



2017 DISTILLERS CONVENTION & VENDOR TRADE SHOW

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Craft Spirits Data Analysis Project

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Craft Spirits Data Project Analysis

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Project Overview

ACSA Code of Ethics:

"We operate in an honest, transparent and non-deceptive fashion. We inform consumers truthfully and accurately about the sources and methods used to make our spirits through our labels, materials and communications. We expect fair dealing and respect amongst members. We obey all federal, state, and local laws."

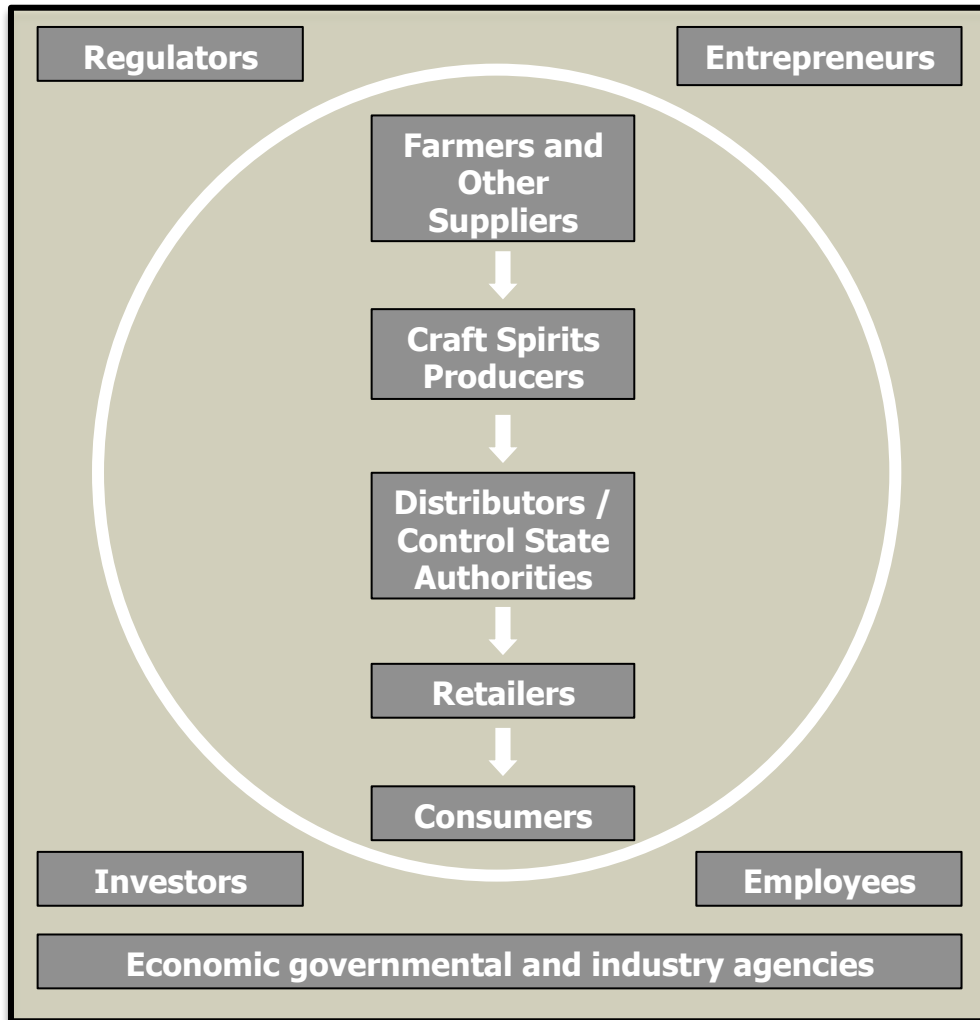


Founding Distilleries:



Industry Stakeholders & Concerns

Many stakeholders with many questions



"What is the economic impact of craft spirits?"

"Does the development of the craft spirits industry warrant new regulations benefiting craft spirits suppliers?"

"Craft spirits producers ask me to start growing special grain. Is this craft trend a fad or here to stay?"

"How large of an industry can craft spirits become?"

"How is the supply and demand balance in craft spirits evolving?"

"How can I convince my bank to finance my aging inventory when I can't tell them how large of an industry I'm operating in?"

"Do craft spirits warrant the establishment of a specialized sales division?"

"Do we need to adjust our listing and delisting requirements in light of the increasing interest in craft spirits?"

Industry Wide Collaboration

Teaming up for a common cause

The American Craft Spirits Association, the International Wine and Spirits Research, and Park Street have teamed up to launch a research project with the goal to provide a solid and reliable fact base for evaluating performance and trends in the U.S. craft spirits industry

Major industry stakeholders such as the TTB, NABCA, WSWA, ABL, Nielsen, Acturus and Liquor.com have committed resources to the project in order to help

The desired fact base will help all stakeholders to make their respective investment cases and vastly improve an understanding of the full impact at the local, regional, and federal level

The project is set-up to transition into an annually recurring effort to provide a consistent fact base for all stakeholders on an ongoing basis



The Craft Spirits Data Project Was Developed

Project Background & Research Methodology

- ❖ The Craft Spirits Data Project is a proprietary research project whose goal is to provide a solid and reliable fact base information to evaluate the performance and trends in the U.S. craft spirits industry.
- ❖ The Project serves to:
 - ❖ Quantify the number, size, and impact of craft spirits producers in the United States.
 - ❖ Create a deeper understanding of the U.S. craft spirits landscape among four key groups: DSPs, distributors, retailers and consumers.
 - ❖ Aims to provide findings on craft supplier best practices and success factors.
- ❖ The Following Information was collected:
 - ❖ Date on craft distiller production size and patterns, sources of revenue, and the category's overall economic impact within the spirits industry, in addition to analyzing craft spirits brand perceptions.
 - ❖ Data on craft spirits business size, patterns and outlook on the distributor level and assess craft spirits business size and outlook by premise type at retail.
- ❖ Things to Remember:
 - ❖ When estimating the number of producers behind the U.S. craft spirits production, the project team relies on a combination of official data released by regulatory authorities, survey data, other industry data sources both national (e.g., NABCA, ACSA) and regional (e.g., Guilds), as well as interviews and team assessments using the craft distiller definition.
 - ❖ In the accompanying data sets, we are assuming independent ownership consisting of have more than a 75% equity stake and/or operational control of the DSP. We have asked that distillers notify the ACSA of all ownership changes so we can reflect accordingly in our database.



US Craft Spirits

What Are “Craft” Spirits?

What Constitutes a Craft Spirit?

There is no universally accepted definition of craft spirits in the industry, and the expression “craft spirit” is not protected in any way

Given the positive trends for craft spirits from a consumer perspective (e.g., premium to other spirits, rising demand), there is a natural incentive for brands to utilize craft spirits cues and position themselves as a craft spirit

The industry has responded with different definition attempts based on criteria for the producer of the craft spirit including production steps at the location, ownership and operational control of the distillery, subscription to an ethics code based on honesty and transparency, production methodology, and size of production


Many of the criteria used or suggested by industry members would require a formal certification or peer approval process in order to be used as a universal base for quantification purposes

As long as a universally accepted craft spirits certification or approval that could be used as an industry wide criteria remains unavailable, the quantification has to rely on certain verifiable quantitative metrics which are complemented by estimates to bridge gaps

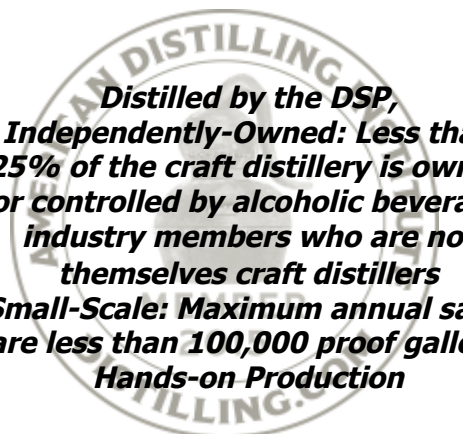
Looking at the manufacturer, size of production, ownership/control, and production specifics are criteria that could possibly be measurable and verifiable. However, the consistent collection of the data is not without barriers and could be very cumbersome, which suggests the potential use of a pragmatic approach

A Variety of Definitions Currently Exist

A variety of definitions currently exist



Independent licensed distiller with a valid DSP
Subscribe to ACSA's Code of Ethics
Have more than a 75% equity stake and/or operational control of the DSP
Annually produce fewer than 750,000 proof gallons

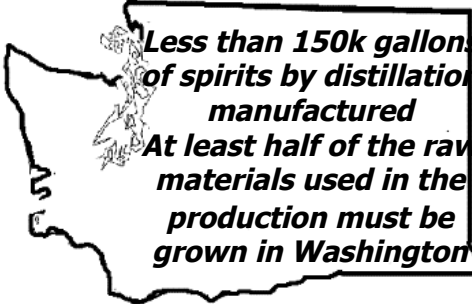


Distilled by the DSP,
Independently-Owned: Less than 25% of the craft distillery is owned or controlled by alcoholic beverage industry members who are not themselves craft distillers
Small-Scale: Maximum annual sales are less than 100,000 proof gallons
Hands-on Production

Distinct and Unique

Small Batch

Local/regional

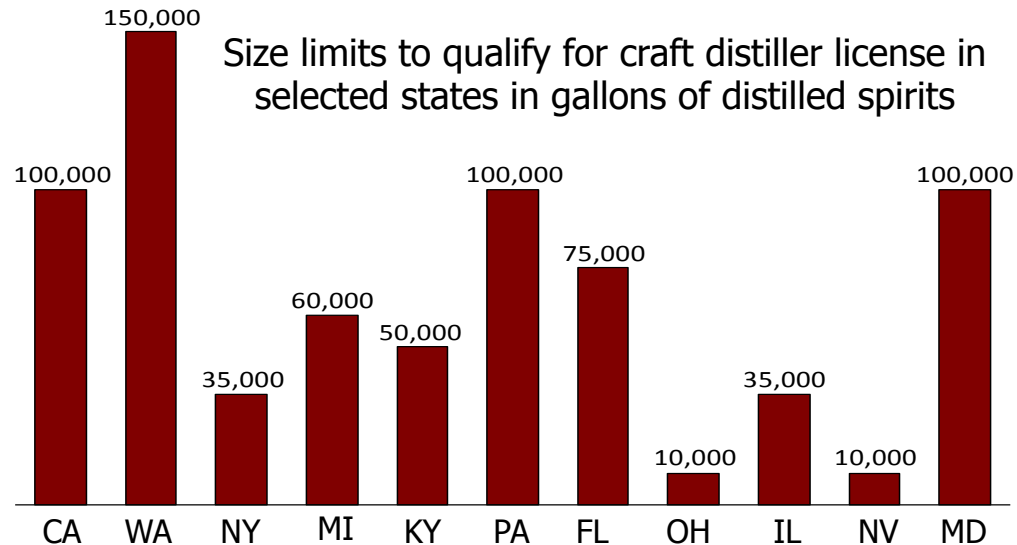


Less than 150k gallons of spirits by distillation manufactured
At least half of the raw materials used in the production must be grown in Washington



Less than 20k gallons of spirits by distillation manufactured
Craft distiller certifies that not less than 51% of the raw materials used in the production... are grown in NJ or purchased from providers located in the state

Size limits to qualify for craft distiller license in selected states in gallons of distilled spirits



