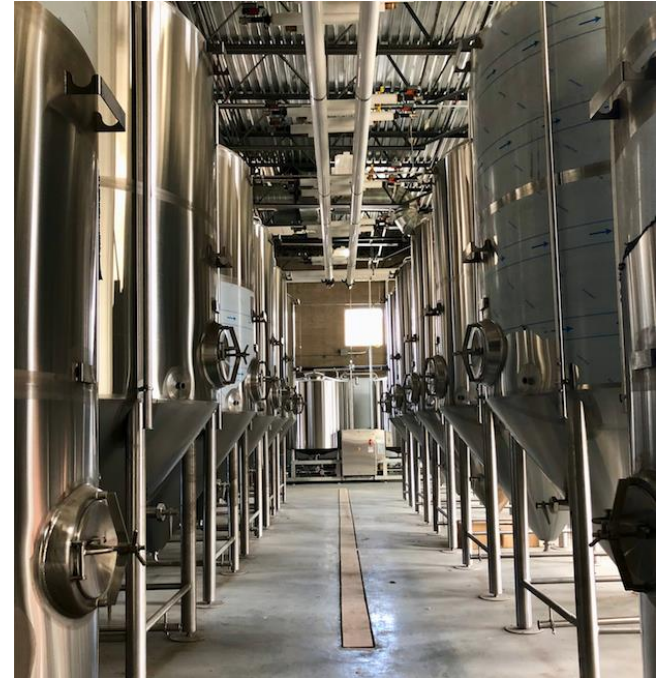
Adapting to New Realities

- Off-premise growth doesn't make up for on-premise declines
- Packaging preferences shifted
- States have temporarily softened service and sales regulations
 - DTC and delivery permitted
 - On-prem retailers sell to-go
 - Encourage businesses to contact regulators
- Growth strategy must adapt, but how given the uncertainty?



Scaling Operations

- Identify gaps to scaling
 - Workforce
 - Production capacity
 - Facilities
 - Logistics
 - Financial resources
- Seek out economies of scale
 - Inputs and QDs
 - One-time investment
 - Life cycle gain
 - Efficiency gains
 - Bargaining power



Neighboring State Distribution Profiles



- Expanding beyond home state involves new set of regulations
- Profiles of neighboring states cover core information:
 - Government role in distribution
 - Control: gov't monopoly over wholesale and sometimes retail sales
 - Open: regulated free-market for alcohol distribution
 - Franchise status: distributors can't be easily terminated
 - Any special retail or distribution conditions
- Market information
 - Consumption data by beverage type
 - Production volume and number of producers

North Carolina



- Partial control state re: liquor but open for beer & wine
 - Liquor distribution and retail controlled by ABC
 - Dry towns and at least one dry county
- State franchise protection for wine
- All alcoholic beverages must receive NC label approval prior to distribution
 - ABV caps for beer and wine
- Beer & wine sold in grocery stores, spirits at state-owned outlets w/ unified pricing
- Alcohol consumption ranking among neighboring states
 - Beer: #2 total volume, #4 per capita
 - Wine: #1 total volume, #2 per capita
 - Spirits: #2 total volume, #6 per capita

Distributor Relationships



- Establish parameters of distribution
- Confirm logistical capabilities
- Prioritize expansion territories
- Choose a wholesaler
- Develop sales support tools
 - Sell sheets, marketing assets
 - Logo package and brand story
 - Sales incentives and market promotions
 - Wholesaler relationship tools



Export Readiness

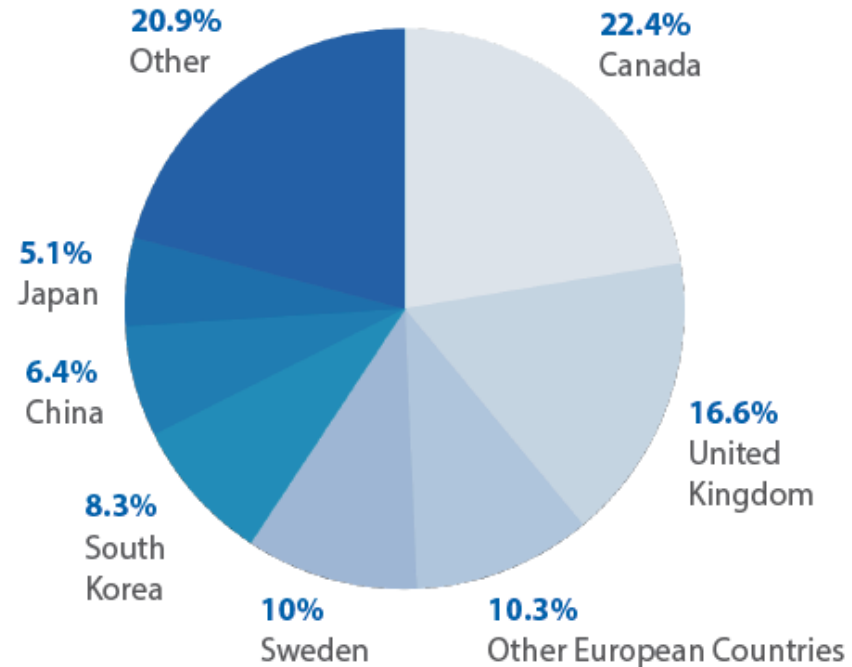
- General guidelines to assess export-readiness
 1. Working with more than one distributor
 2. Selling into multiple states
 3. Demonstrated capacity to scale
 4. Projected export profit model mapped to existing markets
 5. Existing international demand or strong sense of target markets



