

How the State of Maine Successfully Modernized its Spirits Business

November 6, 2015
Nick Alberding, CEO

**PINE STATE
TRADING CO.**

A Family of Companies

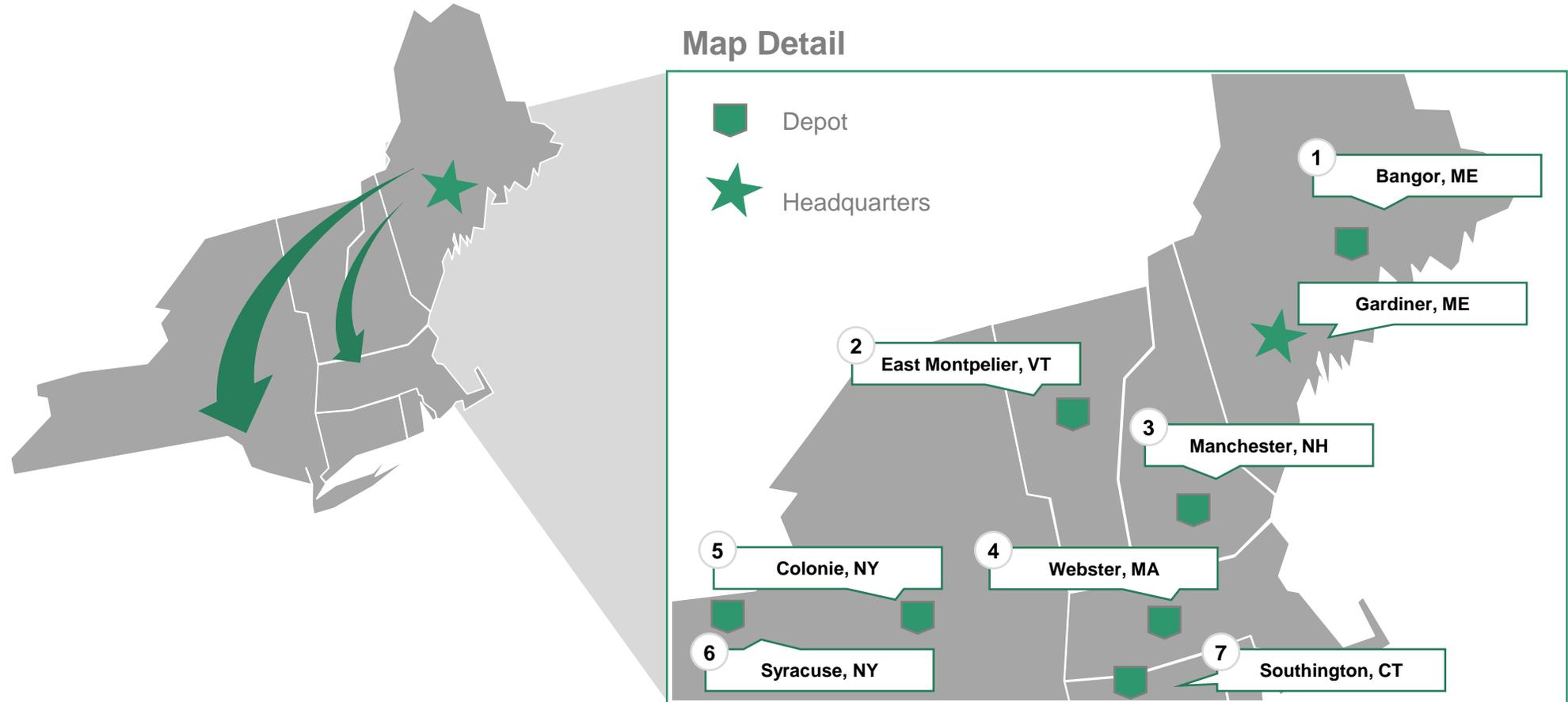


Agenda

- 1. Overview of Pine State Trading Co.**
- 2. Description of the spirits business in Maine**
- 3. Distribution center opportunity**

Operating Footprint

Pine State is the leading marketer and distributor of broad-line supply solutions to the convenience and beverage retail industry in the Northeast, serving over 3,600 customers across 7 states



Pine State's facilities are strategically located throughout the Northeast, providing effective logistics solutions and fast, efficient delivery to over 6,400 retail locations.