Craft Defined for Purposes of the Research

US Craft spirits – as defined for the purposes of the research – are distilled spirits that are produced in the US by producers that have not more than 750,000 proof gallons (or 394,317 9-liter cases) removed from bond and market themselves as craft and have no proven violation of the ACSA code of ethics:

ACSA Code of Ethics:

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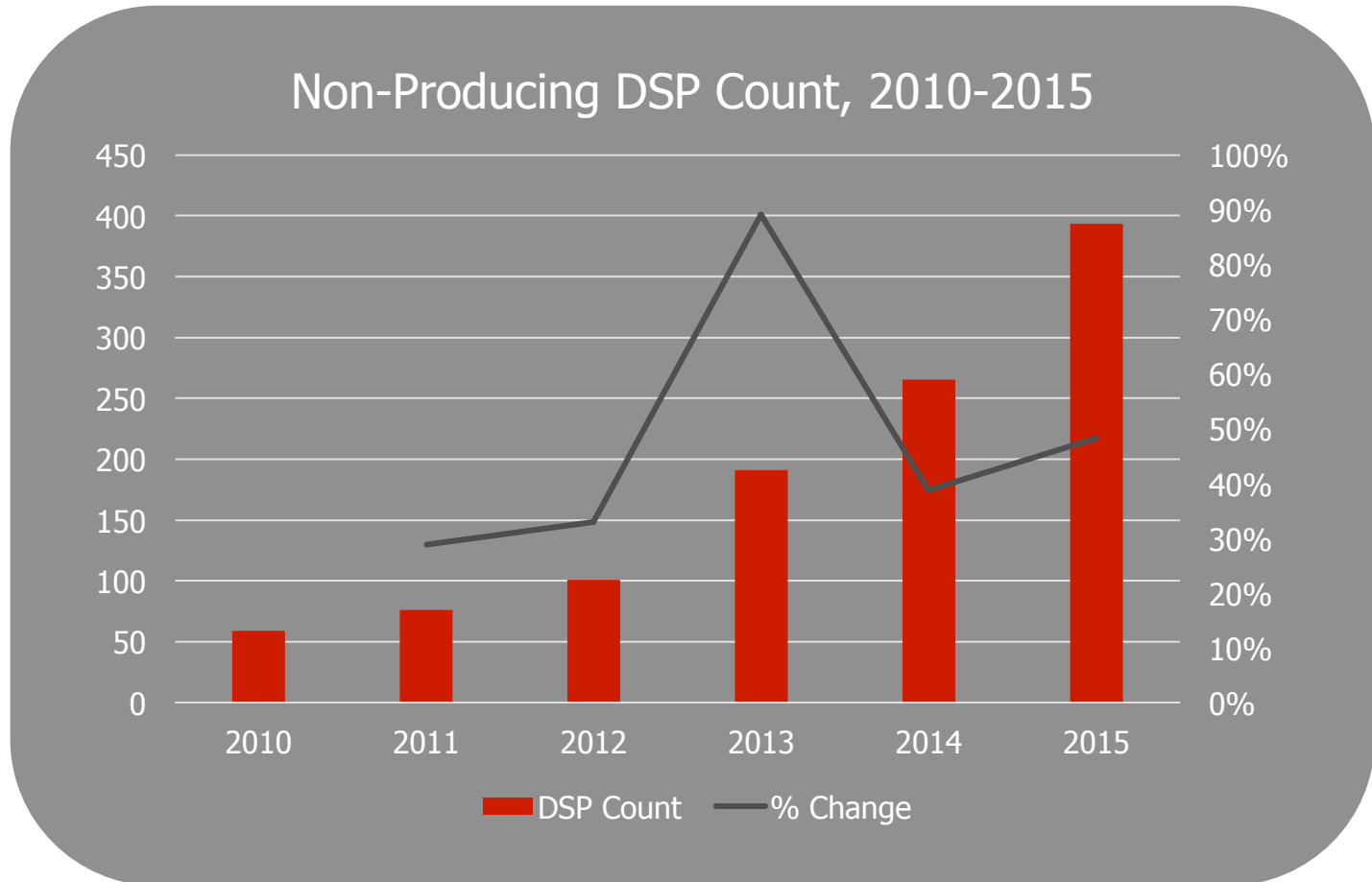


Craft Spirits – The Producers



Craft Spirits Producers

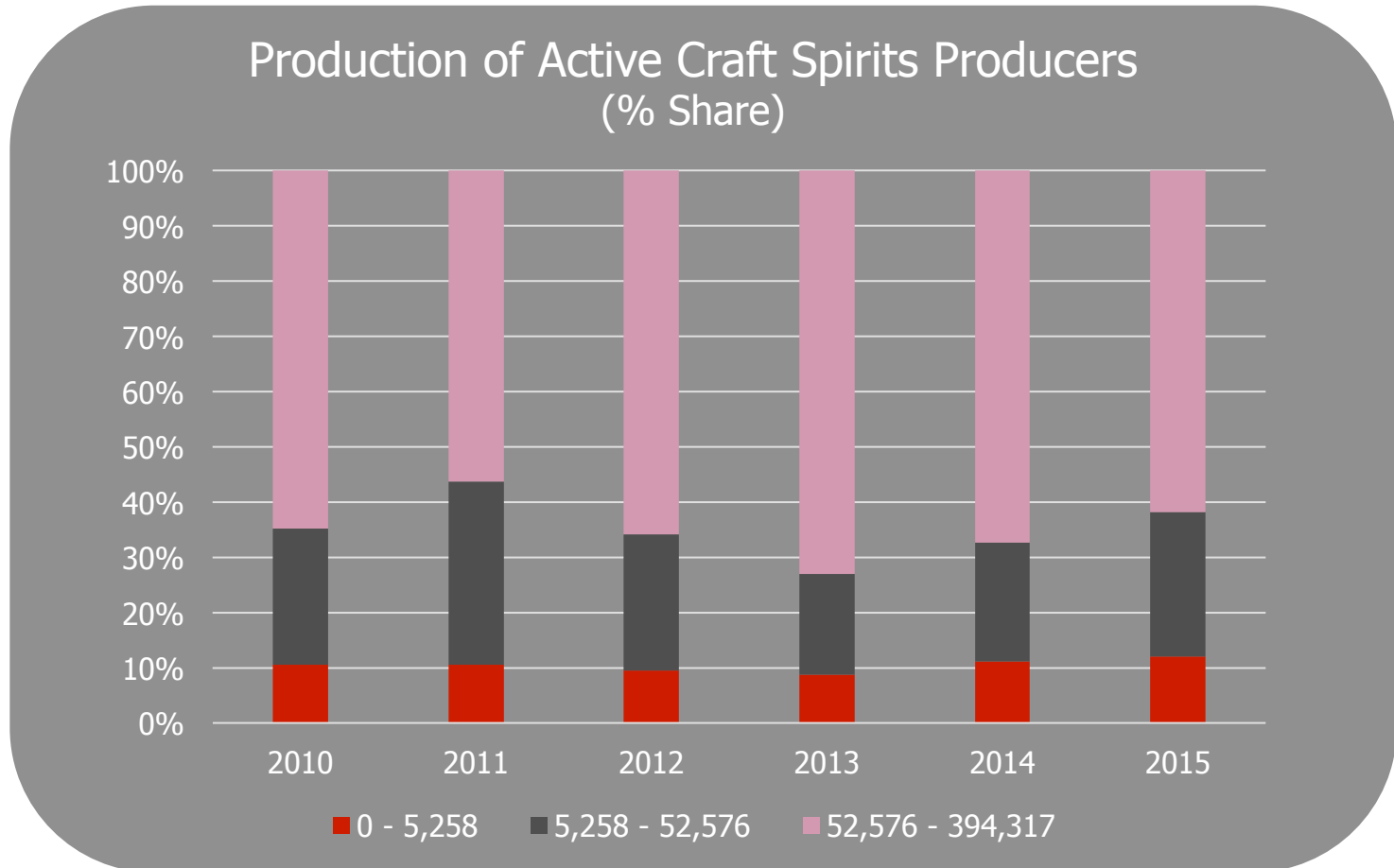
There were 393 DSP holders without any activity in 2015, up from 48.3% in 2014.



Craft Spirits Producers

From the 1,163 active craft spirits producers in 2015

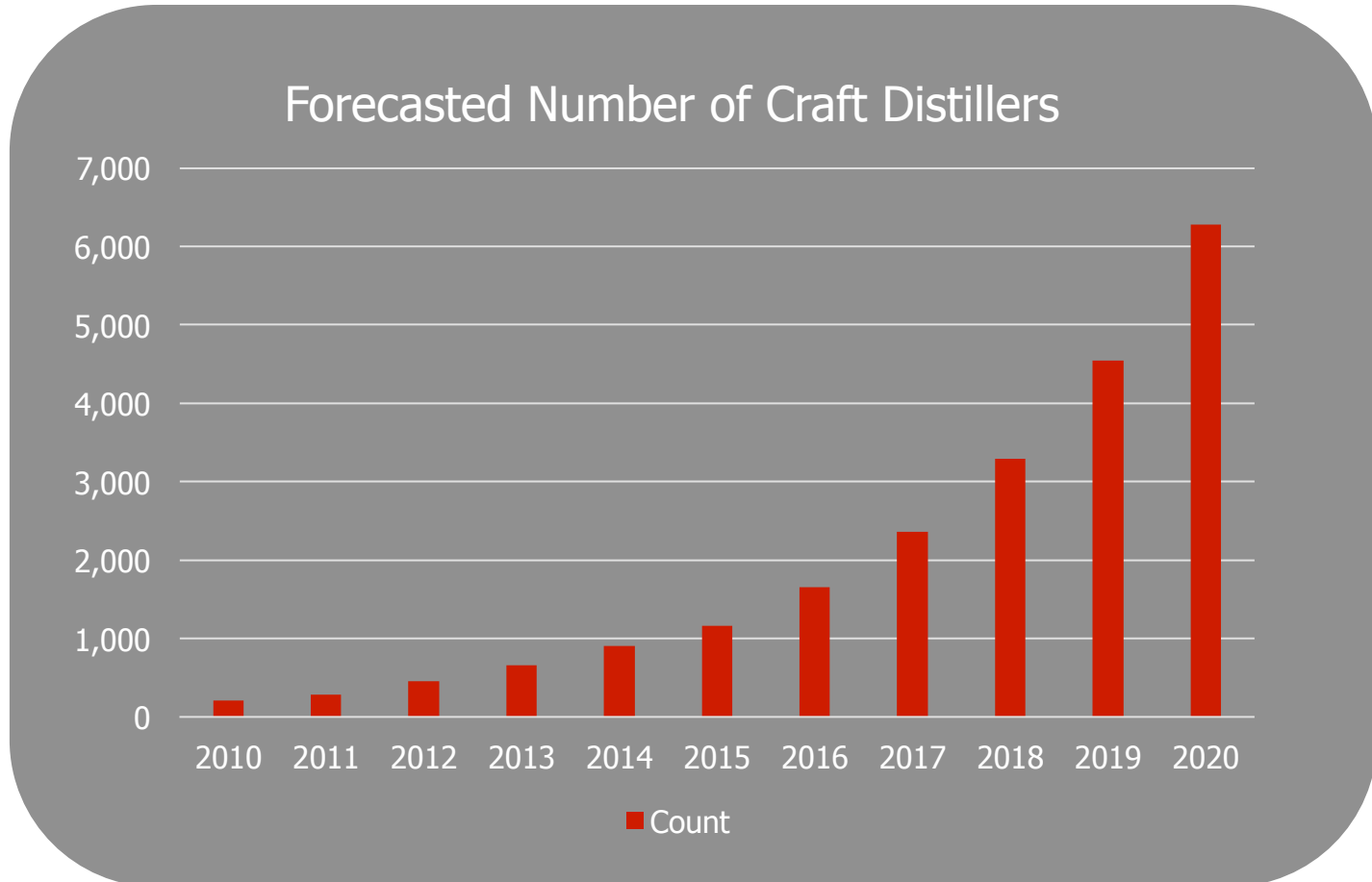
- 12.1% produced between 0 and 5,258 9-liter cases ($> 0 < 10,000$ PG)
- 26.1% produced between 5,259 and 52,576 9-liter cases ($> 10,000 < 100,000$ PG)
- 61.8% produced between 52,577 – 394,317 9-liter cases ($> 100,001 < 750,000$ PG)



Sources: TTB, IWSR, team analyses

Craft Spirits Producers

Assuming an annual compound growth rate of 19%, the number of craft distillers could surpass 6,200 by 2020.



