

First Research Industry Reports

The Watson CPA Group subscribes to First Research and several other databases. We primarily use this information for business valuations and consultation.

Enclosed with this cover page is a sample for the Beer, Wine and Liquor industry. It's 18 pages of some snoozer material, but at the same time there are some cool things.

For example, how do you compare to your peers in terms of revenue silos? Spirits versus wine versus beer? Beer has lousy margins where wine can be lucrative. Are your sales in beer out of line with industry averages?

Staffing concerns? It appears that this industry has an average wage of \$12.64 for employees. What do you pay yours?

What is the growth rate of the beer, wine and liquor industry? It appears that 3.8% for 2017, 3.4% for 2018 and 3.9% for 2019 are the expected growth rates. These are slightly ahead of GDP and COLA figures. Theoretically these will have to reduce (contract) otherwise the industry will exceed the country's production. And... if these growth values are less than expected COLA then theoretically the industry will disappear.

What are some of the challenges the industry faces and how are others dealing with them? What are some of the trends and opportunities? That's in here too.

Again, how do you compare to your peers in terms of net income? It appears that beer, wine and liquor store owners squeeze out a measly 0.7% net income based on gross sales plus another 3.2% in officer compensation. What is interesting about this industry in particular is the lack of economies of scale. With \$50 million in sales or less than \$5 million, your net income still hovers around 0.7%. Therefore, business owners in this industry have to expand to increase take-home dollars yet several states only allow one license per owner per location. Yuck.

What is your business worth? Multiples are based on some number times gross revenue, net income, or some other number. These are usually derived from sales comparables from databases such as BIZCOMPS®, IBA Market Data, DoneDeals and Pratt Stats (Shannon Pratt was the grandfather to the business valuation world). In this particular industry, you should be able to sell your business for close to 5.1 x earnings before interest, taxes, depreciation and amortization (EBITDA). So that's cool. We can also do the old fashioned valuation method of the income approach and capitalization rates, but market sales are the best proxy for value.

In summary, like a crummy college paper, this information might not be useful to some small business owners like consultants and other "industry-less" business owners. However, if you fall solidly into an SIC or NAICS coded industry, then we can review your First Research Industry Report and see how it applies to your world.

Enjoy!

Beer, Wine & Liquor Stores

8.21.2017

NAICS CODES: 445310

SIC CODES: 5921

About First Research

First Research, a D&B company, is the leading provider of Industry Intelligence Tools that help sales and marketing teams perform faster and smarter, open doors and close more deals. First Research performs the “heavy lifting” by analyzing hundreds of sources to create insightful and easy to digest Industry Intelligence that can be consumed very quickly to better understand a prospect’s or client’s business issues. Customers include leading companies in banking, accounting, insurance, technology, telecommunications, business process outsourcing and professional services. Used by more than 60,000 sales professionals, First Research can benefit any organization which has prospects in multiple industries.

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Industry Overview

Companies in this industry sell beer, wine, and liquor products from physical retail establishments. No major companies dominate; in the US, individual states have different laws regulating liquor stores, complicating the ability to form national chains.

Europe has the highest proportion of drinkers and the highest levels of alcohol consumption per person in the world, according to a study by RAND Europe. Off-premise alcohol consumption is increasing at the expense of on-premise drinking there. Prices on off-premise alcohol are considerably lower than on-premise prices with retailers, especially supermarkets, able to purchase large quantities of alcohol at lower prices through volume discounts. Price differentials between countries -- alcohol sold in France is significantly cheaper than alcohol sold in the UK -- encourage cross-border shopping.

The US beer, wine, and liquor store industry includes about 33,000 establishments (single-location companies and units of multi-location companies) with combined annual revenue of about \$50 billion.

Competitive Landscape

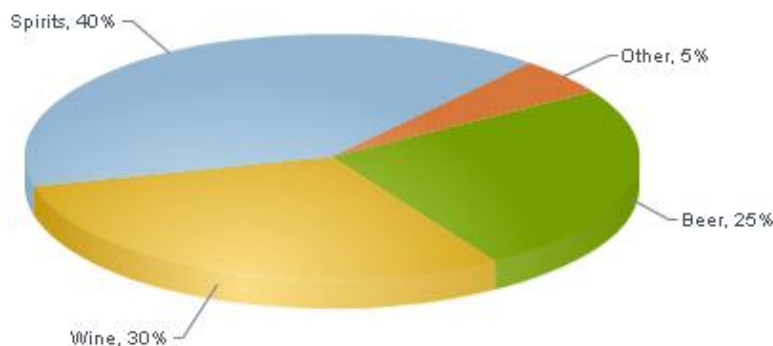
Personal income, consumer tastes, and entertainment trends drive demand. The profitability of individual companies depends on effective marketing and competitive pricing. Large companies offer wide selections and deep discounts, but small companies compete by offering specialized merchandise, providing superior customer service, or serving a local market. The US industry is **highly fragmented**: the top 50 companies account for about 25% of sales.

Liquor stores compete directly with grocery stores, warehouse clubs, convenience stores, and some drugstores, and indirectly with restaurants, bars, and other establishments that serve alcohol. In addition, direct-to-consumer sales are growing as restrictions are eased.

Products, Operations & Technology

Distilled spirits (liquors) account for about 40% of sales, **wine** for 30%, and **beer and ale** for 25%; other products include groceries, cigarettes, and cigars. The liquor (or **hard liquor**) category includes gin, vodka, rum, whiskey, brandy, and liqueurs. State laws dictate the type of alcohol sold in a particular venue. In some states, only liquor stores can sell hard liquor.

