EFFIS Consulting

Effective Information & Strategy

Perspectives 3

Volume 1, # 3, March 2015

The Supercenter Opportunity in 2020

Explosive Growth in Domestic Ales

Spanning 49 states across 3600 stores, and with 100 million weekly shoppers, Meijer and Walmart's Supercenter outlets comprise a massive off-premise retail sales channel. While historically serving lower and lower-middle income consumers, this channel is demonstrating interest in moving "up-market", particularly in the Craft sector.

Helping buoy this initiative is the purchasing power and the shifting brand/beer style demand preferences of Millennials. It's no longer just a Bud-Light, Pabst, Miller, Coors, and Corona world at Walmart!

If today we were to visit any of the three Walmart Supercenters located in Columbia, MO, we'd find specialty Craft brands such as Schlafly, Boulevard, and Goose Island (all strong regional players). Also in the mix would be the "Carrier-Class" Craft brands Sierra Nevada, New Belgium, and Sam Adams.

Shelves would be well stocked, the beers aggressively priced, with brisk sales. With 35,000 students nearby attending the University of Missouri, plus the impact of a prosperous local community, this regional market highlights the Supercenter channel's ability to tailor beer assortments at the local level.

Craft in Supercenters - Upward Bound

Our U.S. Beer model estimates that, in 2014, Supercenters accounted for 8.5% of all U.S. off-premise Craft beer sales, in dollars.

Given the Supercenter's channel focus on increasing beer sales, our forward industry growth simulation projects Supercenters will achieve, by 2020, a 13% dollar share in Craft off-premise sales ($1.2 billion).

The sweet spot for this growth continues to be the domestic Ale category.

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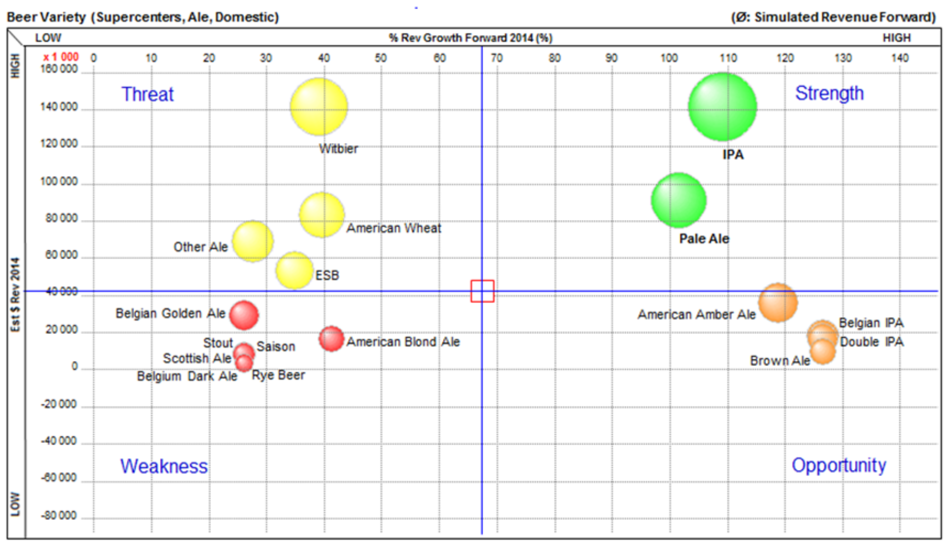
Domestic Ale Performance at Supercenters in 2020 (Type: Craft & Crafty)



The Vertical axis shows Estimated 2014 revenues by Ale type and the Horizontal axis shows 2020 Forward % Revenue Growth Estimate for each Ale type. The Bubble size is proportionate to the 2020 Revenue.

Insights from the Matrix View

The matrix quadrants are color coded and labeled to show the key performance characteristic of the Ales types shown in each respective quadrant.

- **<u>Bubbles in the Green (Stars) and Orange (Opportunity)</u>**, to the right of the vertical cross-hairs, have grown faster than the category average of 67% and are gaining market share.
- **<u>Bubbles in the Red (Weakness)</u>** column are Ale types with below average revenues and are losing market share.
- **<u>Bubbles Yellow (Threat)</u>** are domestic Ale types with higher than average sales, but are losing market share.
- **<u>Green bubbles</u>** show Domestic Pale Ales and IPA's are the category champions (Stars) and are gaining market share and gaining sales. The Green bubble Ale types (all Craft) comprise 39% of all 2020 Supercenter domestic Ale sales. By 2020 revenues for Craft Pale Ales and IPA's are $475MM, over 100% up from 2014)!
- **<u>Orange bubble Ale Types</u>** (Belgian style IPA's, Double IPA's) are increasing market share (revenues are p 120%+ from 2014 base levels but are still lower than average per Ale type).