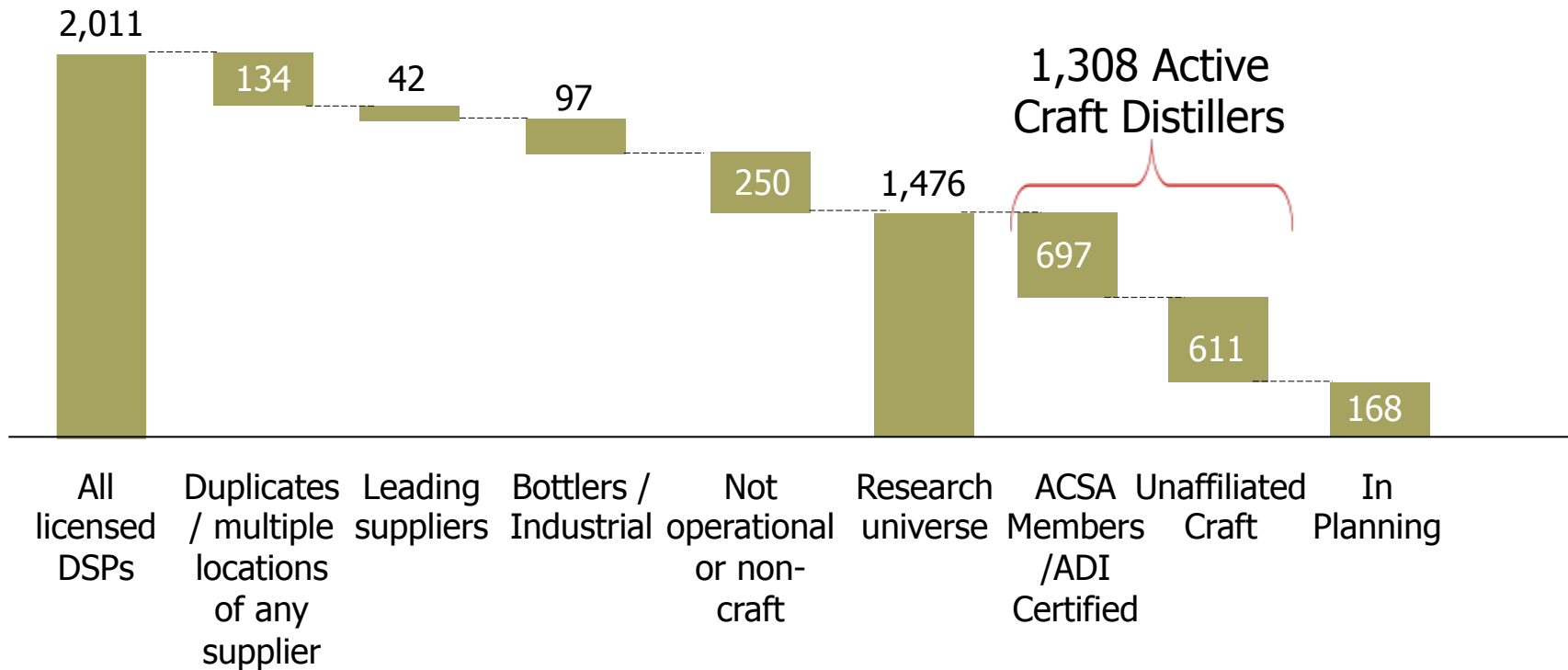
Sources: TTB, IWSR, team analyses

Craft Spirits Producers, by the numbers

Craft Spirits Distilleries Surpass the 1,300 Mark

DSP Breakdown as of August 2016

The list of DSPs is broken down into segments in order to distinguish the amount of distillers that are not; duplicates, leading suppliers, bottlers, and/or non-craft/non-operational.

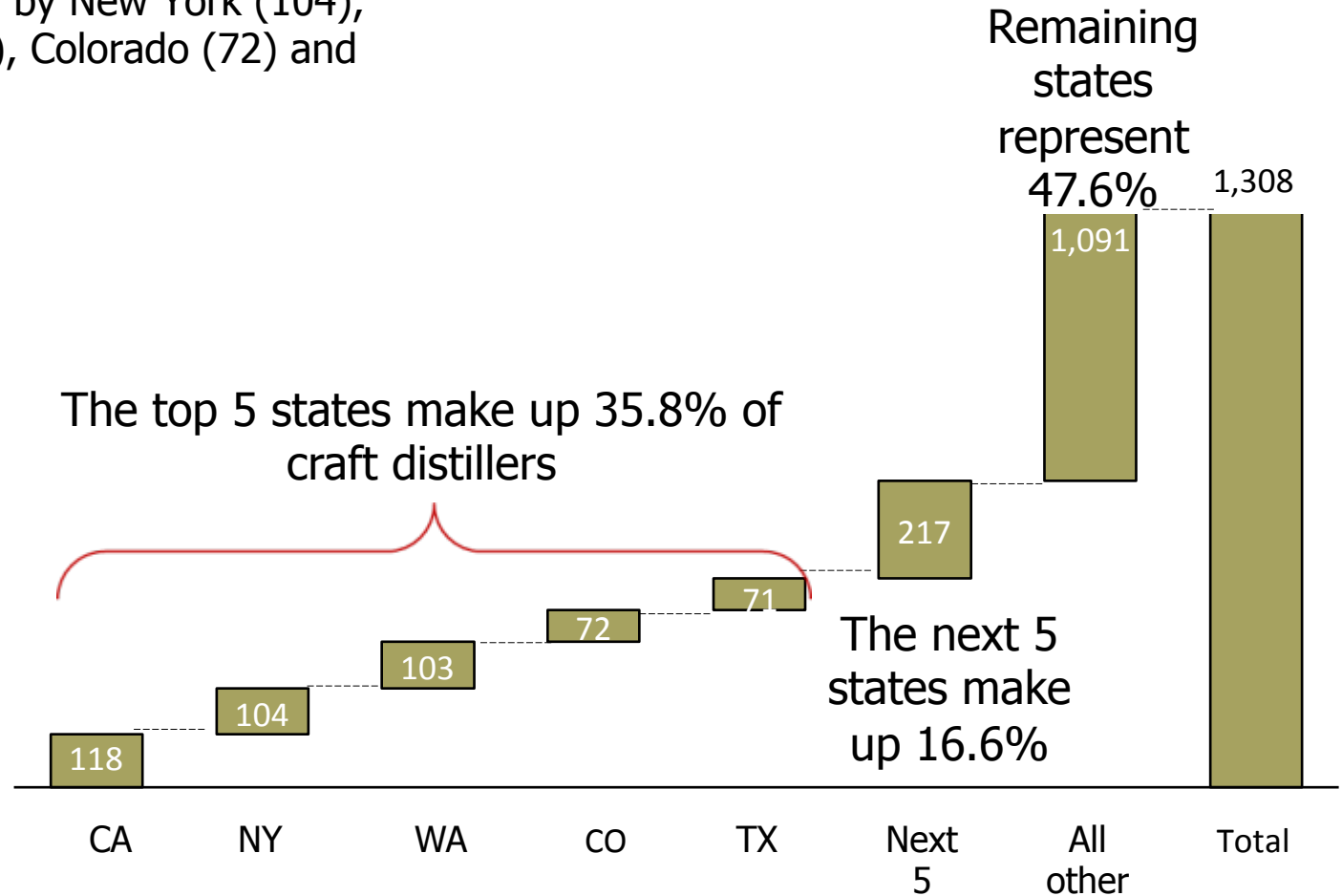


Sources: TTB, ACSA, ADI, State ABC boards, state guilds, team analyses

Craft Spirits Producers, by the numbers

The Top 10 States Claim Over Half of Craft Distilleries

California contains the most distilleries with 118 followed by New York (104), Washington (103), Colorado (72) and Texas (71).