Vermont Operations

Located on 5 Acres

35 Fassett Road
East Montpelier, VT



- ▶ 17,250 sq/ft of storage space
 - ▶ 2,900 additional sq/ft of mezzanine storage
 - ▶ 1,500 square feet of office space
 - ▶ 1,400 square foot driver's area
- ▶ 9 overhead doors with 4 loading docks at tailgate height and 5 at grade
- ▶ 10 Trucks delivering to 724 locations

Approx. \$1.6m in payroll to 34 employees (16 - Sales, 18 - Transportation/Warehouse/Equip Services)

Modernization Timeline

Up to 2003

- **Previous state control model**
 - State warehouse
 - State distribution
 - Mix of state and private agency stores

2004 - 2014

- **State leases spirits business** for up-front payment and profit sharing over 10 years
 - Economic downturn in 2002, state seeks ways to close budget gap
- All state-owned stores close

2015 - on

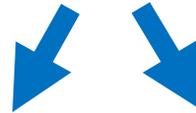
- **State modernizes spirits business**
- Takes back management supervision of wholesale operations while retaining agency store system

Modernization

In 2015, the State of Maine modernized its spirits business by creating a public-private partnership



State issued two RFPs



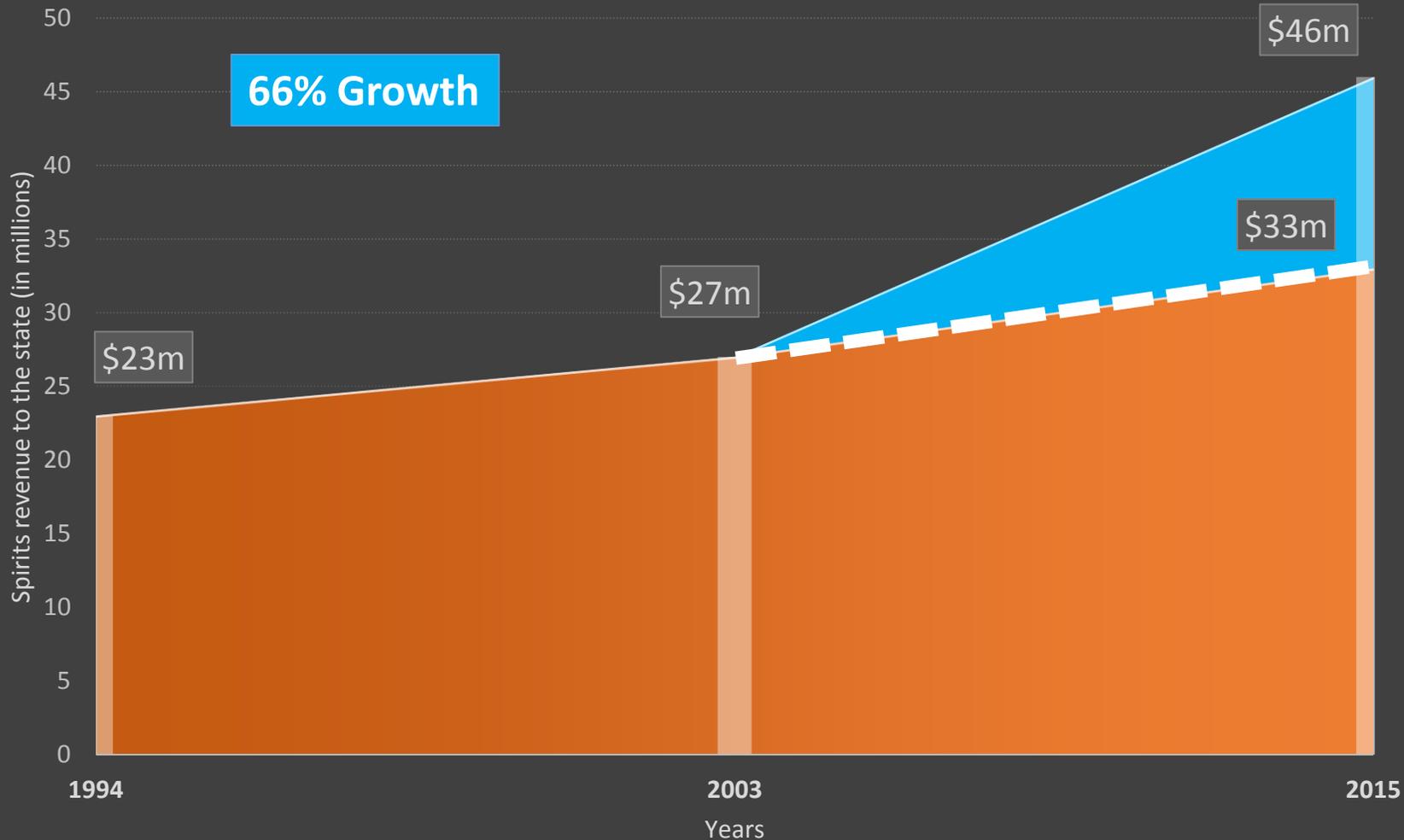
RFP #1
Spirits
Administration

RFP #2
Spirits Trade
Marketing

Modernization allows the State of Maine to continue oversight and regulation while efficiently managing the business

Responsible Success

Industry Growth Under Modernization Model



- In the last decade of state control (1994-2003), Maine's spirit revenue grew from \$23m in 1994 to \$27m in 2003.
- If Maine continued this model, it would have generated only \$33m in 2015.
- Because of Maine's modernization in 2015, the state generated \$46m in revenue in 2015—a 66% increase compared to 2003.

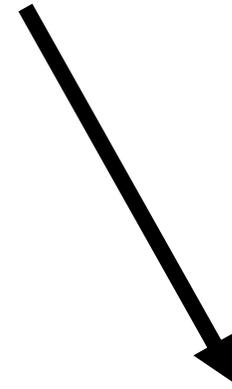
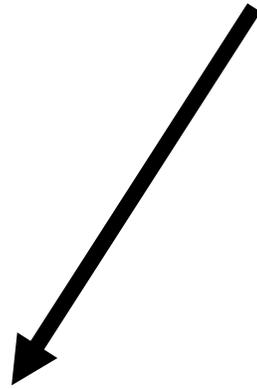