Top Export Markets



- Canada: government buys and regulates at province level
- United Kingdom: nascent domestic craft culture, pubs vs. craft bars
- Europe: opportunities of and limits to unified market
- Sweden: Systembolaget – tenders and no marketing, heavy on imports
- So. Korea: US imports up, price elasticity
- China: premiumization, scale vs risk
- Japan: US beer highest price, trading up



Regulatory Requirements



- Regulatory burden varies by market
- Labeling requirements:
 - Metric system
 - Government warning
 - Language(s)
- Testing:
 - Phytosanitary
 - Materials
- Packaging materials
- Distribution channels

Market Selection



- Develop tailored set of weighted indicators and rank potential markets
 - Disposable income
 - Population centers
 - Regulatory environment
- Market selection should match company capabilities and goals
 - High investment, high reward
 - Low investment, low reward

Market Selection in Practice



Economy	US Craft Beer Imports (\$USD million)			GDP/Capita (\$USD thousand)			Shipping Distance (Thousand Miles from VA)			Target Population (20-34 y.o. pop. In millions)			Regulatory Burden (Number of Hurdles)			Total Points
	Indicator	Weight	Points	Indicator	Weight	Points	Indicator	Weight	Points	Indicator	Weight	Points	Indicator	Weight	Points	
Canada	16.6	3	49.8	46.2	1	46.2	0	-2	0	7.7	0.5	3.85	5	-5	-25	74.85
UK	12.3	3	36.9	42.9	1	42.9	3.5	-2	-7	13.3	0.5	6.65	2	-5	-10	69.45
Sweden	7.4	3	22.2	54.6	1	54.6	3.8	-2	-7.6	2.0	0.5	1	4	-5	-20	50.2
S. Korea	6.2	3	18.6	31.3	1	31.3	10.3	-2	-20.6	10.0	0.5	5	3	-5	-15	19.3
China	4.7	3	14.1	9.8	1	9.8	10.4	-2	-20.8	313.9	0.5	156.95	6	-5	-30	130.05
Japan	3.8	3	11.4	39.3	1	39.3	9.5	-2	-19	18.9	0.5	9.45	3	-5	-15	26.15
Singapore	1.0	3	3	64.6	1	64.6	10.3	-2	-20.6	1.3	0.5	0.65	0	-5	0	47.65

Market Selection Contextualized



Economy	US Craft Beer Imports (\$USD million)			GDP/Capita (\$USD thousand)			Shipping Distance (Thousand Miles from VA)			Regulatory Burden (Number of Hurdles)			Total Points
	Indicator	Weight	Points	Indicator	Weight	Points	Indicator	Weight	Points	Indicator	Weight	Points	
Canada	16.6	3	49.8	46.2	1	46.2	0	-2	0	5	-5	-25	71
UK	12.3	3	36.9	42.9	1	42.9	3.5	-2	-7	2	-5	-10	62.8
Sweden	7.4	3	22.2	54.6	1	54.6	3.8	-2	-7.6	4	-5	-20	49.2
South Korea	6.2	3	18.6	31.3	1	31.3	10.3	-2	-20.6	3	-5	-15	14.3
China	4.7	3	14.1	9.8	1	9.8	10.4	-2	-20.8	6	-5	-30	-26.9
Japan	3.8	3	11.4	39.3	1	39.3	9.5	-2	-19	3	-5	-15	16.7
Singapore	1.0	3	3	64.6	1	64.6	10.3	-2	-20.6	0	-5	0	47

Final Market Ranking



Countries ranked by total points

Model 1	
Market	Points
China	130.05
Canada	74.85
UK	69.45
Sweden	50.2
Singapore	47.65
Japan	26.15
S. Korea	19.3

Model 2	
Market	Points
Canada	71
UK	62.8
Sweden	49.2
Singapore	47
Japan	16.7
S. Korea	14.3
China	-26.9

- Use this tool as a starting point for a discussion. Context matters!

Conclusions



- Breweries (and wineries, distilleries, cideries, etc.) have particular needs above and beyond other food & beverage businesses
- The industry is particularly vulnerable to the current turmoil
- A tailored approach to resiliency and measured growth will help ensure longevity



Cheers!

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