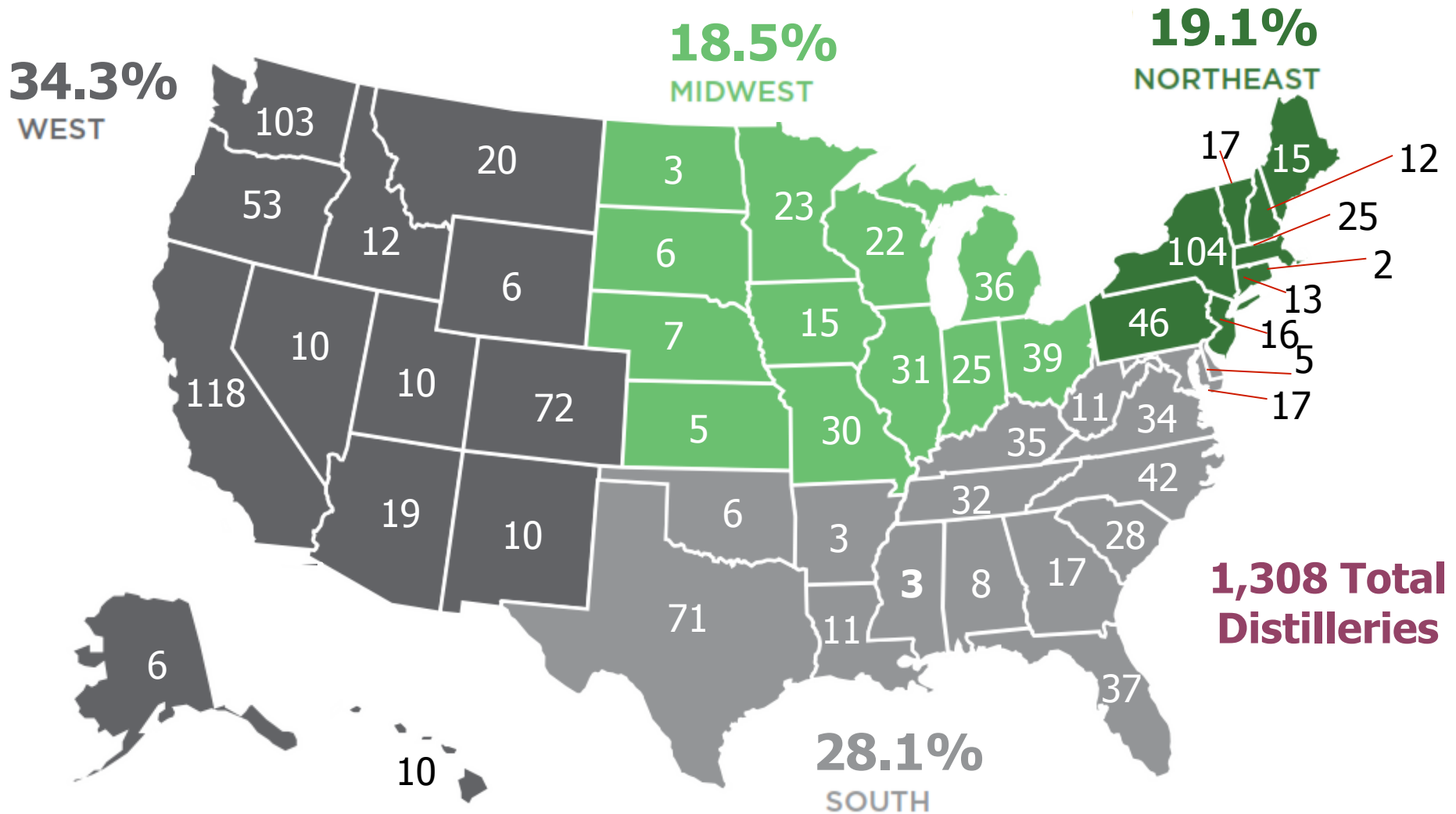


Sources: TTB, ACSA, ADI, State ABC boards, state guilds, team analyses

Craft Spirits Producers, by the numbers

Craft Spirits Distilleries Represented in Each State

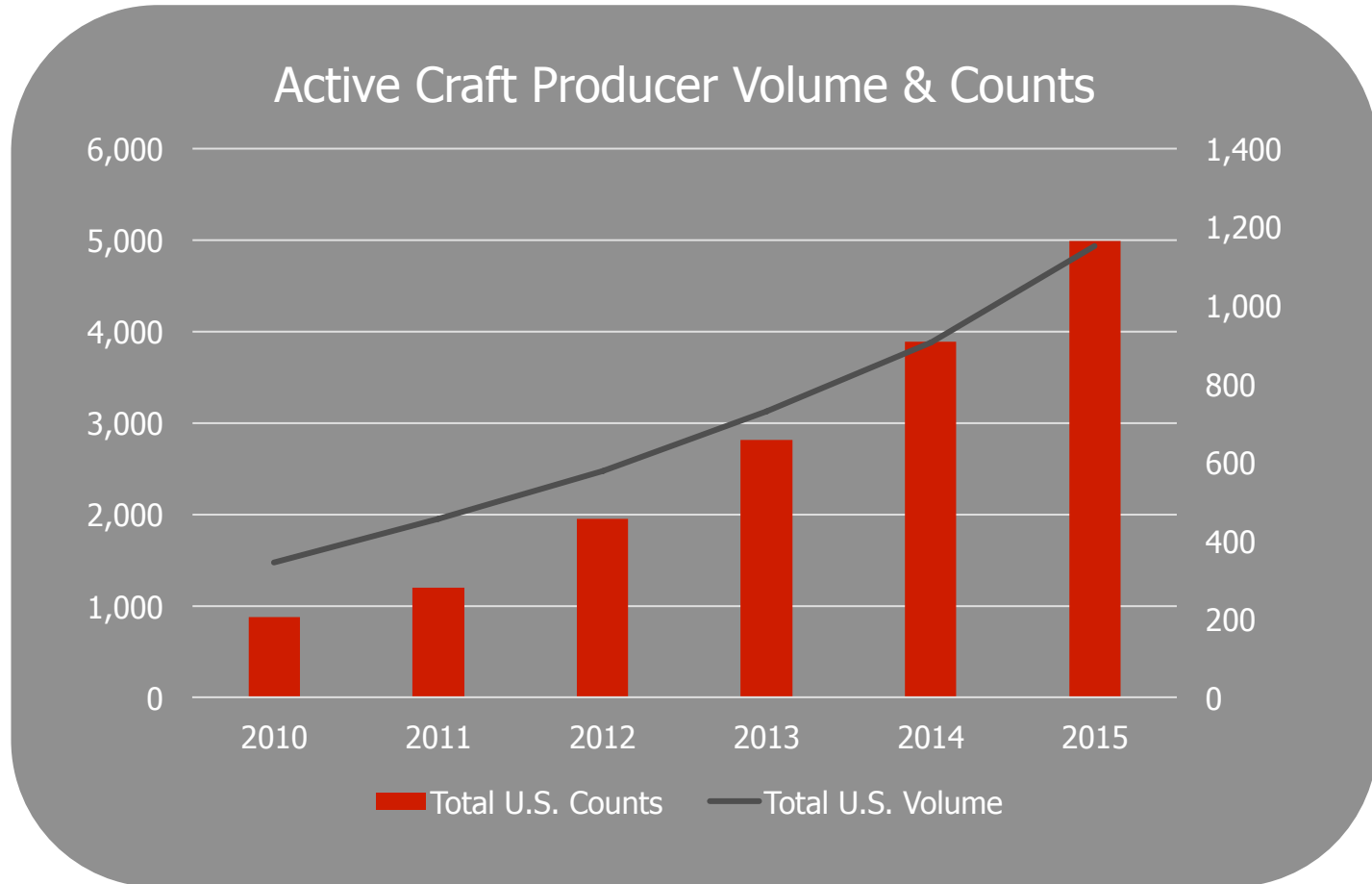
Geographical Representation of Craft Distilleries as of August 2016



Sources: TTB, ACSA, ADI, State ABC boards, state guilds, team analyses

Craft Spirits Producers

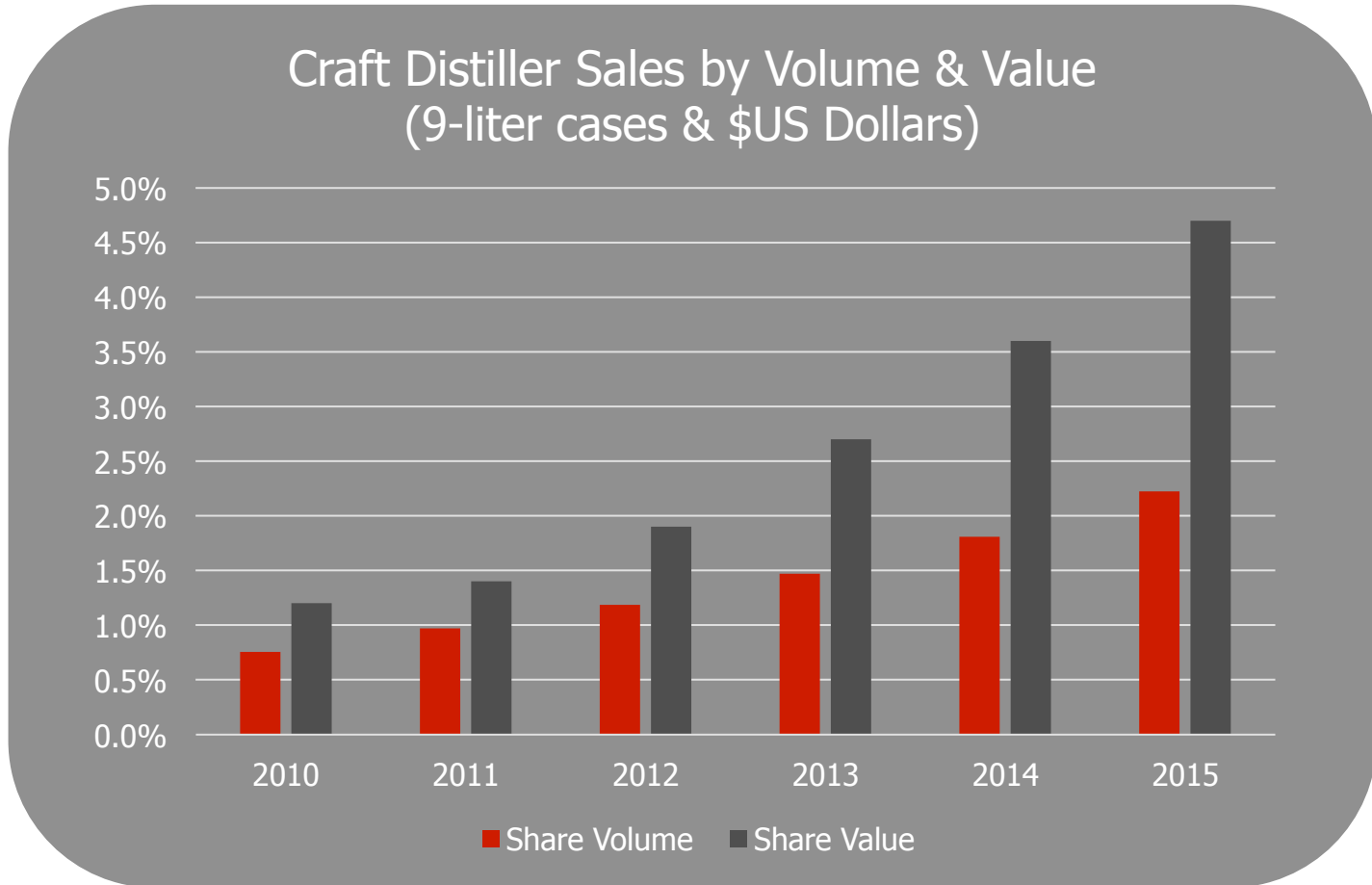
There were 1,163 active craft spirits producers in 2015, up from 906 in 2014.



Sources: TTB, ACSA, IWSR, State ABC boards, state guilds, team analyses

Craft Spirits Producers

US craft has currently an estimated market share of 2.2% in cases, up from 0.8% in 2010. A share of 4.7% in value, up from 1.2% in 2010