Data analytics is critical to Maine's success

Allows stakeholders to make informed decisions

Effective use of data helps Maine achieve the following objectives

- **Recapture sales from NH by optimizing prices**
 - *Pine State conducted a preliminary pricing elasticity study which quantified lost sales to NH and identified spirit categories where pricing actions would have the greatest opportunity of increasing sales and profits to Maine*
- **Responsibly increase sales through effective category management**
 - *Smart data mining helps Maine optimize segment, brand and SKU assortment and shelf placement, advertising, pricing and display strategies*

**Three key stakeholders in Maine's
successful spirits business**



State of Maine

Pine State

Agents



Bureau of Alcoholic Beverages and Lottery Operations (BABLO)

- Oversees, licenses, and regulates the distribution and sale of spirits
- Enforces liquor laws
- Lists/delists products and determines pricing strategy
- Composed of 13 state employees (3 admin, 10 enforcement)
- Led by Director

- Similar to Vermont, Maine has a **Liquor Commission**
 - Provides public oversight of BABLO and reviews the business's financial performance
 - Composed of five (5) civilian members
 - Meets monthly
 - Approves:
 - New product listings
 - Label changes
 - Coupons/rebates
 - Value added packs

Pine State



- Pine State exclusively warehouses and distributes all spirits sold in Maine
- Pine State also handles all administrative and financial management aspects of the business
- Coordinates all marketing and merchandising efforts

Pine State



- Pine State's bailment warehouse is located in Augusta, Maine
- 115,000 sq/ft facility
- 3,200 SKUs
- 7,000 individual bottle pick slots
- 2,500 case picking locations
- Reserve inventory area for over 400,000 cases

