

Collaborative Competition: Homebrew Shops in the New Economy

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Discussion Topics



1. The New Economy
2. A Visual Industry Evaluation:
 1. Transaction Verticals
 2. Revenue Concentration
 3. Industry Health & External Factors
 4. Ecosystem & The Crisis
3. The Purchasing Collaborative
 1. What is it / How does it work
 2. Best Practices
 3. Potential Challenges
4. The Future of Distributors
5. How the AHA Can Help
6. Sources + Q&A



The New Economy



Economic Shifts

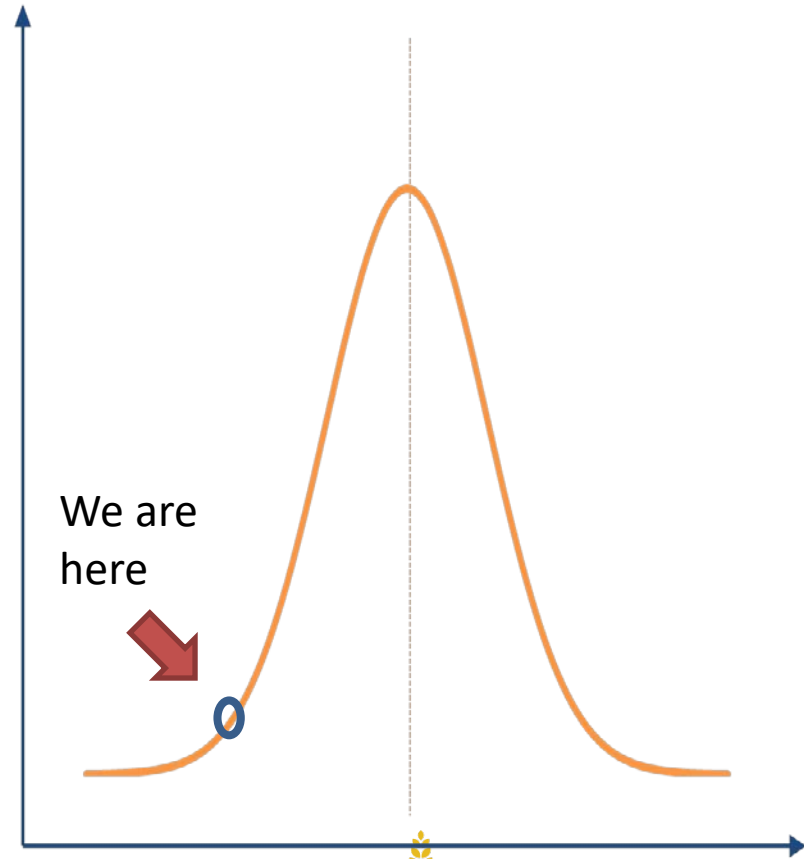
Knowledge Economy

- Most advanced form of production
- Highly Skilled Labor
- Easily Transferrable
- Not subject to diminishing returns
- E.g. Silicon Valley

Manufacturing Economy

- Previously most advanced production
- Low/Moderate Skilled Labor
- Easily Transferrable
- Subject to diminishing returns
- Henry Fords Assembly Line