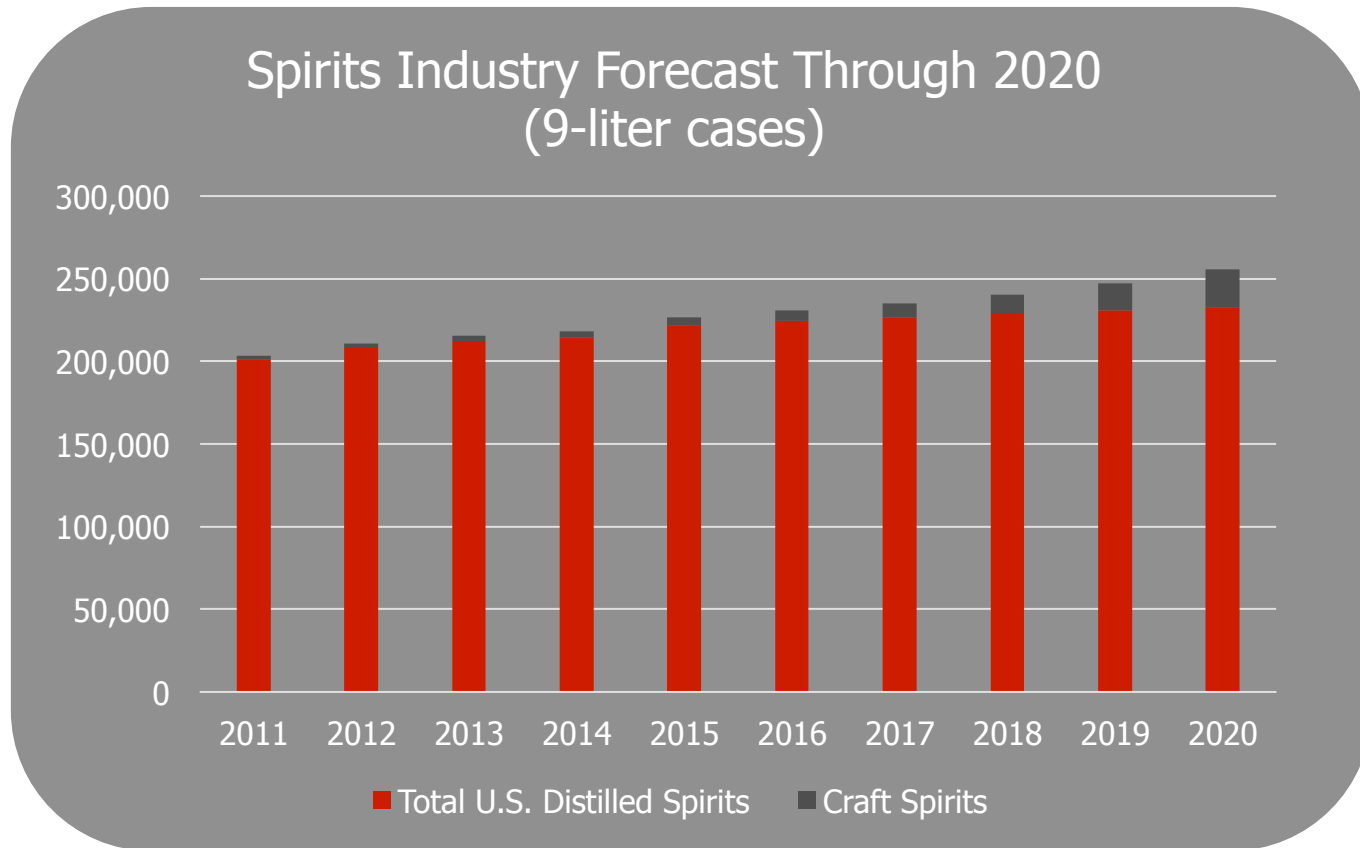


Sources: TTB, ACSA, IWSR, State ABC boards, state guilds, team analyses

Craft Spirits Producers

According to surveyed retailers and wholesalers in the US, the growth of craft spirits in the US is expected to grow rapidly over the next five years.

The majority of surveyed retailers and wholesalers expect the craft spirits market to become as large as the craft beer market, which has currently a market share of around 10%. A market share of 10% in craft spirits would mean 23.3 million cases in 2020 and a CAGR of 36.4% between now and 2020.





Craft Spirits Survey Results



Craft Spirits Producers

The industry has responded with different definition attempts based on criteria for the producer of the craft spirit including production steps at the location, ownership and operational control of the distillery, subscription to an ethics code based on honesty and transparency, production methodology, and size of production

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Craft Spirits Producers

Timeline of Research

October 2015

The Craft Spirits Data Project was launched with the formation of the team

January 2016

Distillers data collection began and preliminary findings were presented at the ACSA convention

March 2016

The effort became industry wide by extending the research to wholesalers, retailers and consumers

May 2016

Through external partners, wholesaler, retailer and consumer data collection began

September 2016

Surveys ended and analysis was conducted...here are the findings..

Research Elements

In order to estimate the U.S. craft spirits portion of the market, the team relies on various sources

One of the sources are specifically designed surveys in which consumers, distillers, retailers and wholesalers shared select performance metrics

To date, 680 distiller, retailer and wholesalers surveys have been received with respondents providing actionable statistics that appear credible

Over 5,000 consumers views were also collected our collaborative partners

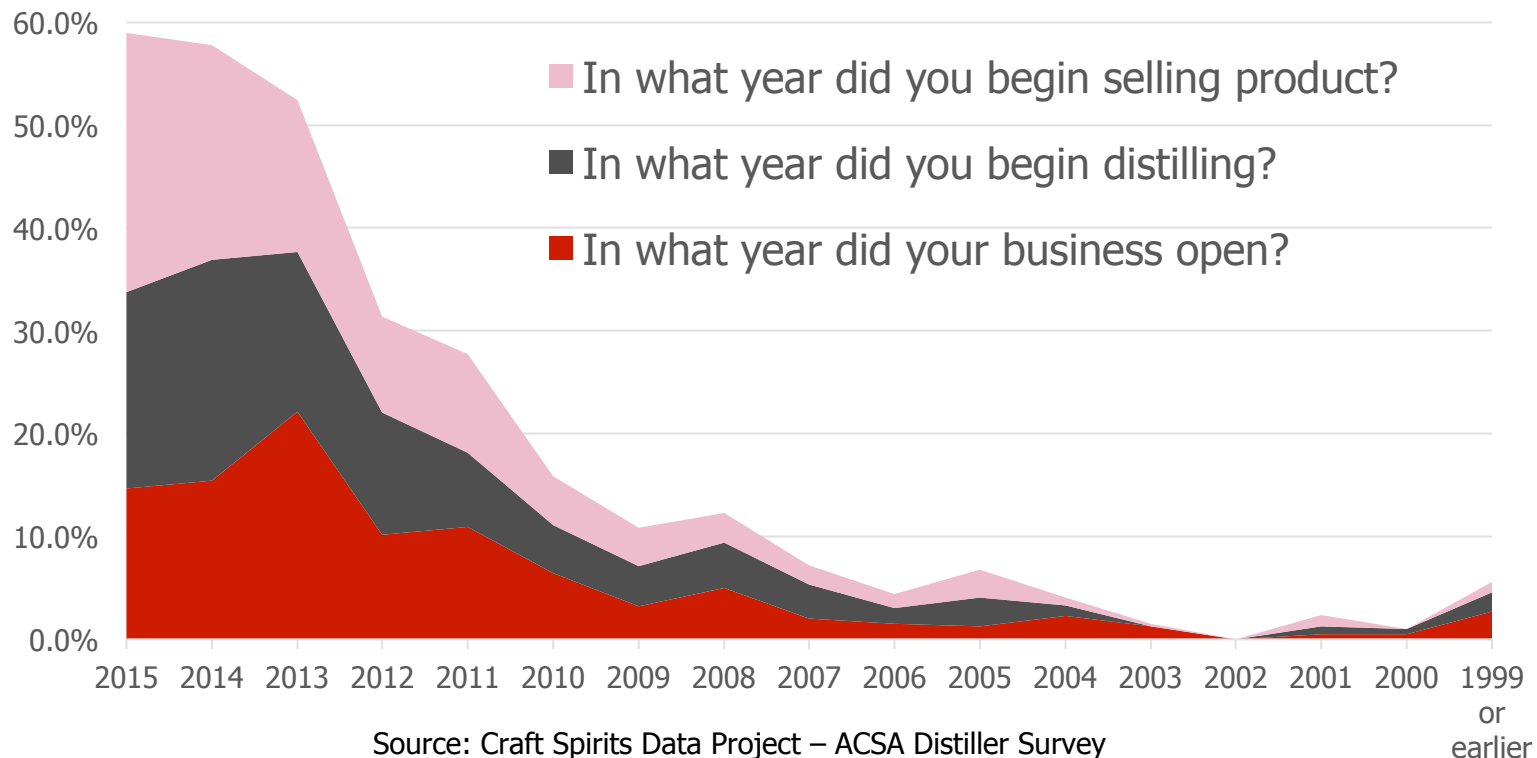
These are the results from our initial Craft Spirits Data Project

Craft Spirits Producers

Producers Entering the Market

Among the distillers tracked, for each year since 2009, there has been a 3-year trend for distillers' opening, distilling and selling product as shares have increased consecutively over that 3-year time frame.

2013 was when the "boom" when the majority (22.1%) of distilleries opened. The largest share (21.4%) of distillers' began distilling a year later in 2014 and began selling product that following year (25.1%).

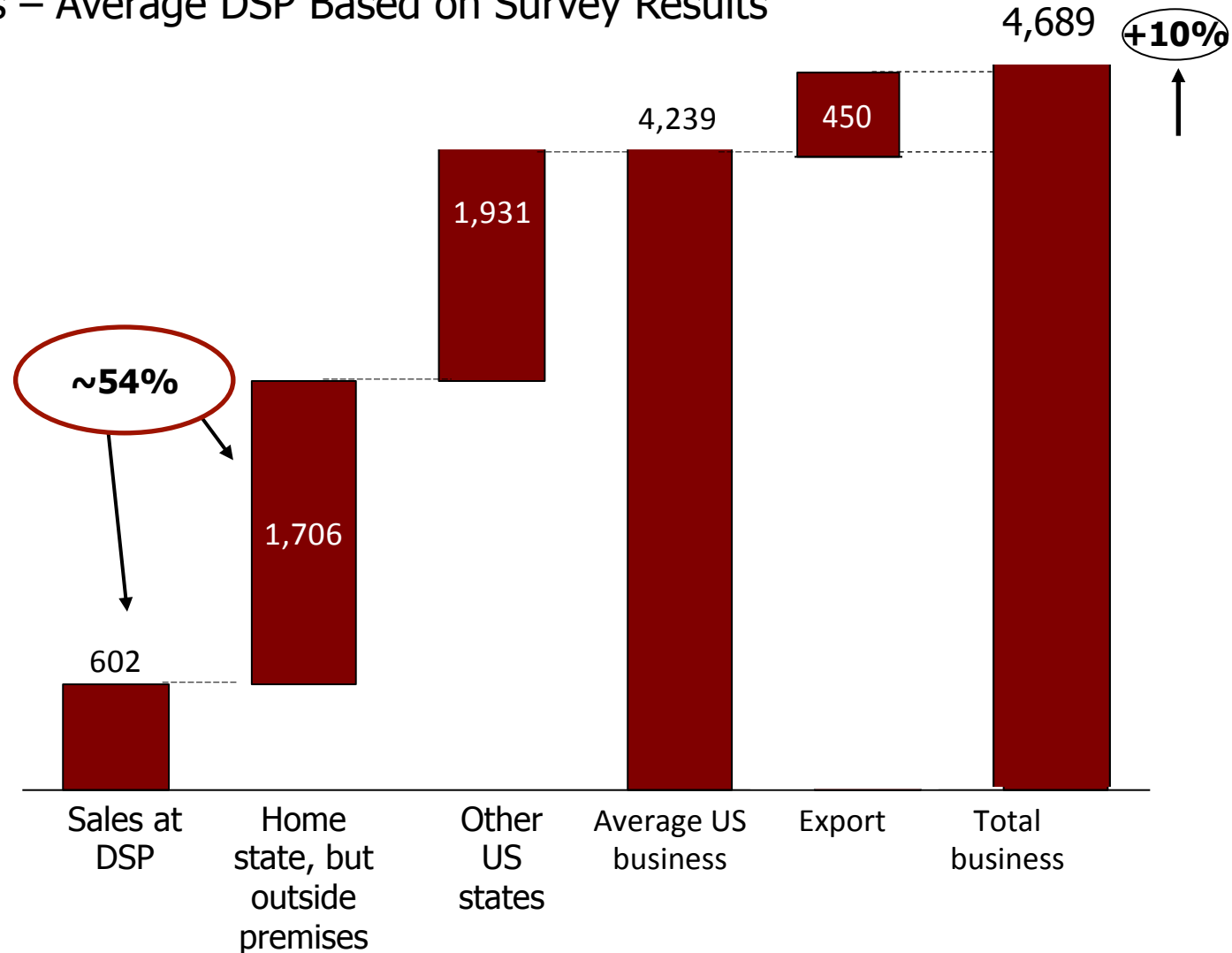


Craft Spirits Producers

The Average Craft Spirits Distillery Sells 4,689 9-Liter Cases

Sources of Case Sales – Average DSP Based on Survey Results

Based on the data received so far, the average craft distiller sells ~4,239 9L cases per year in the U.S. and exports 450 cases. Over 50% of the domestic business comes from either direct sales at the facility or other home state business. Exports add another 10% to the domestic business.