Pine State

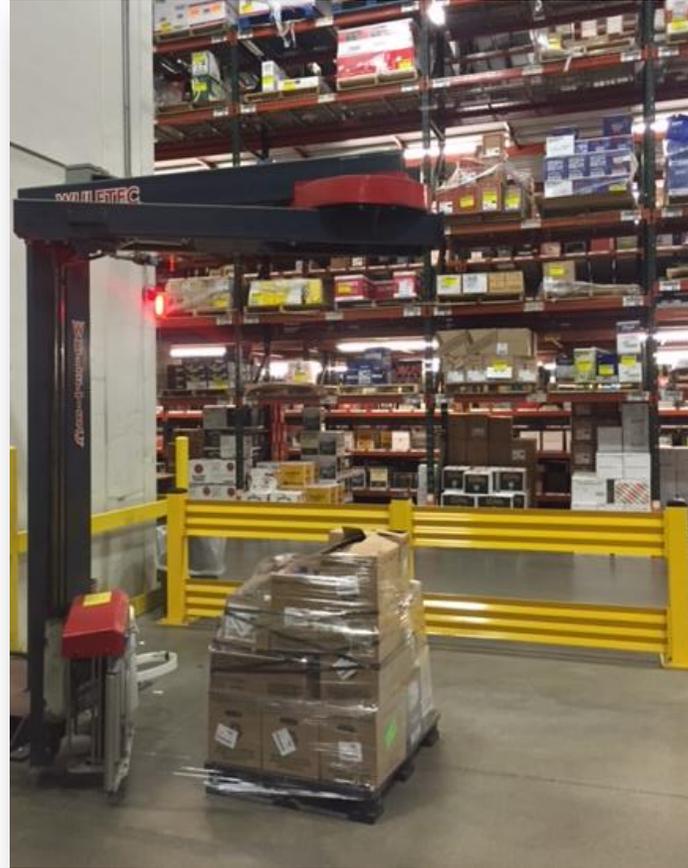


- Orders filled using state-of-the-art scan-pick technology
 - *Results in 99.79% order filing accuracy*
- All bottles greater than 50ml available individually
 - *Increases customer choice and selection*

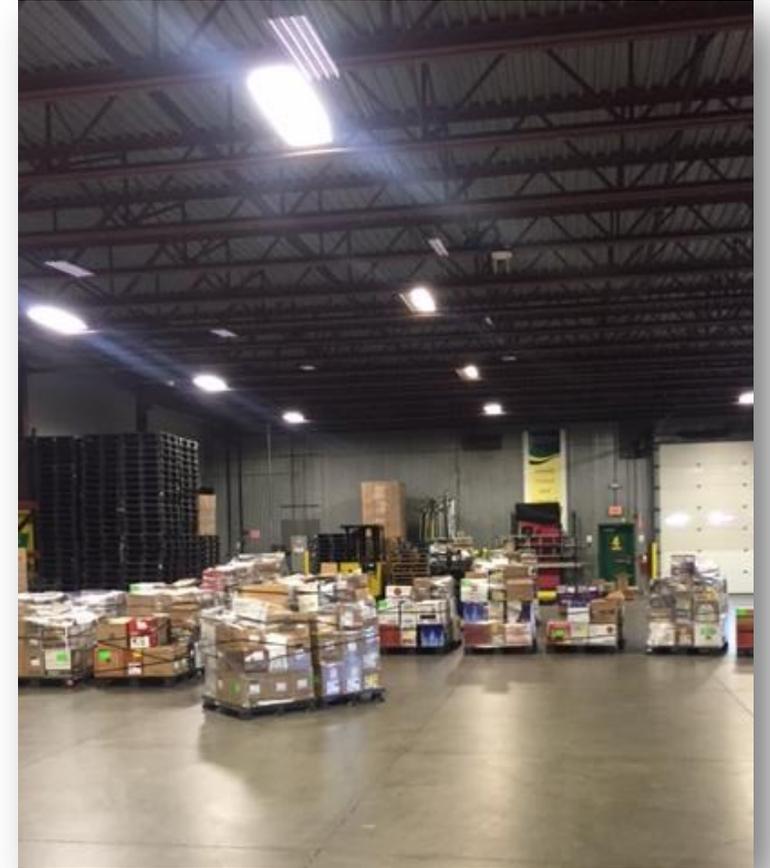
Pine State



Custom orders being built...



...getting shrink wrapped...