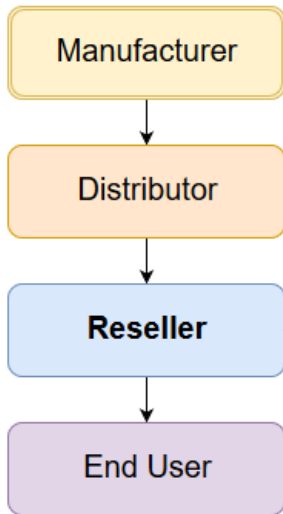
Law of Accelerating Returns



Industry Verticals: Past & Present

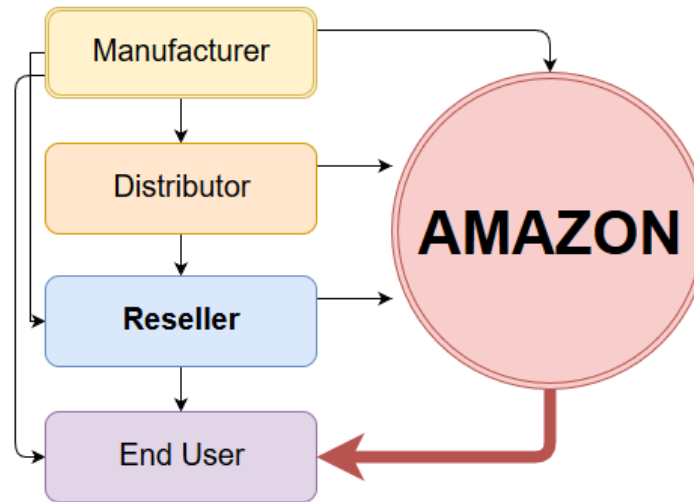


Homebrew Industry Past

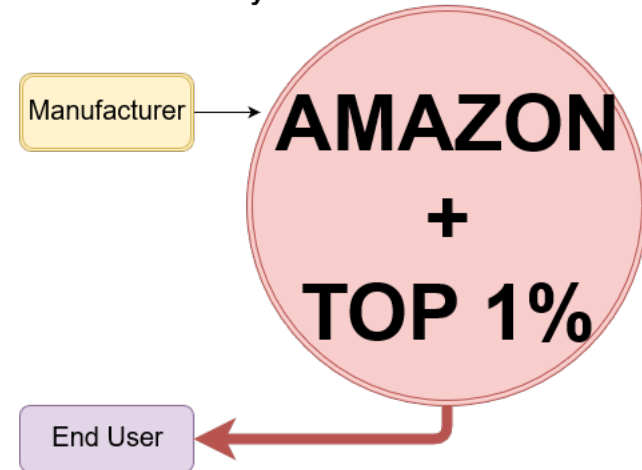


You
Are
Here

Homebrew Industry Present



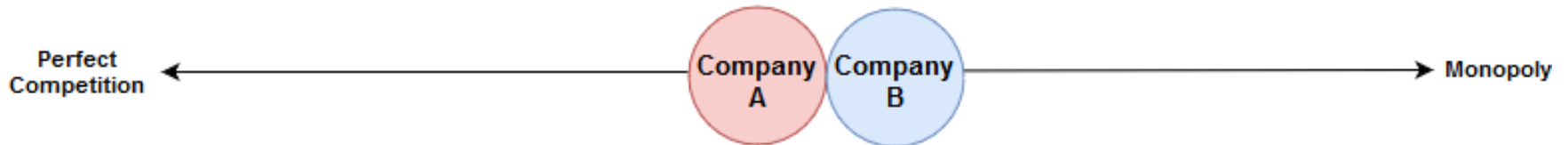
Homebrew Industry Future?



Business Landscape: Perception vs. Reality



Perceived Differences in Companies - Minor



Real Differences in Companies - Major



Source:

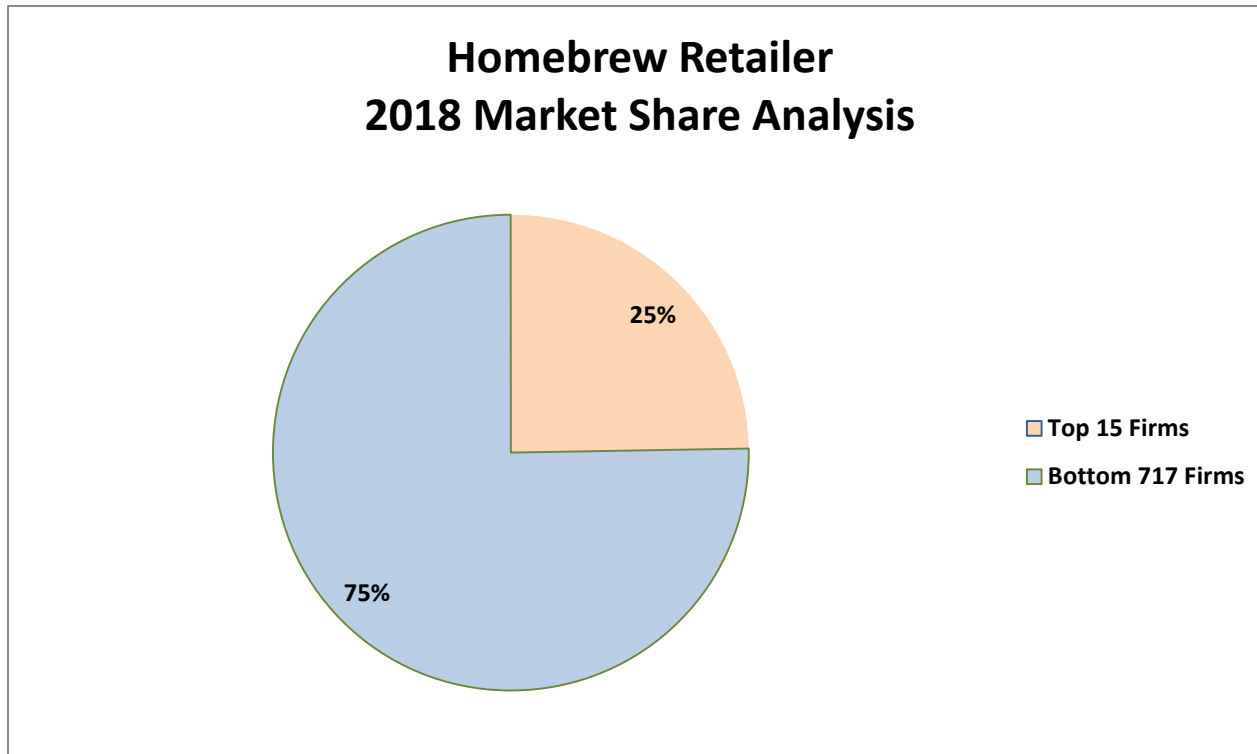
Revenue Concentration: Homebrew



\$320,000,000 - Homebrew Retail Stores Total*

\$130,000,000 - Top 15 Homebrew Retail Firms

\$190,000,000 - Bottom 700+ Homebrew Firms



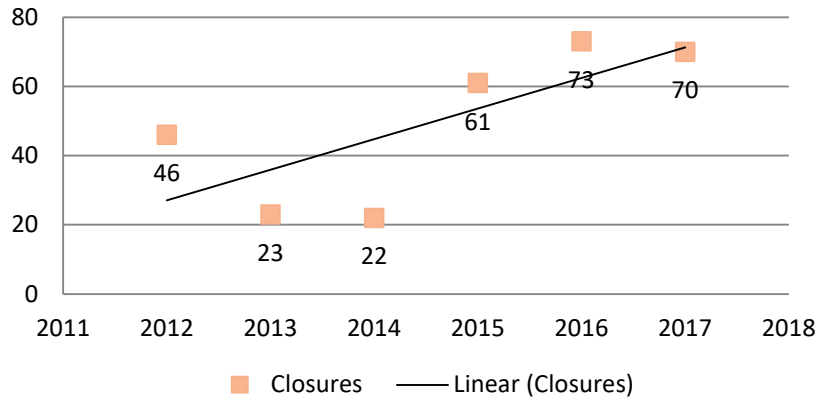
Average Homebrew Firm not generating 70%+ Revenue from online owns a 0.001% Retail Market Share*

Note: Figures are best estimates and calculations based on multiple sources. Actual data not available.