Sources: TTB, ACSA, ADI, State ABC boards, state guilds, team analyses

Craft Spirits Producers, a day in the life

On-Site Tasting Rooms and Bar/Restaurants

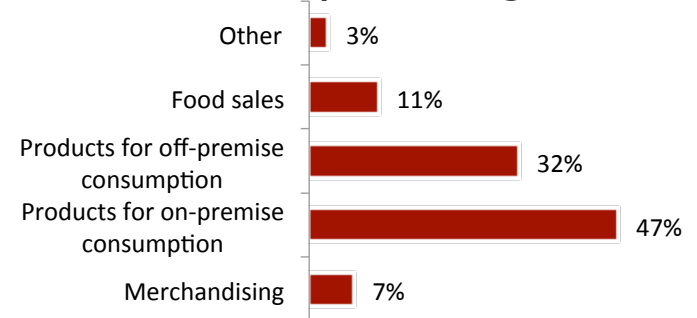
Tasting Rooms



Bars/Restaurants

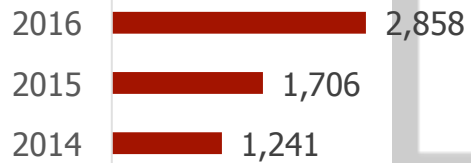


Revenue by Offering

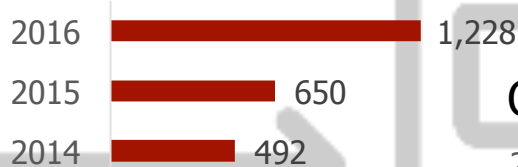


Distribution Channels

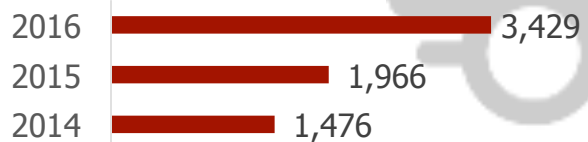
Home State Distributor



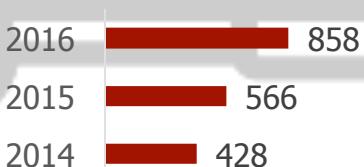
Direct to Retailers



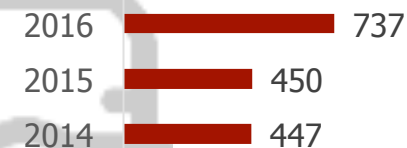
Out-of-State Distributor



Direct to Consumers

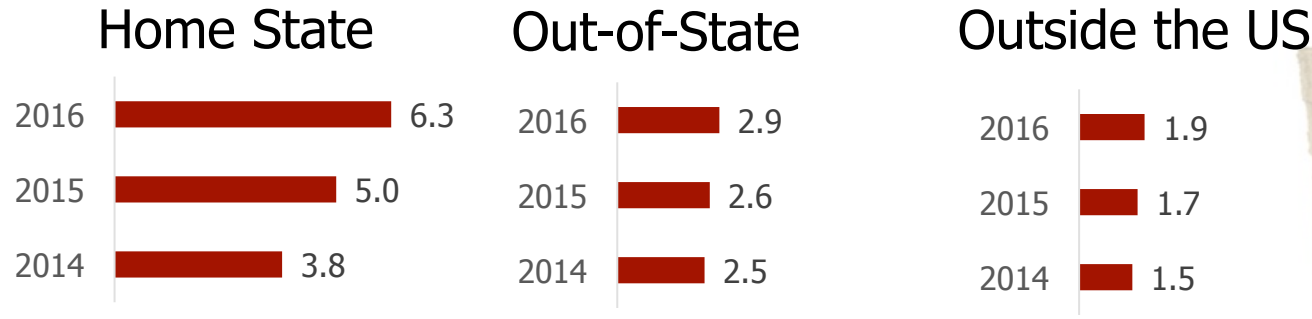


Outside the US

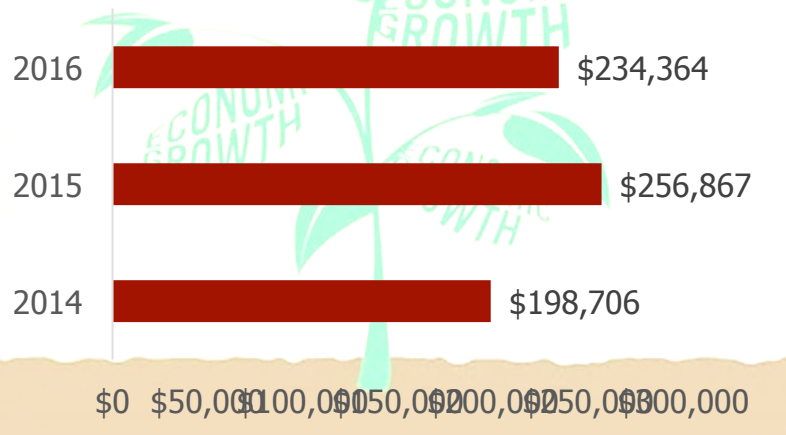


Craft Spirits Producers, a day in the life

Full-Time Employees

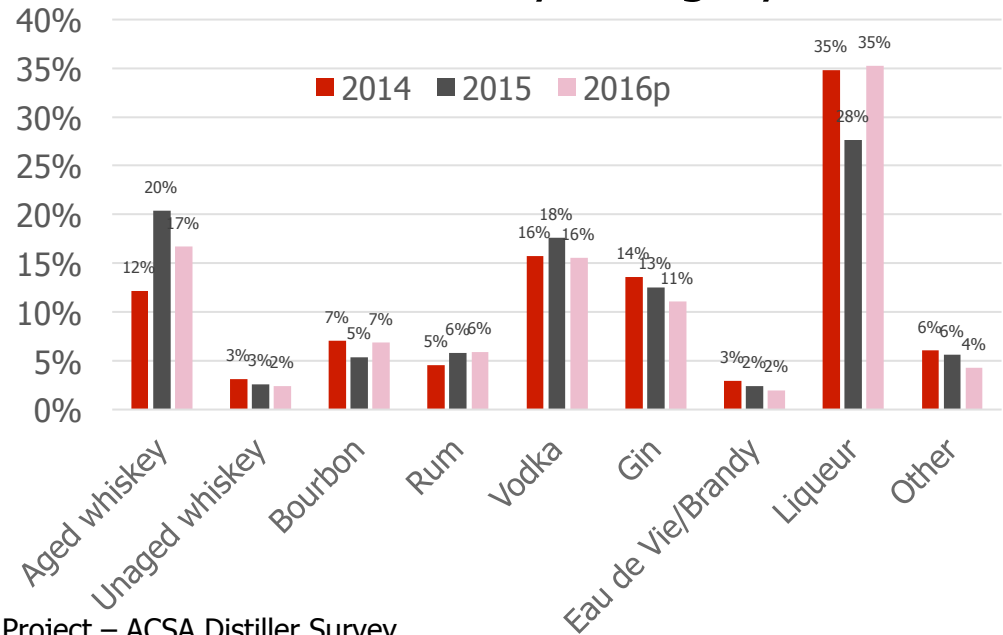


Money Spent on Expansions*



(*) Expansions include additional production, new construction, tasting and banquet rooms, labor costs, etc.

Distiller Sales by Category



Source: Craft Spirits Data Project – ACSA Distiller Survey

Craft Spirits Producers

The Economic Impact

Full-Time Employees

The US craft spirits producers in 2015 employed nearly 7.6 domestic full-time employees, up from 6.3 in 2014. 66% of the employees worked in the facilities and 34% in the field.

With the average craft distiller employing 7.6 domestic employees in 2015, this results in over 8,800 employees nationally.

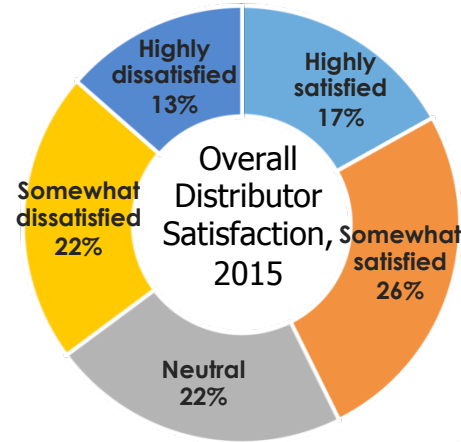
Money Spent on Expansions

Craft distillers plan to spend over 272 million dollars in expansions in 2016, which will be an increase of nearly 18% from two years prior.

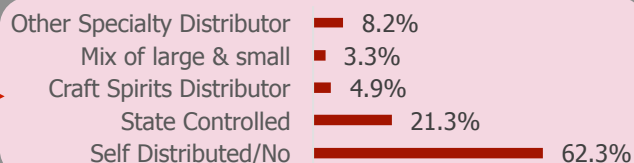
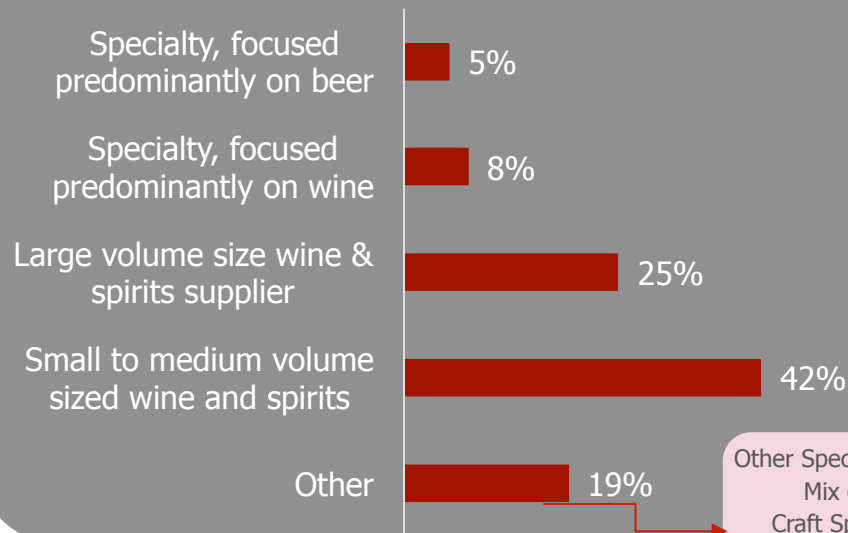
Craft Spirits Producers

Distributor Overview

Over half of distillers tracked (51.8%) work with small to medium size wine and spirits distributors followed by large volume wine and spirits distributors (31.0%).



