



THE DECISIONS OF CONSOLIDATION

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Every wholesaler in the country will be confronted with some form of consolidation decision in the next 12 – 24 months.

Whether it is selling your business, buying someone else, or buying and selling brands, IBG feels everyone will be participating in some form of transaction. The purpose of this letter is to offer assistance to beer wholesalers in carefully assessing their options. This assessment is not as easy as one might think. A candid, independent discussion can be extremely beneficial from an emotional and economic standpoint. Regardless of the brands you sell, you should consider our offer.

The trend to “mega” wholesalers is gaining momentum. Suppliers have entire departments devoted to reducing the number of wholesalers and accomplishing their consolidation objectives. Powerful retailers are attacking the three-tier business model with super-efficient warehousing and delivery systems. There is an urgent rush to take costs out of the distribution system. Eliminating wholesalers is one of the best ways suppliers and retailers can accomplish this.

Whether you want to stay the same, buy, sell, or merge businesses or brands we urge you to carefully explore your options. Like it or not, your business is only a small piece of a bigger puzzle. Unfortunately, the way others put the pieces of the puzzle together has a huge impact on everyone. You need to objectively evaluate where you “fit” into the picture.

One of the first things everyone should do is determine the value of their business. The confusing part of this is that your business could have several values depending on your circumstances. Each market is unique and our experience and insight into the process can be extremely helpful. After several years of dealing with all forms of consolidation we have learned that beer wholesalers generally fall into one of these value categories. Remember, any business is only worth its ability to make money for you or someone else.

* Stand Alone Value – An outside party (out of market) purchases your business. No synergies exist and the value is determined by the ability of the company to generate future cash flows.

* Strategic, Contiguous or Horizontal Value – Some synergies can be expected when a wholesaler purchases his neighbor. It usually has some cost savings in G & A but not usually warehousing and delivery.

* Synergistic or Vertical Value – One wholesaler buying another in the same market. Savings are created through closing of warehouse(s) and the reduced number of people and equipment needed. The seller should receive a premium price.

* Brand or Break Up Value – Individual brands are purchased by more than one competitor sometimes resulting in increased value because the parts may be worth more than the whole.

Determining your true maximum value is difficult and getting top dollar is more complicated and time consuming than people realize.

Timing is critical. When or if you allow your business to be put into the puzzle is one of the most difficult decisions a wholesaler will ever make. Recognizing this reality keeps you in control. If you decide to stay the course you should know the risk of gaining or losing value. While the economics of this decision are important we realize that personal, family, and outside influences often dictate timing. The difference between the environment today and the past is the speed and unusual number of ways circumstances can change.

In order to help you decide where you fit, what you are worth and when it's time to do something (or nothing), IBG is offering to visit your market, in person, at our expense. With our experience, knowledge, and proven track record we can work with you to determine how consolidation will likely impact you and your market in the next 3 – 5 years. Even if you want to stay the same our visit will be beneficial. Meeting with IBG to discuss consolidation is not a violation of any suppliers' contract. Strict confidentiality will be maintained at all times.

The pressure to take cost out of the beer distribution system will intensify. There is too much money on the table for Wal-Mart/Costco or suppliers to back off. We are offering to travel to your market at no cost to you in an honest effort to help. Millions of dollars and thousands of jobs are at stake and making the right decisions at the right time will be easier if you are prepared. An honest, independent look at your specific situation can only help make reality more clear. When wholesalers do not understand their options, outside forces can dictate the course of events. This can be avoided. We are ready to travel and look forward to spending a couple of hours with you.

IBG is totally committed to the success and viability of the three-tier system. We believe suppliers and wholesalers have earned the right to be treated with respect and compensated fairly.