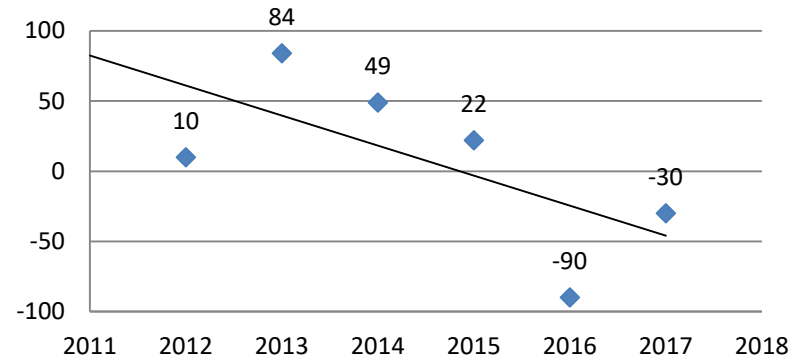
Industry Health & External Factors



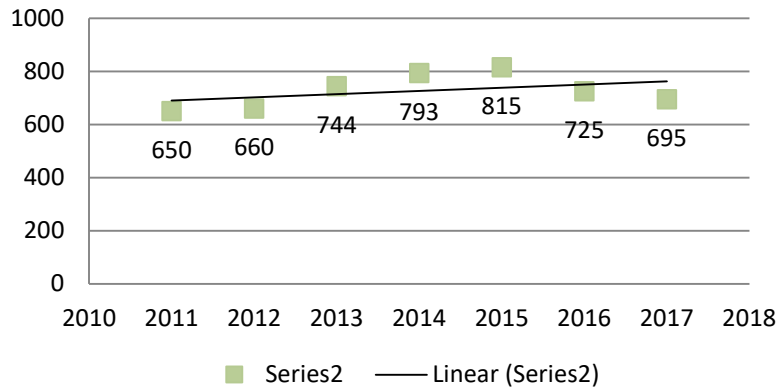
Homebrew Shop Closures



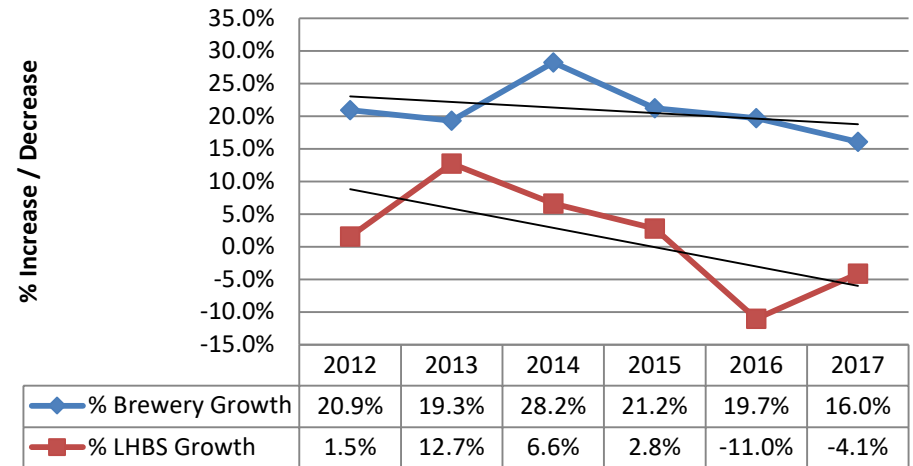
Homebrew Retail Shop Variance



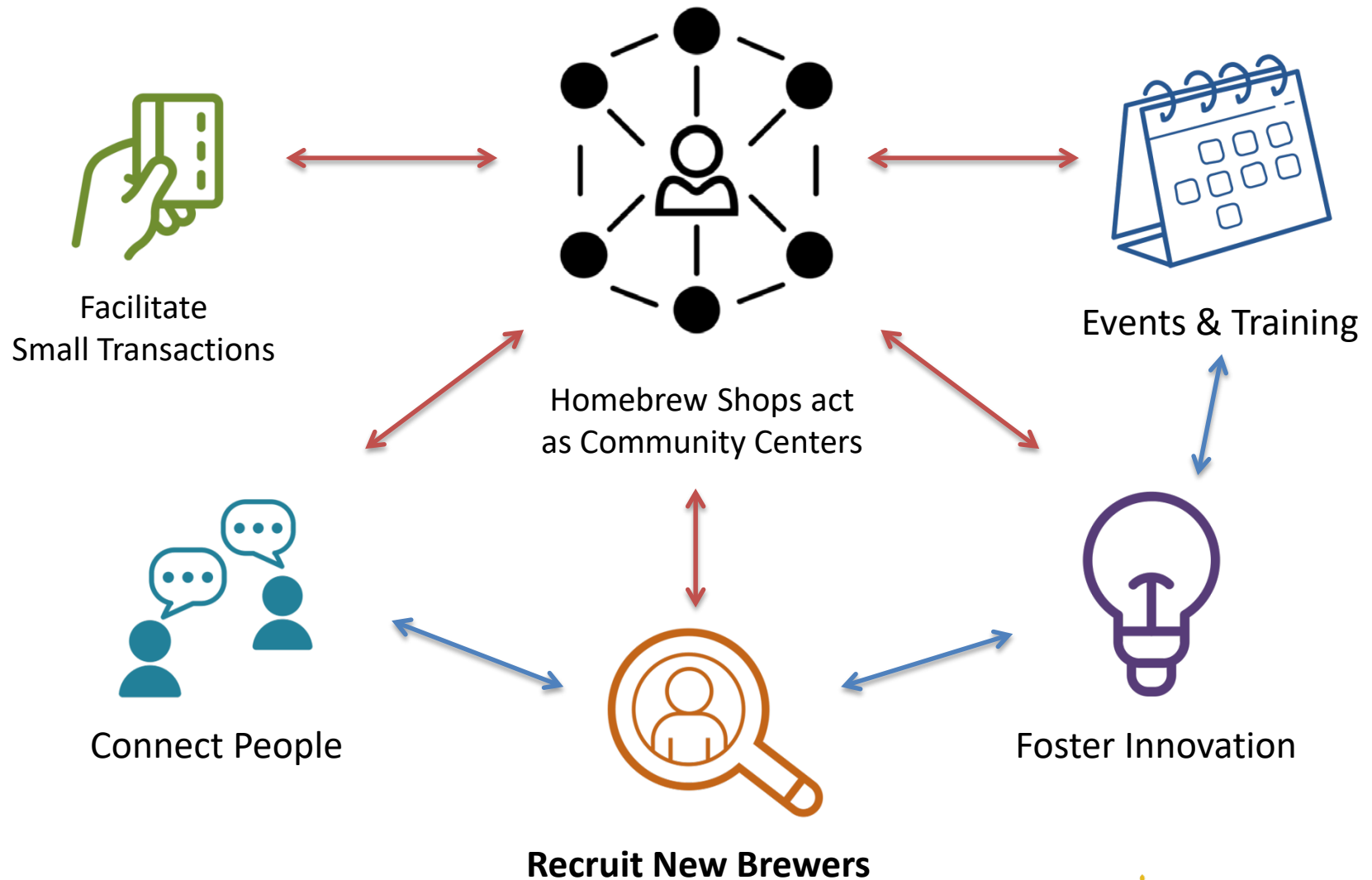
Total Homebrew Shops



Brewery Growth vs. LHBS Growth



LHBS Ecosystem & the Crisis





Purchasing Cooperatives: What are they?



Purchasing Clubs



Sophisticated Rebate Systems



Invoicing Protocols



Coordinated Planning w/
Manufactures & Vendors



Collaborative Competition

5 Requirements for Regional Purchasing Groups



Communication

Periodic Communication between dependent or cooperative retailers to form a responsible steering committee.

Transparency

Third party conducts survey of products, brands, and supplies used by participants.

Planning

Consensus ranking of vendors to contact for developing purchasing Agreements.

Consensus

Steering committee oversees development of a business plan, including an invoicing system.

Structure

Determine member capitalization & prepare organizational information for interested parties to make their membership commitment. Once completed , hire legal firm to file incorporation documents.

Purchasing Cooperative Cont.



- Majority of benefits will come from price discount or a series of rebates.