Product Segmentation by Revenue - Census Bureau



Liquor stores may also be known as “**package stores**,” referring to the post-Prohibition law requiring stores to cover or “package” alcoholic beverages in public. Each state has an **alcohol control agency**, and **state laws** regulate the sale of alcohol, including specifying what types of retailers may sell alcohol, and limiting days and hours of operation. Most states are **open** or **license states**, and allow private ownership of retailers. In **control states**, the state government controls liquor distribution and may operate retail liquor outlets. State-run liquor stores may be referred to as **ABC (alcoholic beverage control) stores**.

Liquor stores sell alcohol for **off-premise** consumption, and require a **state-issued license** to operate. In some

areas, stores may require additional licenses from municipal or county authorities. Liquor licenses are generally more expensive and difficult to obtain than beer and wine licenses. Some states use **quota licenses**, which limit the number of liquor licenses based on the population. In quota states, new liquor stores must either buy an existing license or enter a lottery for a new quota license.

Liquor stores include **independent stores** ("mom-and-pop"); **local and regional chains**; and **state-operated** outlets. Independent stores may be small and typically serve local markets. An independent store or chain may also act as a **sales agency** for a state and work on commission. Large liquor stores or **superstores** offer huge selections, and typically sell other products like groceries and tobacco. Companies locate superstores close to grocery stores, mass merchandisers, and other high-traffic retailers.

Independent liquor stores can be as small as a few thousand square feet, and typically generate less than \$1 million annually. Superstores generally exceed 10,000 square feet, and can generate between \$1 and \$5 million annually. Extremely large superstores can exceed 50,000 square feet.

State laws may limit **inventory selection** by dictating the types of alcohol sold. In a few states, liquor stores can't sell beer, while grocery stores can't sell liquor. In control states, inventory is limited to brands that state-run distributors carry. For popular, high-end products, demand may exceed supply, and stores receive limited allocations. Liquor stores may **specialize** by beverage type. A store specializing in wine may carry 4,000 brands, while a liquor superstore may offer between 20,000 and 70,000 different alcoholic beverages.

The **three-tier distribution system** for alcohol includes producers or importers, distributors, and retailers. States regulate the distribution system to restrict direct sales from producers to retailers or consumers, and to collect **excise taxes** through distributors. Most liquor stores buy inventory from **licensed local distributors**, some of which have **exclusive rights** to sell certain beverages. Distributors collect excise taxes based on a beverage's alcoholic content, essentially increasing the wholesale price to the retailer.

Technology

Liquor stores sell a large number of products, and most use **computerized information systems** to track point-of-sale (POS) data and manage inventory. **Bar codes** allow companies to track inventory in the warehouse and link it to POS data to know when to reorder. **Biometric fingerprint identification** systems quickly verify the age of customers, speeding check-out.

Retailers are investing in **data security** measures following a number of high profile data breaches. Texas-based wine and spirits chain Specs, for example, experienced a 17-month-long breach at some of its stores, affecting as many as 555,000 customer bank and card records. Retailers affected by data breaches face lawsuits and loss of loyalty from consumers.

Beer, wine, and liquor retailers are also turning to **mobile apps** to provide added services and convenience to customers. New York City retailer Growler Station developed an app called Beer Wizard that lets consumers sort beers by brand, hop bitterness, style, color, and alcohol content. Another app, BrewDrop, allows customers to look at inventory in local liquor stores, place their order, and have it delivered. Drizly, a mobile door-to-door delivery app, enables customers to place orders for alcoholic beverages from local retailers in more than a dozen US markets.

Sales & Marketing

The typical US customer for liquor stores varies by product: liquor consumers tend to be older, wine attracts a mix of ages and is the top choice of women. Beer drinkers tend to be younger and male. Nearly two-thirds of US adults consume alcohol, and most who drink do so fairly regularly. Beer is their beverage of choice, with 41% of US drinkers saying they typically drink beer; 31% wine; and 23% liquor, according to Gallup.

State alcohol boards regulate advertising and promotion for alcohol to discourage excessive or under-age consumption. Liquor stores rely heavily on **in-store displays** and **window signage**, and may use newspaper, print, outdoor, or radio advertising. State restrictions may limit or prohibit price reduction ads in window signage. Liquor stores rely on manufacturer advertising to generate awareness or "consumer pull." After voluntarily banning hard liquor ads since the 1950s, broadcast TV networks began loosening restrictions in 2011, allowing liquor ads during late-night programming. Tastings help drive store traffic and educate customers.

Superior customer service helps liquor stores differentiate from other retailers. Large product selections require a knowledgeable sales staff to help customers navigate through thousands of beverage choices. A high-end liquor store may offer temperature-controlled storage for premium wines and liquors or provide help in constructing a wine cellar.

Internet sales of alcohol are controversial, as states claim that internet sales reduce tax revenue and lack age verification. Liquor stores offering beverages through websites typically ship locally, as interstate shipping is complicated, and sometimes prohibited. Although internet sales help specialty liquor stores, state restrictions limit sales potential. Legislative efforts on behalf of small wineries have lessened restrictions on direct sales of wine to out-of-state consumers.

Retail prices for alcoholic beverages differ by state, depending on excise taxes. In general, liquor retail prices

fall into one of four segments: value (under \$10); premium (\$10 to \$20); super premium (\$15 to \$25); and ultra-premium (\$25 and up). Stores may buy **close-out** merchandise from distributors and may reduce retail prices. Some states prohibit distributors from offering quantity discounts, leveling the playing field for small, independent liquor stores. In control states, where state governments operate distributors but the retail sector is privately owned, laws establish retail mark-ups.