...ready for delivery

200 orders filled per day

Pine State



- Every agent has two (2) scheduled deliveries per week
- 48hr turnaround between agent's order and delivery
- Pine State driver brings order into store and does full case/bottle count with agent to confirm order
- Pine State makes 200 liquor deliveries per day

Pine State



- *Maine Spirits* is the liquor business's brand
- Pine State manages the brand and its comprehensive marketing campaign
- Current campaign includes print, radio, social media (Facebook, Pandora music) and TV

Agents

- There are approx. 500 privately licensed liquor agents (no state stores)
- Agents earn the following margins:
 - 12% for items with a retail price *under* \$25
 - 14% for items with a retail price *over* \$25
 - All agents earn an additional 0.75% if total case sales increase by 4.5+% year over year (last year Maine grew its case sales 4.61%)
- Reselling and delivering spirits to on-premise accounts is lawful
- New agents approved by BABLO

Agent Ordering

Log Out | My Account | View Cart (0) | Check Out

PINE STATE TRADING CO. Family Owned And Operated Since 1941

SKU: or Keyword

VIEW CART CUSTOMER SERVICE MY ACCOUNT TUESDAY, NOVEMBER 5, 2013

SHOP BY CATEGORY

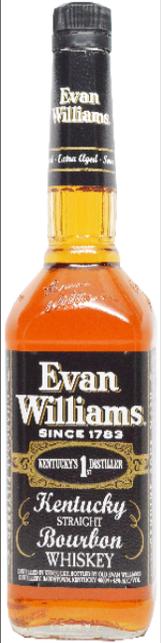
- BRANDY
- COCKTAILS
- CORDIALS
- GIN
- OTHERS
- RUM
- TEQUILA
- VODKA
- WHISKEY
- WINE

SELECT FROM ITEMS BELOW TO ADD TO YOUR ORDER.
TO VIEW DETAILS ON AN ITEM, CLICK ON THE ITEM DESCRIPTION.

1 2 3 4 5 6 7 8 9 10 ...

BACARDI GOLD TRAVLR 80P Size: 750ML Count: 1 ★★★★☆ SKU: 043035 RETAIL UPC: 0-80480-02546-5 YOUR COST \$13.64 <input type="button" value="VIEW DETAILS"/>	ABSOLUT VODKA 80P Size: 1.75L Count: 1 ★★★★☆ SKU: 034008 RETAIL UPC: 8-35229-00060-5 YOUR COST \$30.79 <input type="button" value="VIEW DETAILS"/>
1800 SILVER TEQUILA 80P Size: 750ML Count: 12 ★★★★☆ SKU: 287510 RETAIL UPC: 8-11538-01013-9 YOUR COST \$22.87 <input type="button" value="VIEW DETAILS"/>	1800 REPOSADO 80P Size: 750ML Count: 1 ★★★★☆ SKU: 089206 RETAIL UPC: 8-11538-01023-8 YOUR COST \$22.87 <input type="button" value="VIEW DETAILS"/>
ALLENS COFFEE 60P Size: 375ML Count: 24 ★★★★☆ SKU: 256304 RETAIL UPC: 0-89552-46701-1 YOUR COST \$5.45 <input type="button" value="VIEW DETAILS"/>	BLACK VELVET 80P Size: 750ML Count: 1 ★★★★☆ SKU: 011776 RETAIL UPC: 0-88100-13455-9 YOUR COST \$9.55 <input type="button" value="VIEW DETAILS"/>
ADMIRAL NELSON SPICED 70P Size: 1.75L Count: 1 ★★★★☆ SKU: 043028 RETAIL UPC: 0-96749-08626-9 YOUR COST \$17.99 <input type="button" value="VIEW DETAILS"/>	BACARDI LIGHT 80P Size: 1.75L Count: 6 ★★★★☆ SKU: 243128 RETAIL UPC: 0-80480-01520-6 YOUR COST \$22.87 <input type="button" value="VIEW DETAILS"/>

PRODUCT SHOWCASE
EVAN WILLIAMS BLACK 86P
SKU: 017956



COUNT: 12
SIZE: 750ML

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- **Modernized ordering options for agents**
 - Pine State e-commerce website
 - Smartphone and iPad ordering apps

Shared Distribution Center



Benefits of a shared distribution center

1. Eliminates current facility needs (safety, capacity, or need to upgrade/build new facility)
2. Immediate increase in SKU availability
3. Significantly reduce out of stocks
4. Increase speed to market for new products
5. Removes special order process
6. Modern warehouse management software (receiving, picking, real-time inventory feedback and analysis)

Conclusion

Thank you and if you have any questions, please don't hesitate to contact me.

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