- Manufacturers will want confidentiality agreements so be prepared with those prior to reaching out.
- Invoicing/Payments of rebates can operate in different ways – Vendors can invoice the Purchasing Cooperative directly or invoice members directly.
- Members pay upfront for purchases, storing funds in the 3rd Party for dissemination.
- Financial penalties should exist in written contracts for any members who would abuse the system for personal gain.
- Vendor benefits are
 - Increased Market Share
 - Confidentiality of Discount/Rebates
 - Coordinated Product Promotions

Example of Purchasing Cooperative's Purchase, Rebate Terms, & Rebates

	Product 1 Wholesale Purchases	Product 1 Rebate Negotiated Terms	Rebate for Product 1 from Vendor 1	Product 2 Wholesale Purchases	Product 2 rebate negotiated terms	Rebate for Product 2 from Vendor 2	Combined Rebate
LHBS 1	\$ 30,000	\$150 / \$1000	\$ 4,500	\$ 15,000	\$50 / 1000	\$ 750	\$ 5,250
LHBS 2	\$ 60,000	\$185 / \$1000	\$ 11,100	\$ 40,000	\$75 / 1000	\$ 3,000	\$ 14,100
LHBS 3	\$ 20,000	\$100 / \$1000	\$ 2,000	\$ 14,000	\$65 / 1000	\$ 910	\$ 2,910

Potential Challenges



Manufacturers/vendors with a dominant market share may choose not to work with purchasing groups.



Distributors who predict a loss in sales may offer short-term bargains to non-member retailers in an attempt to financially stress the purchasing collaborative.

