



Tapping The US Firearms Industry's 'Craft-Beer' Scene

By Michael Bergen

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Few markets can claim to have as many enthusiastic participants as American beer or firearms companies, and parallels can be drawn on the trajectory and changes of both environments. Through years of innovation, investment and expansion, the craft beer industry has fundamentally changed how consumers drink beer and how macro-breweries target their customers. Similarly, the national firearms market has steadily diversified the number of options consumers have for weapons and the accessories in this massive industry that is as much fuelled by fear of restrictive legislation as it is innovative products.

With a new administration on the horizon that could promise less market spikes and more sustained growth for gun and accessory makers,

the history and current state of the craft beer market can inform our views on where the firearms industry is headed and show how to take advantage of that steady growth.

The Rise of the Microbrewers and Micro-Manufacturers

In 1985 the craft beer segment accounted for less than 1% of the total beer market. But through a combination of both consolidation and expansion, the brewery market has been fundamentally transformed. While only 11 macro-breweries remain in 2016, microbreweries have exploded to more than 4,300 total today.¹ (National Beer Wholesalers Association). The overall rising income of beer drinkers coupled with an overall trend of "buying local" has helped fuel this surge.

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The firearms industry has been experiencing a similar consolidation and expansion cycle with only 800 total manufacturers in 1985. Today there are over 11,000 registered companies, driven by changing appetites for highly customized weapons and accessories for modification. At the macro level, several large manufacturers and financial groups – including Vista Outdoors, Cerberus, and Smith and Wesson – have been consolidating multiple smaller properties into larger umbrella groups. At the same time, much like the microbrew industry, there has been a surge of smaller start-up firearms companies producing high-quality products and vastly expanding the “flavor” of options in the shooting industry.

Small manufacturers in the firearms market have combined significant innovation and agility with large company quality through advanced manufacturing processes and cultural

commitment to product performance. This small company growth has quickly generated a wide range of new products, and enabled a far greater range of customization for weapons and gear. The OEM rifle, shotgun, or handgun has become a pattern and a platform for micro-manufacturers to craft their own designs and styles. In fact, the move toward pattern standardization across manufacturers has improved investment incentives and business cases for smaller manufacturers outside the OEM market.

Companies in both industries are creating new strategies to get people using and consuming their products in different ways. Most microbreweries have a bar where they can test market their products to paying patrons (such as Dogfishhead Ale houses in Virginia), an experience that was previously reserved for larger breweries’ headquarters. This, coupled with the hundreds of

official beer festivals that happen every year in the US, makes for an attractive atmosphere to welcome new customers into the microbrew market.

Similarly to the microbreweries’ tasting rooms, new shooting ranges are a place for connoisseurs and novices to try out their new hardware and explore upgrades. Customer experience is now a market in and of itself. Additionally, new innovations around gamified ranges (Nexus’s gamified range in Florida) and smaller, more efficient designs (Shoot Indoors’ new range shape in Denver) are attempting to broaden the customer base of the firearms industry and grow the number of interested shooters across all demographics.

Equilibrium?

For both industries, equilibrium will be not be a bursting bubble, as repeatedly predicted during the last 5 years. But

Tapping the Firearms Market

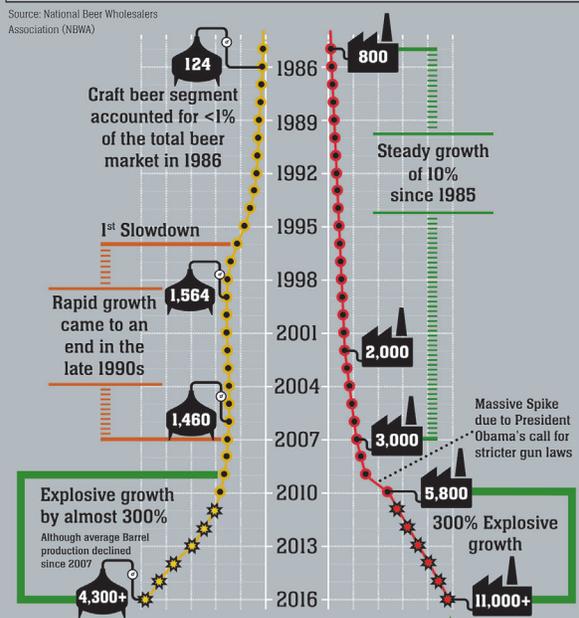


Similar Factors That Trigger the Rise of the Microbrewers & Firearms Micro-Manufacturers