Finance & Regulation

Sales are **moderately seasonal** and depend on product mix; liquor and wine sales peak during the winter holidays and beer sales during spring and summer. Seasonal sales result in inventory builds, typically during third quarter. State laws may require prompt payment to government-operated distributors. Companies may require capital to expand or update stores. **Receivables** are low, about four days' sales on average, as most retail customers pay cash or with a credit or debit card. On average, the **working capital** turnover ratio for the industry in the US is about 16%. The industry is capital-intensive: average annual revenue per worker in the US is about \$330,000.

Most liquor stores **lease** property, and contracts typically include a monthly payment, fixed term, and maintenance fees. Some local governments may limit how close stores can be to child-related facilities, like schools and libraries. Most states require stores to carry **liability insurance** to protect against civil lawsuits from selling to underage or intoxicated individuals.

Working Capital Turnover by Company Size

The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

Regulation

Federal, state, and local governments regulate sales of alcohol. Some states prohibit retail sales of distilled spirits for part or all of the day on Sunday, under what are known as **Blue Laws**. Currently, 38 states permit Sunday sales of distilled spirits products. Most states are **license** or **open** states, which allow private ownership of liquor stores. In **control** states, the state government acts as distributor, and some control states also operate retail outlets. The Alcohol and Tobacco Tax and Trade Bureau (TTB) and Federal Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) regulate interstate commerce for alcohol, collect excise taxes, issue licenses, and establish marketing standards.

Excise taxes (also known as "**sin taxes**") on alcohol generate millions for state and federal governments, and can represent more than half the retail price of a bottle of liquor. While collection is primarily the job of distributors, tax rates affect liquor store pricing and profits.

International Insights

Measured by consumption, Europe has the highest proportion of drinkers and the highest levels of **alcohol consumption** per person in the world, according to a study by RAND Europe. Nearly all the countries with the highest levels of alcohol consumption are located in Eastern Europe, led by Belarus, Moldova, and Lithuania. Countries in Africa and the Asia/Pacific region have much lower rates of alcohol consumption. Qatar, India, Vietnam, and China are known for drinking in moderation, while Pakistan, Libya, and Kuwait are considered teetotaling nations, according to World Health Organization data.

In Europe, **off-premise alcohol consumption** is increasing at the expense of on-premise drinking. Prices on off-premise alcohol are considerably lower than on-premise prices with retailers, especially supermarkets, able to purchase large quantities of alcohol at lower prices through volume discounts. Price differentials between countries -- alcohol sold in France is significantly cheaper than alcohol sold in the UK -- encourage **cross-border shopping**.

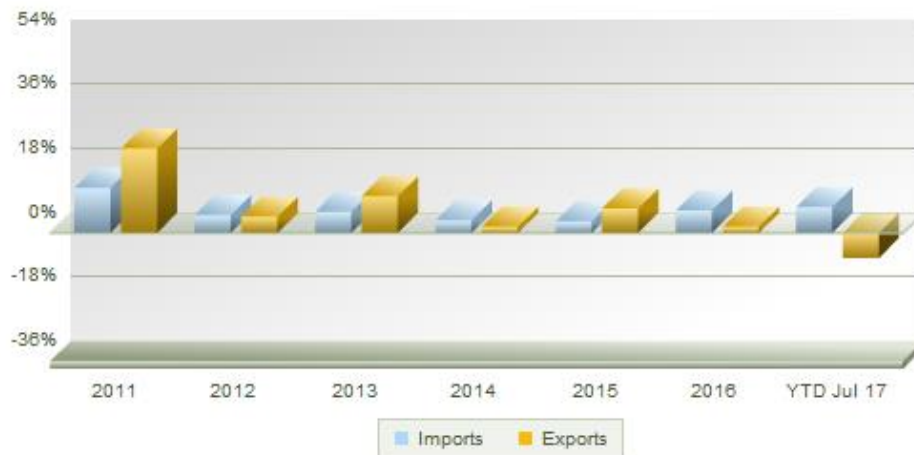
Imported alcoholic beverages are a key source of supply for US beer, wine, and liquor stores. Leading sources of wine imported to the US are France, Italy, and Australia. Liquor is imported primarily from the UK, Mexico, and France. Most **US imports** of beer come from Mexico, the Netherlands, and Belgium.

US liquor stores are typically unable to buy directly from importers, due to state laws requiring the use of distributors as middlemen.

Change in Dollar Value of US Trade - US International Trade Commission

Imports of wine to the US come primarily from France, Italy, Australia, New Zealand, and Spain. Major export markets for US wine include Canada, UK, Hong Kong, Japan, and Germany.

31213 WINES



Regional Highlights

In the US, **regulations** can differ significantly from state to state. Seventeen states and jurisdictions in [Alaska](#), [Maryland](#), [Minnesota](#), and [South Dakota](#) are **control states**, where the state government controls the distribution channel. **Individual state laws** specify what types of retailers may sell alcohol, limit days and hours of operation, and restrict types of alcohol sold in particular venues. Many states prohibit interstate sales of alcohol. A dozen "blue law" states prohibit liquor sales on Sundays. [New Hampshire](#) leads the nation in total alcohol consumed per capita, followed by [Washington, DC](#), and [Delaware](#).