Distributor Types Working With (% Agree)



“ Producer Stated Issues & Successes ”

Issues

- Getting leadership and reps to pay attention brand
- Organizing tastings for both trade and consumers
- co-ordination between our own work in those markets and with sales team

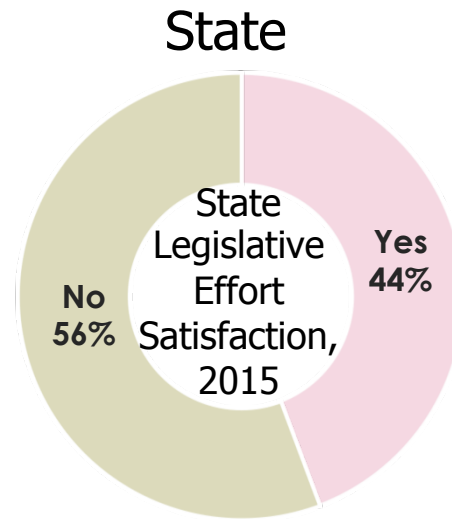
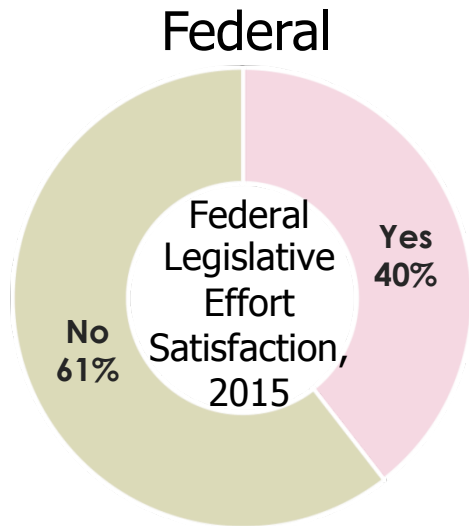
Successes

- Open communication and personal ability to help achieve requests (get samples to businesses quickly, and support tasting events)
- Distributors are people, and the more we treat them that way, the better sales we receive

Source: Craft Spirits Data Project – ACSA Distiller Survey

Craft Spirits Producers

Current Legislative Efforts



What would you like to see passed?

“That the Federal Government STAFF UP to satisfy increasing processing times for labels, brands, and permits”

“Tax reduction #1. Streamlining of outdated regulations such as tied house rules eliminated. Simplification, increased staffing, and consistency with recipe/label approval process. Simplification of reporting burden.”

“Direct sales to consumers in tasting rooms, direct sales to retailers and on-premise accounts, direct shipping/delivery sales to consumers, end of 3-tier mandate for out of state producers”

“Ability to taste cocktails, sell in sizes other than 750ml.
Reduced annual fee”

“In state producer excise tax credits, in store tastings. Off site liquor sales. Ex: festivals, farmers markets, Mixed drinks sales in distillery, more tasting privileges.”

Craft Spirits Producer Growth Barriers

Wholesale distribution

The majority of craft distillers is less than satisfied with their distributors

DSPs have expectations for positive developments in the on-premise for 2016 compared to off-premise efforts

Craft distillers would like to see legislative efforts to help level the playing field

State legislation

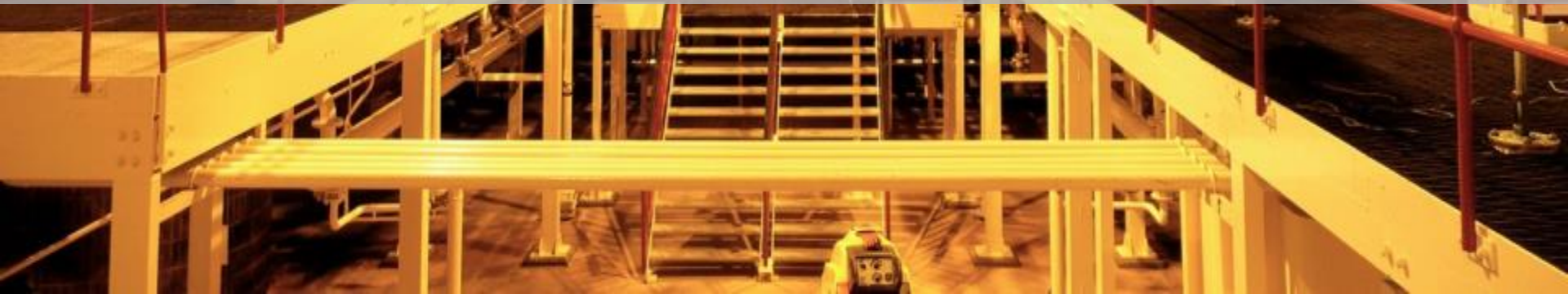
Craft distillers would like to see the liberalization of restrictions with regards to sales at the plant as well as state taxes

Federal legislation

Craft distillers would like to see the tax situation improved and the administrative burden to be reduced



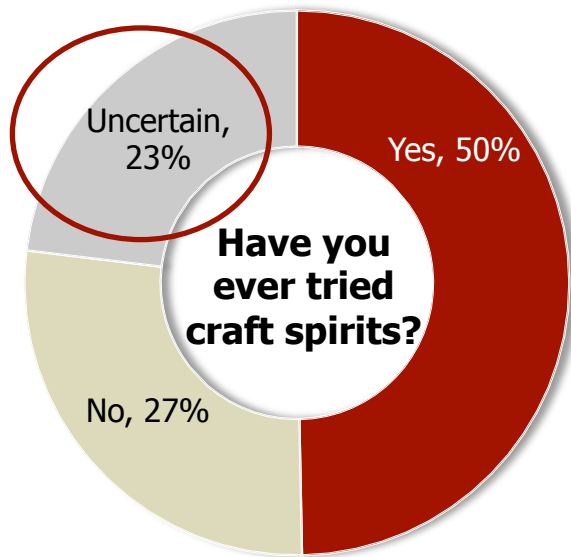
Craft Spirits – Industry Suggestions



Craft Spirits – Consumer View

Uncertainty Exists – Opportunity for Further Education

While 1 in 2 consumers claimed to have tried a craft spirit, 27% believe they have not and 23% are unsure



When prompted to list spirit brands consumers believed to be true craft spirits, although there were exceptions, major vodka and whiskey brand names dominated the responses

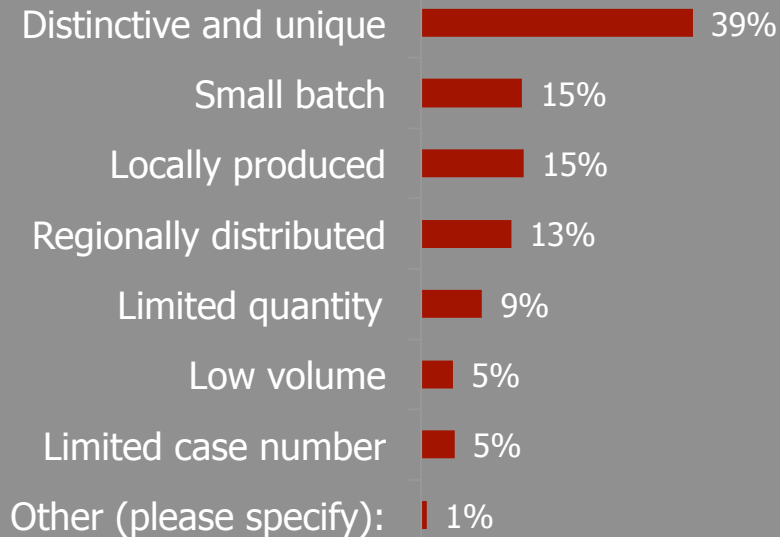
One of the survey results had 70% of respondents claiming they “cannot think of any”

Craft Spirits – Consumer View

Distinctive/unique most linked phrases to craft spirits. Small batch and local are tied for the second.

Having a distinct taste helps a brand stand out in consumers minds.

Phrases Most Associated with Craft Spirits

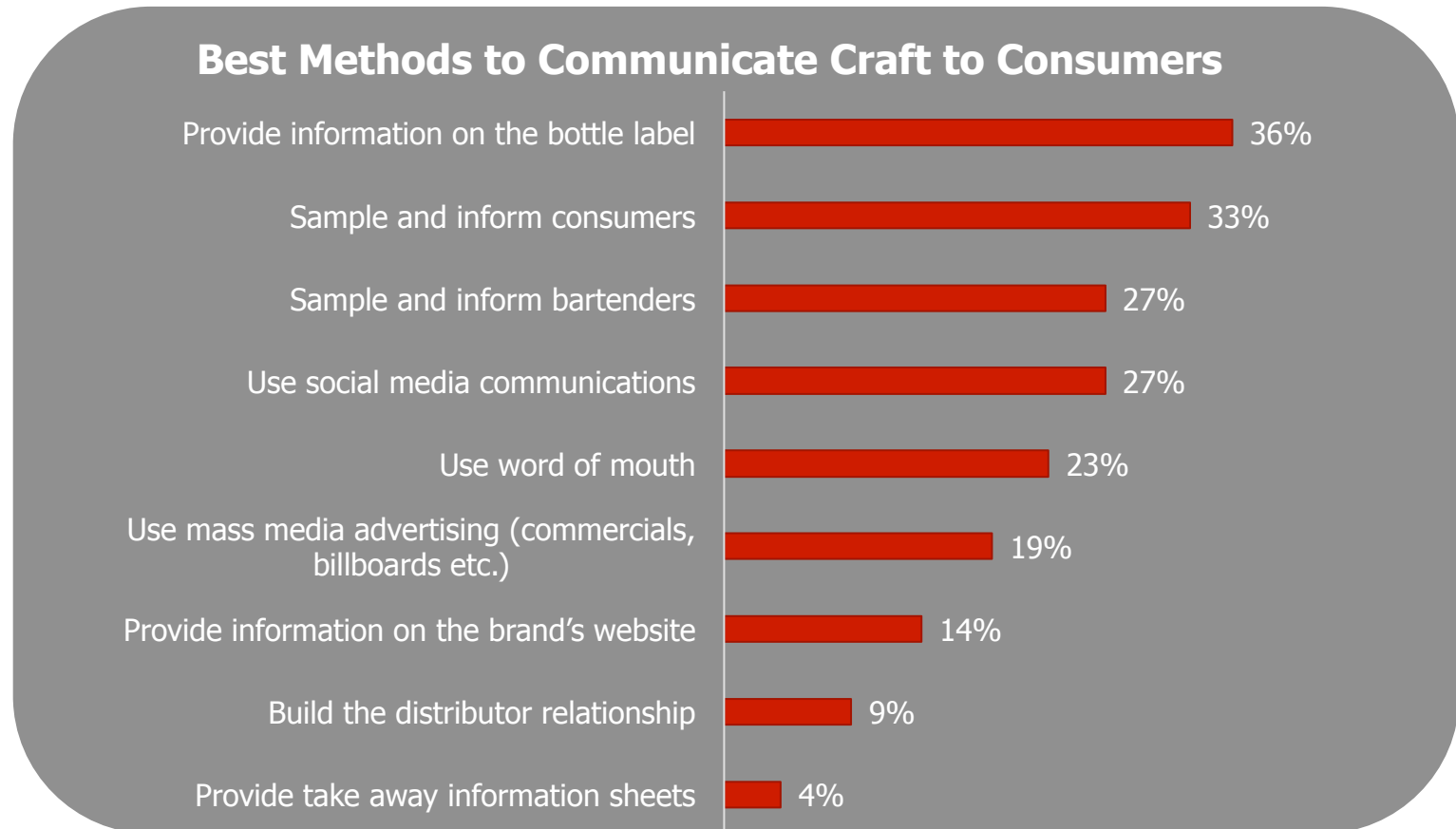


Ways for a Craft Spirit Brand to Standout



Craft Spirits – Consumer View

Using language that cues on labels can help communicate “craft” to consumers. Sampling also offers another communication vehicle.



Source: Craft Spirits Data Project – Consumer Analysis

Craft Spirits Retailers, On-Premise

Retailer Suggestions on Distributors & Producers

On-premise retailers suggest distributors offer better pricing deals followed by more background on the brands they offer. Special promotions and supplier representation are also important.