Additional Data/Insights from our 2020 Supercenter Domestic Ales Model (table report)

Supercenter Channel - Domestic Ales by Type							
Name	Est $ Rev 2014	% Revenue Growth Forward	Simulated Revenue Forward 2020	Simulated Qty SKUs Forward	Simulated Retail Price Per SKU Sold	Estimated Base Gallons 2014	# of Skus
IPA	$141,247,360	109.2	$295,493,952	28,953,396	$10.21	9,721,286	20
Witbier	$141,484,624	39.2	$196,945,584	24,094,664	$8.17	11,994,888	11
Pale Ale	$90,733,384	101.56	$182,881,040	14,394,509	$12.70	7,264,112	10
American Wheat	$83,040,296	39.62	$115,941,624	10,248,967	$11.31	6,704,225	14
Other Ale	$68,707,600	27.66	$87,712,496	14,586,066	$6.01	5,739,729	18
American Amber Ale	$35,960,800	118.77	$78,670,832	7,100,988	$11.08	2,808,545	5
ESB	$53,145,644	34.97	$71,732,504	8,157,891	$8.79	4,254,995	5
Belgian IPA	$18,035,852	126.7	$40,887,276	4,054,045	$10.09	1,071,651	1
Double IPA	$16,557,607	126.7	$37,536,096	3,807,121	$9.86	607,378	3
Belgian Golden Ale	$28,875,110	26.1	$36,411,516	4,631,179	$7.86	1,551,395	2
American Blond Ale	$16,472,555	41.25	$23,267,808	3,950,107	$5.89	2,260,045	2
Brown Ale	$9,622,842	126.7	$21,814,984	3,622,483	$6.02	1,020,274	2
Saison	$8,515,277	26.1	$10,737,764	901,038	$11.92	276,084	1
Scottish Ale	$8,013,318	26.1	$10,104,794	984,000	$10.27	301,504	1
Stout	$7,905,837	26.1	$9,969,261	1,568,702	$6.36	720,990	1
Rye Beer	$3,218,920	26.1	$4,059,058	901,793	$4.50	276,315	1
Belgian Dark Ale	$3,189,904	26.1	$4,022,469	488,775	$8.23	224,645	1
Totals	**$734,726,930**	**67.16**	**$1,228,189,058**	**132,445,724**	**$9.27**	**56,798,060**	**98**

Note: Growth and decline estimates may be changed to suit any forward growth/decline scenario. Such changes then roll-up in the model at all levels

- By 2020 the overall Supercenter Domestic Ales category has grown 67% to $1.2 billion (Craft is $702MM; Crafty is $508MM)
- 17 types of domestic Ales are represented
- The average Supercenter retail price, per domestically produced Ale Sku sold (Craft & Crafty) is $9.27. The average price per Craft sku in 2020 is $9.89, $1 above the $8.89 estimated average retail price for Crafty Ales.
- Estimated Bases Gallons sold in Supercenters during 2014 (all domestic Ale types) total 56.8MM gallons.
- 20% of total Craft industry off-premise revenue growth from 2015-2019, totaling $750MM, will come from Supercenters.

What Does the 2020 Domestic Ale Supercenter Scenario Mean to your Business?

The Supercenter channel is an open, not closed, option for business development, for both regional and national brewers. Our industry simulation of the Craft segment shows that Supercenters will comprise just over 20% ($700MM) of the $3.5 billion in additional total Craft off-premise retail revenues forecasted in 2020. Our Model can address the following concerns:

- **Producers**: Is the opportunity to participate in what is very likely to be the largest growth channel for Craft relevant to your business strategy? How can you best quantify the opportunity in terms of the forward demand and requirements on production, logistics, and sales resources infrastructure? Have you a planned strategy regarding the Supercenter Channel?
- **Retailers**: How do you best manage increased competition in a way that retains customer loyalty, while maximizing the key differentiators offered to consumers by your store(s)?

- **Distributors**: - Does your supplier portfolio align with both current and upcoming growth in Supercenter beer sales? Which of your suppliers will further partner with your business to seize the coming opportunities in this channel? Do you need to further assess and improve your internal analytical capabilities in order to meet the demands of this channel? Do you need to allocate more resources to the Supercenter channel in your market area(s)?

Managing Effectively through Increasing Industry Complexity

The EFFIS Consulting U.S. Retail Industry Beer Model is meant to assist industry executives in making informed decisions to increase profitability and market knowledge. The model is an ideal tool which allows management to assess their company's strategy within the context of increasingly complex marketplace dynamics.

To learn more about the EFFIS Consulting U.S. Retail Beer Model, visit the dedicated section of our web site focusing on the model at:

www.effis.com/usbeermodel

Forward scenario assumptions for our U.S. Retail Beer Industry growth simulation may be found by clicking on the Tour View button, on the website.

About EFFIS Consulting

EFFIS Consulting has been consistently engaged at the intersection of strategy consulting and analytics. A boutique firm, our experienced team brings a strong combination of corporate and practical experience, as well as extensive intellectual capital.

As needed, we build custom models for our customers based on multiple financial or operational sources, including in-house data or market intelligence data that they may have purchased. We typically team-up with our customers at the board or key executive level in a workshop format to gain real-time strategic insight over enterprise or market data.

Contact and Model Information

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For further information on the model visit: www.effis.com/usbeermodel