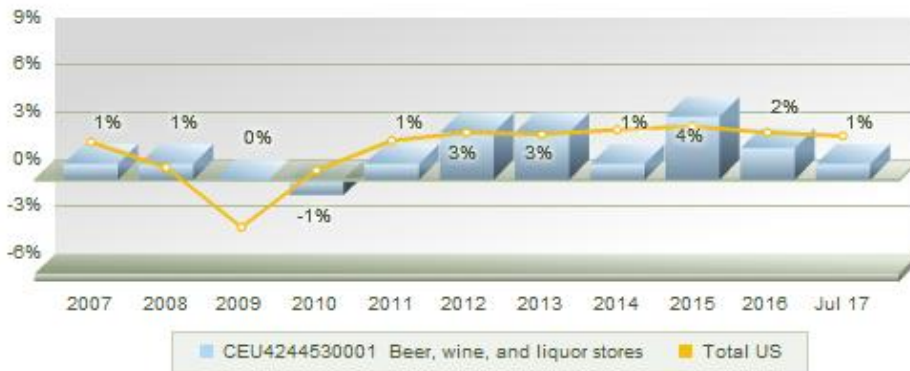
Human Resources

Jobs in liquor stores require few skills, and average hourly industry **wages are significantly lower** than the average for all US workers. States may require all workers in liquor stores to attend alcohol education training to learn to identify underage or overly intoxicated customers. When workers sell to minors, companies risk license revocation and temporary or permanent closure.

While the industry **injury rate** is below the national average, liquor stores are more dangerous than any other

retail setting. Historically, liquor store workers have the second-highest homicide victim rate after taxi drivers, according to the National Institute for Occupational Safety and Health.

Industry Employment Growth Bureau of Labor Statistics



Average Hourly Earnings & Annual Wage Increase Bureau of Labor Statistics



Industry Growth Rating

Growth Rating

- Demand: Depends on consumer income and tastes
- Need good merchandising and competitive pricing
- Risk: Increasing competition from Internet and other retailers

Quarterly Industry Update

8.21.2017

Opportunity: Bag-in-Box Wine Sales Surge in UK - Convenient and easy to transport, bag-in-box wine is enjoying a surge in popularity in the UK, according to recent sales figures. Amazon, which began selling box wine in 2015, saw UK sales surge in June and July 2017 by more than 200% versus the prior year. British supermarket operators Waitrose and Sainsbury each reported double-digit sales increases over the same period. Apparently, bag-in-box wine, in which the wine is contained in a plastic bladder inside a cardboard box and dispensed from a plastic tap, is shedding its down-market image. Whether the surge in popularity extends beyond the summer picnic and festival season remains to be seen. However, as more quality wine makers adopt the format and the environmental benefits of boxed wine versus glass bottles (cheaper to manufacture and transport) become known, bag-in-box wine's increased popularity may hold year-round.

Industry Impact - Wine and liquor stores may want to devote more shelf space to bag-in-box wines, especially during the summer months, as the quality of boxed wine grows and the snob factor declines.

Industry Indicators

US consumer spending on nondurable goods, an indicator of retail alcohol sales, rose 1.0% in July 2017 compared to the same month in 2016.

US retail sales for food and beverage stores, a potential measure of demand for alcohol, increased 1.9% in the first eight months of 2017 compared to the same period in 2016.

Industry Forecast

US personal consumption expenditures on alcohol bought for off-premise consumption are forecast to grow at an annual compounded rate of 3% between 2017 and 2021. Data Published: September 2017



First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. [Forecast FAQs](#)

Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually



Consumer Spending Change in overall level of consumer spending on goods and services



Government Regulations Changes in federal, state, or local government regulations or business-related policies

Critical Issues

Slow Market Growth - The beverage market for beer is mature: per capita consumption of beer declined or was flat for most of the first decade of the 2000s. Decreased beer consumption offset increases in wine and liquor

consumption. Annual sales of beer began rising in 2012 after remaining relatively flat for three years. (Sales of craft brews are posting double-digit gains.) Public education on responsible drinking, stricter drunk driving laws, and programs targeting underage drinking all contribute to flat category consumption rates.

Competition from Other Retailers - Liquor stores face intense competition from grocery stores, warehouse clubs, convenience stores, drugstores, gas stations, and (in some states) internet retailers. While many alternative channels have limited alcoholic beverage selections, most offer either convenience or low pricing. Many grocery stores and warehouse clubs are challenging liquor stores on selection by expanding liquor departments (sometimes just seasonally) and offering more products. Some alternative retailers are adding sommeliers to staff.

Business Challenges

Complying with Government Regulations - Federal, state, and local governments heavily regulate the alcoholic beverage industry. Multiple restrictions limit operations, and changing regulations can greatly affect business. Noncompliance, especially violations concerning underage purchases, can result in costly fines and temporary closure. In the worst case, liquor stores can lose their license, resulting in permanent closure.

Dependence on Consumer Spending - Consumer spending and a healthy economy drive sales of alcohol, especially high-end products. During the recession in the late 2000s, sales growth in liquor stores slowed while per capita consumption fell, reflecting consumers' increased price consciousness. Consumers are more likely to shop sales or trade down from premium products during tough economic times.

High Excise Taxes - State and federal excise taxes add incremental costs above wholesale prices, affecting liquor stores' margins and pricing. Taxes make up a large percentage of the retail price for alcohol, and many state governments raise excise taxes to cover budget shortfalls. Excise taxes differ by beverage, and are generally higher for liquor versus wine and beer.