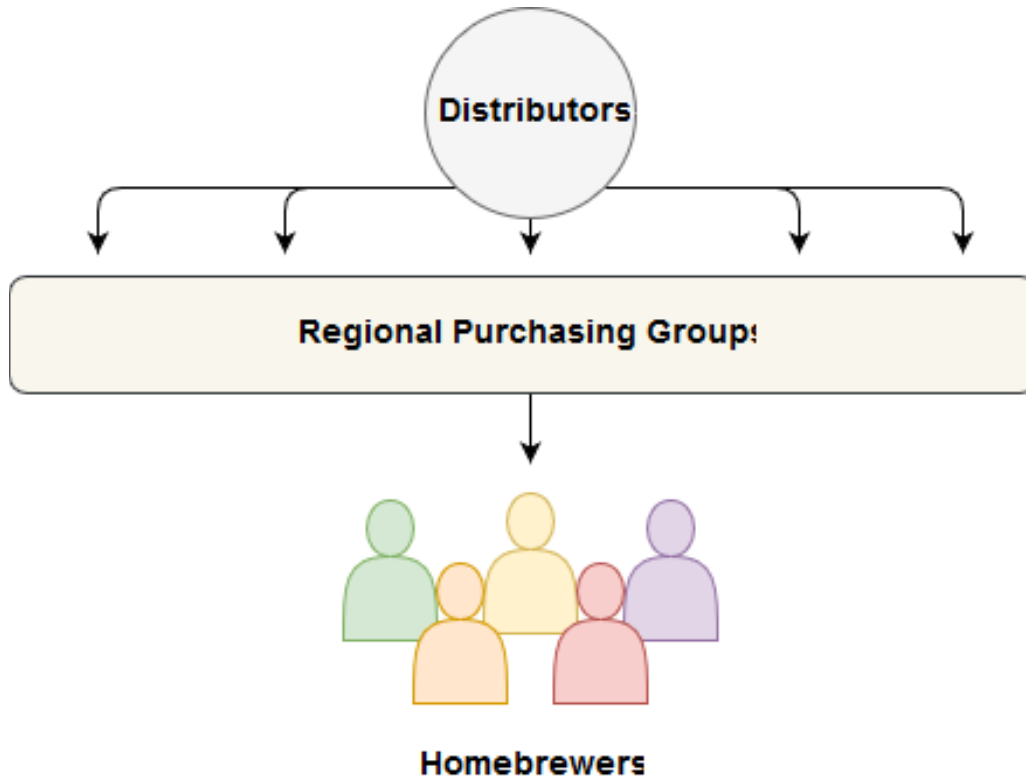


Members may attempt to “shop” benefits of the cooperative to alternative vendors in an effort to obtain better details for their own stores.



Logistics

Distributors: Labs of Innovation



- Shift focus to R&D and innovation
- Form OEM relationships with regional purchasing groups.
- Transition slowly from the beginning as Purchasing group forms.
- Facilitate large scale transactions

AHA Involvement



- Purchasing Groups can collaborate with the AHA to develop studies to indentify Homebrew Shop best practices.
- Fund studies to observe operations, identify positives, and illuminate flaws.
- Compile information and disseminate best practices to all shops
- Invests in recruiting ***new shop owners*** not new homebrewers.
 - Fosters homebrewing communities
 - Can provide complete getting started/best practices
 - Identify geographic centers of needs
 - Incentivizing new shops to open with information
 - New Vendors can enter into Regional Purchasing Groups





References

- Law of Accelerating Returns
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 - *Competition is for Losers Lecture*– Peter Thiel
<https://www.youtube.com/watch?v=z6K8PZxyQfU>
- Retailer Data
 - American Homebrew Association – Industry Report 2016
- Industry Health & External Factors
 - <https://www.brewersassociation.org/statistics/number-of-breweries/>
 - <https://www.brewersassociation.org/statistics/by-state/?state=NJ>
 - <https://newjerseycraftbeer.com/new-jersey-breweries/>
- Purchasing Cooperatives
 - A Guide for Development of Purchasing Cooperatives:
<http://www.uwcc.wisc.edu/pdf/CIR64.pdf>

Conclusion & Questions



The success of any cooperative depends on member commitment and a high level of trust.

Questions?