

WINE & SPIRITS DAILY

NEWS. NUMBERS. MOTIVE.

November 16, 2017

Much Ado About Aldi

Dear Client:

German discount retail chain Aldi has been stateside since the '70s, but it has garnered a lot more attention in 2017. A new [report](#) from CB Insights shows that Aldi's mention in the media in the US has "skyrocketed" this year through October.

Likely that's because earlier this year Aldi announced aggressive expansion plans in the US market, including an investment of \$3.4 billion to reach 2,500 US stores by 2022 [see [WSD 06-13-2017](#)]. With the grocer gains more ground and attention, the report highlights the company's strategy, expansion and how they compare to other major grocers.

COST-CUTTING & PRIVATE LABELS. Aldi has a couple strategies that give it the upper hand in the US grocery space, according to the report. One, its stores are built to operate as efficiently as possible saving money on space, labor and other operational tactics that result in lower priced goods.

"Large American grocery retailers are not designed to operate this way and cannot easily compete with Aldi on margins in the short term," writes CB Insights.

Secondly, Aldi's bread and butter is private labels, with about 90% of its products under its own private label brands. Other US grocers are beginning to increase their offerings on high-margin private labels brands as well, but Aldi "has years of experience and mastery in this space." This allows them to offer deeper discounts, per CB Insights.

A BRICK AND MORTAR FOCUS. In total, Aldi has plans to invest \$5 billion in the US market, but unlike its competitors who are trying to crack the digital code, the majority of Aldi's investment is in brick-and-mortar locations.

Conversely, Kroger, the largest grocery chain in the US announced it was looking into selling 780 of its c-stores as part of its strategy to improve store experience and digital capabilities.

But Aldi isn't ignoring a digital presence altogether. The grocer is testing one-hour delivery (including alcohol where legal) via a partnership with Instacart [see [WSD 08-15-2017](#)].

ARKANSAS EXPANDED WINE SALES ON THE WAY

Arkansas retailers are likely stuck with the law allowing grocery stores to sell wine from all producers regardless of size after federal judge Brian Miller denied a request for a preliminary injunction against the law as well as dismissed the claims of constitutional violation.

Previously, Arkansas grocers could only sell wines from small wineries, i.e. those producing less than 250,000 gallons a year. But earlier this year, Arkansas Gov. Asa Hutchinson signed a bill allowing grocers to sell wine from a producer of any size [see [WSD 03-16-2017](#)]. Several small, independent liquor stores filed suit against the state in an attempt to stop the law from going into effect.

Judge Miller rejected the arguments put forth by the liquor stores and sent the court case back to Pulaski Circuit Court, where it was originally filed, [reports](#) the Arkansas Times. John Crow, owner of 107 Liquor in Sherwood, a lead plaintiff in the suit, said lawyers were reviewing the situation, but "it's not looking good." He said the suit was "kind of our last ditch effort to create a level playing field."

REBUTTAL: DTC COMPLIANCE, ENFORCEMENT ARE "IDENTICAL" FOR WINERIES AND RETAILERS

Earlier this week we shared an old case study from when Maryland legislators were evaluating direct shipping laws for wineries and out-of-state retailers to possibly provide a look at how states

view the issue [see [WSD 11-14-2017](#)]. But not all of our readers think Maryland made the right decision.

Recall, the report from the Office of the Comptroller came to the conclusion that out-of-state wineries should be allowed to ship directly but that out-of-state retailers shouldn't be able to-- which is how Maryland currently operates.

The Comptroller found that there was a difference in consumer motivation to purchase from an out-of-state winery (availability) versus an out-of-state retailer (pricing), which could have a negative effect on temperance. Additionally, it claimed DTC shipping does not operate within the three tier system.

In a lengthy rebuttal, John Hinman of the Hinman & Carmichael law firm argues that the main purpose of the three-tier system is not temperance, as Maryland asserts, but "to distribute products in an orderly way assuring that taxes are collected and the available products have been approved by the federal authorities either at the point of production or the point of importation."

His other qualm with the report is the state's claim that either form of direct shipping is outside of the three-tier system. He claims winery DTC shipping is not an exception to the three-tier system because in that scenario, the winery acts as a retailer, paying the same sales taxes with same restrictions on consumer sales and delivery mechanism.

Therefore the "compliance and enforcement issues are identical between wineries and retailers. Any retailer with a direct shipment permit is subject to the law of the state of use in the same way that a winery is," says John.

John believes the only reason the Granholm case did not initially extend to retailers is because there was no retailer plaintiff. Given that claim, one can reasonably assume one of the retailer direct to consumer shipping cases in federal court right now will prevail.

We shall see.

WSD BRIEFS:

SAVAGE & COOKE RELEASES FIRST BROWN SPIRITS. Savage & Cooke, the craft distillery started by winemaker Dave Phinney, has released its first brown spirits. The Burning Chair is a four year old straight bourbon finished in wine barrels from Dave's Napa Valley cabernet sauvignon and will retail for about \$55 a 750 ml. Second Glance is a five year old American whiskey also finished in cabernet barrels with a retail price of \$38 a 750 ml. Both will be available in select US markets. "This is such an exciting time for craft spirits and for Savage & Cooke in particular. With the upcoming opening of the distillery and the release of our first brown spirits, we are incredibly optimistic about the future," says Dave.

GEM & BOLT MEZCAL ADDS TWO NEW BOARD MEMBERS, EXPANDS FOOTPRINT. Gem & Bolt has brought on John Esposito and Ben Pundole to its board of directors. Industry veteran John has more than 40 years of experience, previously working as ceo at High West Distillery, chief at Stoli Group USA, ceo of Bacardi North America among others. Ben is well known in the hospitality industry, helping develop hotels such as Public, Edition Hotels, Morgans Hotel Group and others. Moreover, we can expect an announcement for a new ceo coming soon as ceo Lisa Derman steps down but will remain involved on the board of directors. In addition, the company is expanding into Colorado with Breakthru Beverage Group and moving across the pond, launching in London later this month.

NC-BASED SOCIAL HOUSE VODKA INKS DEAL WITH SGWS. After launching three months ago in North Carolina, Social House has inked a distribution agreement with Southern Glazer's Wine & Spirits to expand into seven additional markets. Social House vodka is produced at Three Stacks Distilling Company in Kinston, North Carolina.

HAMILTON DISTILLERS TO RELEASE WHISKEY DEL BAC WINTER RELEASE. The limited edition Winter Release is a single malt whiskey bottled at 100 proof. Only 390 bottles were produced. The Winter Release will be available starting December 2 only in Arizona for about \$60 a 750 ml.

GEORGES DUBOEUF RELEASES 2017 BEAUJOLAIS NOUVEAU. The 2017 Beaujolais Nouveau is the 35th vintage of the wine and is the first in the Artist Collector Series label. The label features a mixed-media piece called "Candy Coated" by Ari Azzopardi-Robinson, an artist from St.

Petersburg, Florida. It is now available for approximately \$12 a 750 ml. Georges Duboeuf is imported by Quintessential Wines.

Until tomorrow,

Your Editors

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"By three methods we may learn wisdom: First, by reflection, which is noblest; Second, by imitation, which is easiest; and third by experience, which is the bitterest." – Confucius

----- *Sell Day Calendar* -----

Today's Sell Day: 12

Sell days this month: 22

Sell days this month last year: 22

This month ends on a: Thurs.

This month last year ended on a: Wed.

YTD sell days Over/Under: 0

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