Seasonal Sales - Weak seasonal sales can detrimentally affect the entire fiscal year. Consumption of wine and liquor increases during the winter holiday, when consumers tend to entertain more. Consumption of beer peaks during the summer, and during key events like the Super Bowl. Alternative retailers aggressively promote alcohol during key selling periods to capitalize on increased demand.

Direct to Consumer Internet Wine Sales - As more states allow internet sales of wine, more consumers can buy wine directly from manufacturers, bypassing retailers. Small wineries have successfully lobbied to change some interstate shipment laws. States argue that internet sales make it more difficult to prevent underage purchases and can reduce excise tax revenue.

Community Resistance - Due to multiple studies linking the presence of liquor stores to crime, some communities are pressuring local governments to deny or revoke liquor licenses. Oversaturation of liquor stores is often associated with excessive drinking, drug use, loitering, and criminal activity. Communities also pressure store owners to shorten hours and stop selling cheap fortified wine favored by vagrants.

Wine Sales Growth Expected to Decline as Boomers Age - Lower incomes for the leading US wine drinking population -- baby boomers -- will dampen growth in wine sales, according to Silicon Valley Bank's 2014 State of the Wine Industry Report. Baby boomers currently represent more than 40% of US wine buyers, and their purchasing power will decline as they retire. Economic weakness will likely keep younger consumers from trading up to higher-priced wines for another five to seven years, according to the report.

Business Trends

Supplier Consolidation - Consolidation at the top of the alcohol industry reduces product choices for individual retailers and often results in increased wholesale prices. The top companies among alcoholic beverage manufacturers and distributors dominate the market, and the industry continues to consolidate as companies look to increase market share. Among wine and liquor distributors, the top 50 companies hold more than 75% of the market. Some states have as few as two distributors.

Negative Public Opinion - Increased societal and governmental attention to alcohol abuse has led to efforts to curb consumption. Critics continue to pursue ways to increase prices, decrease availability, and restrict marketing. Anti-alcohol organizations have successfully lobbied for tax increases and regulations designed to discourage consumption. Well-publicized medical studies linking excessive consumption to health problems can also reduce demand.

Liquor Superstores - The growing market for wine and liquor, combined with increased consumer interest in

specialty products, has supported the growth of liquor superstores. Superstores can offer tens of thousands of products, while warehouse clubs (like Costco) may offer less than a hundred. Liquor superstores can provide a superior variety of products for customers looking for a wide selection.

Stores Tap into Refillable Growlers - Beer retailers around the US are offering consumers a new way to take home their favorite brew: in refillable 64-ounce jugs known as growlers. Some liquor stores use in-store taps to fill jugs with craft beers that are not typically found in cans or bottles. Grocery and drug stores also are selling beer growlers, as well as wine from the tap. Consumers refill their glass or ceramic growlers rather than buy new containers. The growler trend typically appeals to craft beer fans, but it's also part of a larger eco-friendly movement, in which consumers re-use their own containers for food and beverages.

Industry Opportunities

Malternatives - Flavored malt beverages, also known as malternatives, are a small but growing segment of the malt beverage market. Appealing largely to young adults, the category relies heavily on product innovations and new flavors to keep consumers interested. Malternatives also enjoy significant tax relief versus liquor because of their malt base. Some states, however, have reclassified the beverages as distilled spirits.

Tastings - Driven by the Distilled Spirits Council's lobbying efforts, more states are allowing liquor tastings. Tastings help drive store traffic, and generate sales of premium liquors consumers might be hesitant to buy without trying. Increased consumer interest in fine wines has also made tastings an effective marketing vehicle for retailers.

Customer Service - By providing superior customer service, independent liquor stores have a competitive advantage over large retailers. Independents may know customers by name, offer out-of-home wine storage, or provide holiday gift-giving programs. And a well-educated staff attracts lucrative customers seeking advice on premium products.

Hispanics Alcoholic Beverage Market Ripe for Growth - The Hispanic adult beverage market is poised for significant expansion in the US, according to a recent report by food industry market research firm Technomic. Hispanics account for 15% of all US adults of legal drinking age; by 2045 they will make up 25%. Hispanic drinkers differ significantly from the rest of the US drinking population: they are more likely to be younger, to be male, and to strongly prefer beer, tequila, and red wine.

Executive Insight

Chief Executive Officer - CEO

Competing With Alternative Retailers

Liquor stores encounter heavy competition from grocery stores, warehouse clubs, convenience stores, and gas stations. Warehouse clubs offer deep discounts, while other retailers offer convenience. Companies develop a competitive advantage by providing superior customer service, offering specialty products, or serving markets overlooked by competitors. Offering a wide selection of wine or high-end liquor is a way to differentiate from other retailers.

Operating in a Regulated Environment

Federal, state, local, and municipal governments heavily regulate liquor stores. Multiple laws dictate how companies do business, including what types of retailers sell alcohol, the types of alcohol sold, and days and hours of operation. Changing regulations can significantly impact a store's sales and profitability. Strict compliance and constant monitoring of government issues can help companies avoid violations and fines. Companies may also take an active role in lobbying for regulations favorable to the liquor industry.

Chief Financial Officer - CFO

Minimizing Liability Risk

Litigation from liquor liability is costly, and can ruin a small liquor store's business. In some states, "dram shop" laws hold liquor stores partially liable for damages caused by intoxicated customers. Companies may buy additional liquor liability insurance to protect against damages.