Retailer Suggestions to Distributors (% Agree)



On-premise retailers suggest producers offer more resources for consumer tastings leading to education. In addition, focusing on fewer products is important for shelf space constraints.

Retailer Suggestions to Producers (% Agree)



Craft Spirits Retailers, Off-Premise

Retailer Suggestions to Distributors & Producers

Off-premise retailers would like to receive more background from the wholesalers in addition to promotional efforts.

Similar to on-premise, off-premise retailers suggest producers offer more resources for consumer education. Developing more effective consumer pull strategies are an opportunity.

Retailer Suggestions to Distributors (% Agree)



Retailer Suggestions to Producers (% Agree)



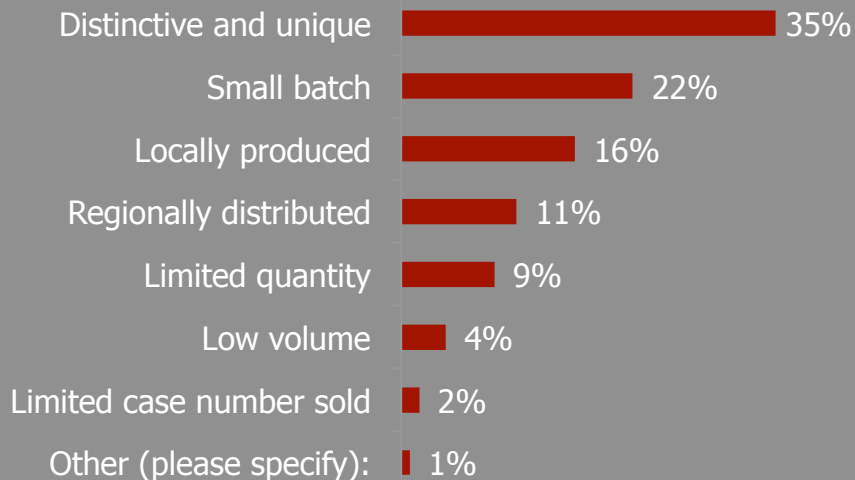
Craft Spirits Retailers, Bartenders

Bartender Phrase Association & Suggestions

Distinctive/unique is the phrase most associated with craft spirits from a bartender's perspective. Small batch and locally produced follow accordingly.

Distinct taste is by far the top way for a craft spirits brand to stand out in the crowd, unique packaging and excellent quality come in a distant second and third.

Phrases Most Associated with Craft Spirits (% Agree)



How Does a Craft Spirits Brand Standout (%) Agree)



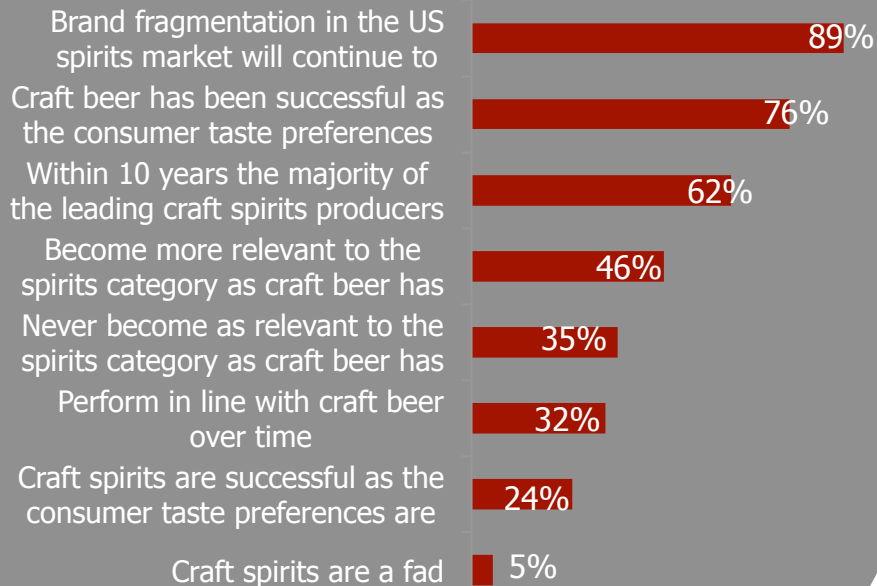
Craft Spirits Wholesalers

Wholesaler Suggestions on Distributors & Producers

Wholesalers widely disagree that craft spirits are a fad and believe brand fragmentation will continue and with-in a decade's time, 62% believe the leading craft spirits producers will be owned by a leading supplier.

Wholesalers would like to see better executed pull strategies by producers in addition to them providing more information to consumers through visits to the market.

Wholesaler Suggestions to Distributors (% Agree)



Wholesaler Suggestions to Producers (% Agree)



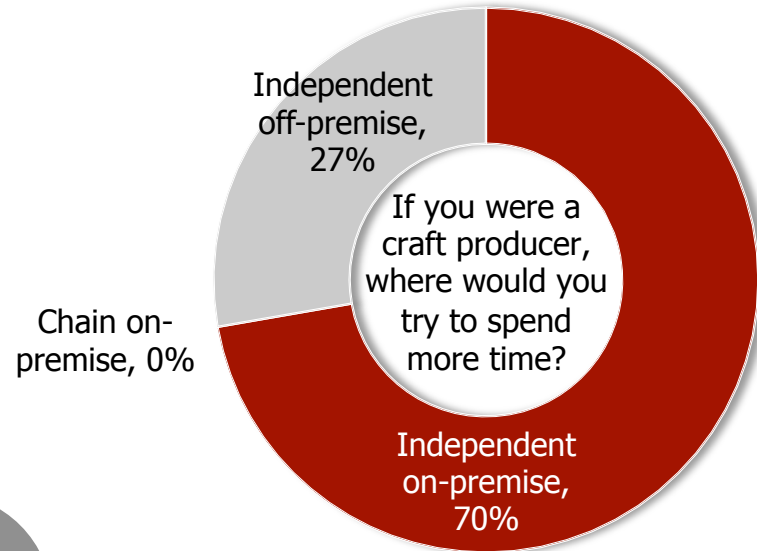
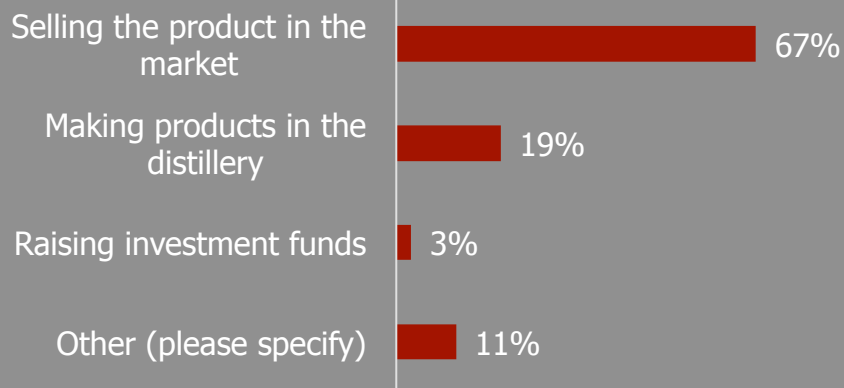
Craft Spirits Wholesalers

Wholesaler Market Suggestions

70% of wholesalers believe that craft spirit producers should initially target independent on-premise accounts when coming to market.

If the wholesalers were producers, they would spend time selling the product in the market.

If you were a craft producer, where would you try to spend more time?
(% Agree)



Other Mentions:

- Educating consumer, retailer, and sales force. Engage with all tiers and insure a clear consumer platform
- Making the product as well as telling the story in the market
- Creating consumer pull/ developing relationships with key gatekeepers



Craft Spirits – Key Messages



"Craft" In The Eyes Of The Consumer

Different & Unique

Characteristics Consumers
Most Associated with
Craft Spirits followed by
small batch and local

Perceived Distinct Taste

Is a product trait that can
help it stand out from
the crowd

Mixed is Important

Craft Spirits are most likely
to be consumed in a mixed
drink or specialty cocktail

Off Premise

Earns slightly higher
purchase and driven by
WOM suggestions

Social Occasions & Try Something New

Key motivators for
purchasing craft spirits

Label and Samples

Methods consumers feel is
best to deliver a message
of being a craft spirit

Craft Spirits – On Premise Retailers

Greater Trial Opportunities

Limited risk to consumer to try without having to invest in a full size product

Lack of Shelf Space

The more products there are, the less shelf space there is

Desire for More Info & Promotions

On-premise retailers want distributors to offer more background info and conduct promos (tasting)

Local Brands Show Promise

Greater expectation for in state sales vs out in comparison to off-premise retailers

Not Craft Beer

On-Premise retailers struggle to find a relationship between craft beer and spirits

Location & Packaging

On-premise retailers identify these two variables as most appealing

Craft Spirits – Off Premise Retailers

Craft Beer Similarities

Off-premise retailers strongly believe craft spirits will perform in-line with craft beer

Impact of Pricing

Keep pricing competitive to sustain growth while increasing trial

Tastings

Off-premise tastings occur sporadically yet are vital in order to obtain a consumer connection

Narrow Product Line-Up

Need to stand out in the category, not increase it by adding more brands

Bottle Size

375ml packaging allows affordable consumer trial for off-premise

Local, Local, Local

Consumers appreciate, and gravitate towards, local establishments selling locally produced products

Craft Spirits – Wholesalers

Shares Rising

In-state & out-of-state craft spirits account for 1-5% of overall sales, percentages trending positive

Brand Fragmentation

Fragmentation is expected to accelerate

Leading Suppliers

Wholesalers believe leading craft producers will be owned by a major supplier

Looking Forward

By 2030, 43% of wholesalers believe local craft will achieve value shares of 10%.

Entering the Market

Target independent on-premise accounts while focusing efforts on packaging and price

Wholesalers in Craft Production?

If so, they would spend the majority of their time selling the product in the market

Craft Spirits – The Producers

Average Distiller

In 2015, the average craft spirits distillery sold 4,689 9-liter cases in total. Active in 9.6 states with 7.6 domestic employees

Tasting Room

7.4%, 10.5%, 21.5% of distillers sold more than 1,000 cases in their tasting rooms in 2014, 2015 and 2016, respectively

Distributors

Highest rates of distributor satisfaction are in off-premise, on-premise with nation chain accounts lagging

Expansions

The average distiller spent over a quarter of a million dollars on expansions in 2015

3-Year Trend

Shares of distillers' opening, distilling and selling product has increased consecutively over a 3-year time frame

Categories

Liqueurs, aged whiskey, vodka and gin are most prevalent categories

Craft Spirits – The Industry

Decades of Growth

Overall, craft spirits have grown at a 41.6% CAGR since 2010 reaching 4.9 million 9-liter cases last year

Fragmentation at Top

The non-top 5 brands shares are increasing for vodka, tequila, gin, rum & liqueurs

Craft Spirits Industry

The craft spirits industry currently makes up 2.2% of volume in the US

Share of Market

US craft has currently an estimated market share of 2.2% in cases, and 4.7% in value

Share of Categories

The largest shares of craft are seen in the gin, liqueurs and US whiskey categories

Future is Bright

Assuming an annual compound growth rate of 19%, the number of craft distillers could surpass 6,200 by 2020



2017 DISTILLERS CONVENTION & VENDOR TRADE SHOW

FEBRUARY 16-17 | NASHVILLE, TN

Thank you,

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