TIMELINE OF THE RISE

Comparing Microbrewers & Firearms Micro-Manufacturers



Avascent's Forecast

Less 'Spikey' Growth in an Increasingly Crowded Firearms Manufacturing Market

- Emerging political dynamics will play an important role to ensure steady growth
- Targeted acquisitions of producers of high-quality products will be the best situation to grow profits
- Macro-manufacturers should understand how to keep buyers' loyalty as they acquire high potential micro-manufacturers
- Micro-manufacturers can leverage their highly differentiated products and intense customer loyalty to partner with larger companies

BIG DATA DRIVES BIG OPPORTUNITIES

a more consolidated state will emerge, if the beer market is any indication.

The 1996-1997 craft beer slowdown and subsequent decade of modest growth led to several "bubble" pronouncements when the market experienced an explosion of growth from 2009-2011. Those fears continue in 2017, with five years of waiting for the supposed "end." Yet the market's overall expansion shows no signs of slowing having 12% year over year growth since 2011.

The firearms industry has followed a similar path since the Obama election in 2009 and 2012 saw gun sales rise to their highest points in history. The following years continued to experience spiky growth with sales growing as much as 30% in 2009 and 2012 before normalizing to an overall 11% growth over the last 7 years. The number of firearms manufactures was steadily increasing at 10% from 1975-2008 when grew from 800 companies to 3,800. Expansion has continued at a breakneck pace since then with the number of companies increasing to over 11,000 firearms manufacturing firms in 2016. All of this was happening while industry analysts were prognosticating the bubble would burst at the same time. As 2017 begins, we have yet to see the market crash despite the prospect of a new President that will likely not incite the same panic-buys as the previous President.

Driving Growth In An Increasingly Crowded Market

In the near term, the firearms market landscape will likely evolve from erratic “growth and decline spikes” into a smoother and more predictable growth industry. Like the craft beer market, consumers in the firearms industry are concerned with variety, customization, and quality. Product and portfolio diversification is a viable strategy to grow profits, but truly capturing a new market is easier through targeted acquisitions of the producers of high-quality products, and not a wide smattering of untested goods from a local market.

Emerging political dynamics could play an important role in ensuring steady growth in the firearms market. New Supreme Court nominations will likely support expanded gun rights and could challenge state-level legislation. At the national legislative level, the prospects for national concealed carry reciprocity and the removal of suppressors from the National Firearms Act (NFA) through the Hearing Protection Act have improved significantly with the election. Both would provide significant opportunities for new sales and higher profitability through deregulation.

Macro-breweries acquired microbreweries to grow their market share in an increasingly crowded market, which is an industry dynamic that large firearms manufacturers must now contend with. Larger manufacturers would benefit from



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a screening process of potential partners and acquisition targets to maintain an innovation edge in high growth segments. Consequently, as an example, companies that have hearing protection products will need to quickly find new markets or diversify in a future that could see “silenced” shooting ranges where ranges don’t require heavy ear protection and less need for their products.

Companies looking to integrate a smaller company into a larger portfolio need to be acutely aware of what made the company so attractive to consumers in the first place -- and to preserve the product through acquisition. Macro-breweries and macro-firearms manufacturers should recognize that the value of a microbrewery or micro-manufacturer is only as strong as customer loyalty, particularly in markets that put a premium on brand perception. The smaller firearms micro-manufacturers should take cues from the craft beer industry

and engage in sell-side diligences to communicate their value in the industry and quickly help the larger players to innovate inorganically.

Avascent Understands the Firearms Market

Working with corporate leaders and financial investors, Avascent delivers sophisticated, fact-based solutions in the areas of buy and sell side due diligence, value capture, and mergers and acquisition support. With deep weapons and firearms sector expertise, including partners and directors with previous industry experience, analytically rigorous consulting methodologies, and a uniquely flexible service model, Avascent provides clients with the insights and advice they need to succeed in dynamic customer environments.

Notes

¹ <https://www.brewersassociation.org>

About the Author

Michael Bergen is a Senior Associate at Avascent, where he has led and contributed to projects dealing with firearms, future weapons systems, future military space architectures, and in-space logistics. He focuses on the fields of international risk assessments, business plan/case development, competitive intelligence, commercial due diligence, and go-to-market strategies. Michael served as an intelligence officer for four years in the United States Marine Corps and is a certified Enterprise Risk Management Specialist. For more information, please contact: mbergen@avascent.com.

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