Managing Tax Implications

Excise taxes are a significant part of the wholesale price of alcoholic beverages, and can affect pricing and margins for liquor stores. Liquor taxes raise millions of dollars, and federal or state governments frequently raise taxes to fund new programs or cover budget shortfalls. Increasing retail prices to cover taxes may result in

decreased demand. Companies can support lobbying efforts by the Distilled Spirits Council to pressure governments to maintain or reduce excise taxes.

Chief Information Officer - CIO

Implementing Age Verification Systems

Underage purchases are a big problem for liquor stores. However, carding customers can significantly slow the check-out process, and doesn't always catch minors with false identification. Automating age verification reduces risk and shortens customer wait-time. Companies can implement biometric fingerprint identification, where registered customers verify age with a fingerprint.

Maximizing Internet Opportunities

State laws restrict interstate commerce and limit Internet sales beyond local and state markets. However, websites can help liquor stores reach select consumers and market premium specialty products. Companies use the Internet to offer rare wines and oversize bottles, and recommend beverages. Liquor stores may also sell gift cards redeemable in-store to drive traffic.

Human Resources - HR

Providing Alcohol Educational Training

By selling alcohol to minors or inebriated adults, employees put liquor stores at risk for fines, temporary closure, license revocation, and lawsuits. Many states require workers in liquor stores to attend alcohol education training to identify underage or overly intoxicated individuals. Insurance companies, private organizations, and some states offer alcohol education programs and certification for employees.

Providing a Safe Workplace

Compared to other businesses, liquor stores can be dangerous places to work. Historically, liquor stores have the second-highest homicide rate after taxi drivers, according to the National Institute of Occupational Safety and Health. Companies may install security cameras, additional lighting, or hire nighttime security guards to deter crime.

VP Sales/Marketing - Sales

Marketing in a Regulated Environment

State laws regulate liquor store marketing programs for alcoholic beverages, and broadcast TV networks voluntarily limit hard liquor advertising to late-night programming. Liquor stores often rely on window signage and in-store displays to drive store traffic and promote key products. Tastings for wine (and in some states, liquor) also help generate excitement and sell higher-priced products consumers might otherwise be reluctant to buy.

Developing Community Relationships

Liquor stores may have strained relationships with local communities due to the link between liquor sales and crime. Citizen groups may pressure local government to revoke or deny liquor licenses, especially in areas with an over-saturation of liquor stores. To maintain positive relationships, liquor stores may close earlier, reducing alcohol sales during times of peak criminal activity, and may eliminate sales of cheap alcohol favored by heavy drinkers.

Executive Conversation Starters

Chief Executive Officer - CEO

How is the company responding to the increasing number of retailers entering the hard liquor market?

Where allowed, alternative retailers are starting to offer hard liquor, once the domain of liquor stores.

How does the company ensure ongoing compliance with federal, state, and local regulations?

Strict compliance and constant monitoring of government issues help companies avoid violations and fines.

Chief Financial Officer - CFO

What types of insurance does the company carry?

Most stores carry liability insurance to protect against civil lawsuits from selling to minors and intoxicated adults.

How do changes in excise taxes affect the company's margins?

Excise taxes, also known as "sin taxes," can be more than half the retail price of a bottle of liquor.

Chief Information Officer - CIO

What type of technology is the company using for age verification?

Biometric fingerprint identification systems quickly verify the age of customers, speeding checkout.

What role does the Internet play in the company's growth plans?

Websites can help liquor stores reach select consumers and market specialty products.

Human Resources - HR**What type of alcohol education training does the company provide employees?**

States may require liquor store employees to attend alcohol education training to learn to identify underage or overly intoxicated customers.

What security measures has the company taken to protect employees?

Liquor store employees have the second-highest homicide rate (after taxi drivers), according to the National Institute of Occupational Safety and Health.

VP Sales/Marketing - Sales**How do state regulations affect the company's marketing programs?**

State alcohol boards heavily regulate advertising and promotion to discourage excessive or underage drinking.

How does the company maintain positive relations with the local community?

Multiple studies linking the presence of liquor stores to crime have caused some communities to pressure local governments to deny or revoke liquor licenses.

Call Prep Questions

Conversation Starters**How has slow growth in the alcoholic beverage market affected the company?**

The beverage market for beer is mature: per capita consumption of beer declined or was flat for most of the first decade of the 2000s.

How does the company compete with other retailers?

Liquor stores face intense competition from grocery stores, warehouse clubs, convenience stores, drugstores, gas stations, and (in some states) internet retailers.

How do government regulations affect the company's operations?

Federal, state, and local governments heavily regulate the alcoholic beverage industry.

How have malternatives affected company sales?

Flavored malt beverages, also known as malternatives, are a small but growing segment of the malt beverage market.

How does the company use liquor tastings in its marketing strategy?

Driven by the Distilled Spirits Council's lobbying efforts, more states are allowing liquor tastings.

What types of special services does the company offer to stand apart from large retailers?

By providing superior customer service, independent liquor stores have a competitive advantage over large retailers.

Quarterly Industry Update**Which of the company's product categories are showing the strongest growth?**

Convenient and easy to transport, bag-in-box wine is enjoying a surge in popularity in the UK, according to recent sales figures.

Operations, Products, and Facilities**What products are most important to the company?**

Major products include distilled spirits (liquor or hard liquor); beer; and wine.

How important are sales of products other than alcoholic beverages?

Companies may sell groceries, cigarettes, and cigars.

How important are specialty products?

Specialty products may be hard to obtain in control states, where inventory may be limited to brands that

state-owned distributors carry. If demand exceeds supply, stores receive limited allocations.

How do government restrictions affect the company's beverage selection?

State laws dictate the type of alcohol sold in a particular venue. In some states, liquor stores can sell hard liquor but not beer, while grocery stores can't sell hard liquor.

What kind of relationship does the company have with distributors?

Most liquor stores purchase inventory from licensed, local distributors, some of which are state-run.

How difficult is getting a liquor license?

Liquor stores require a state-issued license, and possibly county or municipal licenses, to operate. Some states use quota licenses, which limit the number of liquor licenses based on the population.

Customers, Marketing, Pricing, Competition

How do state regulations affect the company's marketing programs?

State alcohol boards heavily regulate advertising and promotion to discourage excessive or underage drinking.

How does the company maintain positive relations with the local community?

Multiple studies linking the presence of liquor stores to crime have caused some communities to pressure local governments to deny or revoke liquor licenses.

What are some of the most effective in-store displays the company has used?

Liquor stores rely heavily on in-store displays to promote key products.

What types of marketing are most effective?

Liquor stores may use newspaper, print, outdoor, or radio advertising; in-store displays; and window signage.

How important are tastings?

Tastings, allowed in some states, help drive store traffic and educate customers.

How does customer service differentiate the company from competition?

Large or specialized product selections require a knowledgeable sales staff to help customers. A high-end liquor store may offer temperature-controlled storage for premium wines and liquors or build a wine cellar.

What role does the Internet play in the company's operations?

Internet sales are controversial, as states claim that they reduce excise tax revenue and lack age verification.

What are the company's biggest competitive threats?

Liquor stores compete directly with grocery stores, warehouse clubs, convenience stores, and gas stations, and indirectly with restaurants, bars, and other establishments that serve alcohol.

Regulations, R&D, Imports and Exports

Which government regulations would the company like to change?

State laws specify what types of retailers may sell alcohol, limit days and hours of operation, and restrict types of alcohol sold in particular venues.

What problems does the company face by operating in an open/control state?

In control states, the state government controls the alcohol distribution channel. In open or license states, private companies control distribution and retail.

How do interstate shipment restrictions affect the company?

Some states limit liquor stores to shipping locally, as interstate shipping is complicated and sometimes prohibited.

How do blue laws affect the company's stores?

Blue law states, like Texas and Utah, prohibit or restrict alcohol sales on Sundays. Some consumers buy alcohol in neighboring states to get around blue laws.

How important are imported products?

Consumers perceive imported alcohol to be superior to domestic, and imported products often have premium prices.

Organization and Management

What type of alcohol education training does the company provide employees?

States may require liquor store employees to attend alcohol education training to learn to identify underage or overly intoxicated customers.

What security measures has the company taken to protect employees?

Liquor store employees have the second-highest homicide rate (after taxi drivers), according to the National Institute of Occupational Safety and Health.

How active are the owners in managing the company?

Most liquor stores are privately held and run by the owners.

What violations of state laws has the company had due to employee actions?

Companies risk license revocation and temporary or permanent closure when employees sell alcohol to minors or intoxicated adults.

How does the company educate its staff about premium products?

Stores may differentiate themselves from competitors by advising customers about premium wines and liquors. They seek to hire knowledgeable staff and provide ongoing product training for employees.

Financial Analysis

What types of insurance does the company carry?

Most stores carry liability insurance to protect against civil lawsuits from selling to minors and intoxicated adults.

How do changes in excise taxes affect the company's margins?

Excise taxes (also known as "sin taxes") can be more than half the retail price of a bottle of liquor.

How does the company manage seasonal sales?

Sales are moderately seasonal; liquor and wine sales peak during winter holidays and beer sales during spring and summer.

What is the typical inventory turnover for the company?

Inventory turnover may vary by size of store, but four times per year is typical.

How does the company acquire capital?

Companies may require capital to expand or update stores.

Business and Technology Strategies

How is the company responding to the increasing number of retailers entering the hard liquor market?

Where allowed, alternative retailers are starting to offer hard liquor, once thought to be the domain of liquor stores.

How does the company ensure ongoing compliance with federal, state, and local regulations?

Federal, state, local, and municipal governments heavily regulate liquor stores. Strict compliance and constant monitoring of government issues help companies avoid violations and fines.

What type of technology is the company using for age verification?

Biometric fingerprint identification systems can quickly verify the age of customers, speeding check-out.

What role does the Internet play in the company's plans for growth?

State laws restrict interstate commerce, and limit Internet sales beyond local and state markets. However, websites can help liquor stores reach select consumers and market specialty products.

How have public and government attitudes about alcohol consumption affected the company?

Public education on responsible drinking, stricter drunk driving laws, and programs targeting underage drinking all contributed to flat category consumption rates.

What type of system does the company use to manage retail operations?

Liquor stores sell a large number of products, and most use computerized information systems to track point-of-sale (POS) data and manage inventory.

Financial Information

COMPANY BENCHMARK TRENDS

Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.



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COMPANY BENCHMARK INFORMATION

NAICS: 445310

Data Period: 2015

Last Update February 2017

Table Data Format

Mean

Company Size

All

Large

Medium

Small

Size by Revenue

Over \$50M

\$5M - \$50M

Under \$5M

Company Count	21100	6	336	20758
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Income Statement

Net Sales	100%	100%	100%	100%
Gross Margin	22.6%	22.8%	22.4%	22.7%
Officer Compensation	3.2%	1.5%	1.6%	3.7%
Advertising & Sales	0.6%	0.7%	0.6%	0.6%
Other Operating Expenses	17.4%	19.1%	18.9%	17.0%
Operating Expenses	21.2%	21.3%	21.1%	21.2%
Operating Income	1.4%	1.5%	1.3%	1.5%
Net Income	0.7%	0.7%	0.6%	0.7%

Balance Sheet

Cash	15.6%	14.8%	16.1%	15.5%
Accounts Receivable	3.6%	4.0%	4.0%	3.4%
Inventory	49.1%	48.2%	49.4%	49.1%
Total Current Assets	73.5%	73.1%	75.3%	73.1%
Property, Plant & Equipment	13.1%	13.7%	12.7%	13.1%
Other Non-Current Assets	13.4%	13.2%	12.0%	13.8%
Total Assets	100.0%	100.0%	100.0%	100.0%
Accounts Payable	17.5%	13.9%	17.5%	17.7%
Total Current Liabilities	28.8%	23.6%	28.6%	29.2%
Total Long Term Liabilities	29.7%	15.8%	25.8%	31.8%
Net Worth	41.5%	60.6%	45.5%	39.0%

Financial Ratios

Quick Ratio	0.70	0.83	0.74	0.68
Current Ratio	2.56	3.10	2.63	2.50
Current Liabilities to Net Worth	69.2%	38.9%	62.8%	74.9%
Current Liabilities to Inventory	x0.59	x0.49	x0.58	x0.60
Total Debt to Net Worth	x1.41	x0.65	x1.20	x1.56
Fixed Assets to Net Worth	x0.32	x0.23	x0.28	x0.34
Days Accounts Receivable	4	5	5	4
Inventory Turnover	x4.64	x4.49	x4.52	x4.68
Total Assets to Sales	35.0%	36.8%	35.8%	34.6%
Working Capital to Sales	15.7%	18.2%	16.7%	15.2%
Accounts Payable to Sales	6.0%	5.0%	6.1%	6.0%

Pre-Tax Return on Sales	1.1%	1.1%	1.0%	1.1%
Pre-Tax Return on Assets	3.1%	3.1%	2.7%	3.2%
Pre-Tax Return on Net Worth	7.6%	5.1%	5.8%	8.2%
Interest Coverage	x3.89	x3.82	x3.56	x3.92
EBITDA to Sales	2.2%	2.3%	2.0%	2.2%
Capital Expenditures to Sales	1.2%	1.2%	1.2%	1.2%

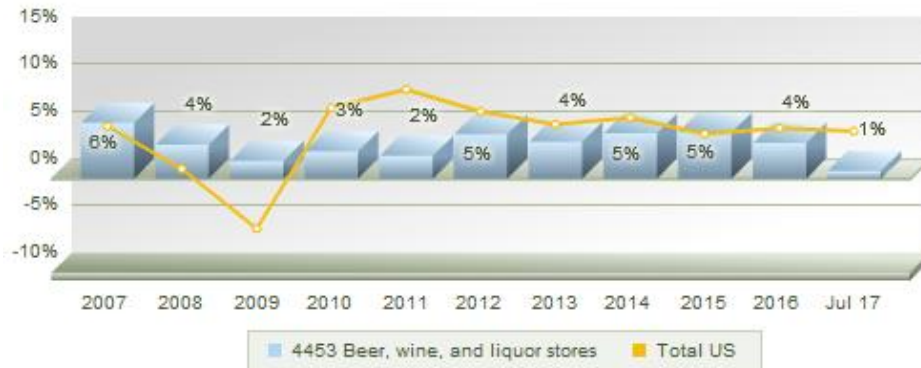
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ECONOMIC STATISTICS AND INFORMATION

Change in Producer Prices - Bureau of Labor Statistics



Retail Annual Sales Growth - Census Bureau



Change in Consumer Prices - Bureau of Labor Statistics



VALUATION MULTIPLES

Beer, Wine & Liquor Stores

Acquisition multiples below are calculated medians using at least 101 US private industry transactions completed between 2/2007 and 8/2016 and are based on middle-market transactions where the market value of invested capital (the selling price) was less than \$1B. Data updated annually. Last updated: November 2016.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.4	1.6	5.6	5.1

MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

Net Sales = Annual Gross Sales, net of returns and discounts allowed, if any.

Gross Profit = Net Sales - Cost of Goods Sold

EBIT = Operating Profit

EBITDA = Operating Profit + Noncash Charges



SOURCE: Pratt's Stats, 2017 (Portland, OR: Business Valuation Resources, LLC). Used with permission. Pratt's Stats is available at <https://www.bvresources.com/prattsstats>

Industry Websites

Alcohol and Tobacco Tax and Trade Bureau

Excise taxes, federal regulations, links to state liquor board websites.

American Beverage Licensees

Trade association for liquor retailers in open or license states -- industry news.

Beverage Industry

Industry news, trends.

Beverage Information Group

Industry research and consumption statistics used by major manufacturers.

Brewers Association

Trade association for craft brewers -- industry news.

Distilled Spirits Council of the United States

Trade association for distillers/hard liquor manufacturers -- industry issues, monthly consumption trends.

Glossary of Acronyms

ABL - American Beverage Licensees

ATF - Federal Bureau of Alcohol, Tobacco, Firearms, and Explosives

DISCUS - Distilled Spirits Council of the USA

DUI - driving under the influence

DWI - driving while intoxicated

NIOSH - National Institute for Occupational Safety and Health

POS - point-of-sale

TTB - Alcohol and Tobacco Tax and Trade Bureau