

# America's Beer Distributors:



*Delivering Choice and Value, One Beer at a Time*



# How does the beer distribution system work?

**D**istributors provide transportation, refrigerated storage and maintenance for perishable malt beverages from the time they leave the brewer until they arrive at the retailer.

**Variety** Distributors secure beer from a wide variety of brewers and preserve those perishable products in a temperature controlled warehouse. They employ an on-the-ground sales and marketing team to promote and responsibly sell their products to local retailers. Distributors maintain a fleet of trucks and employ numerous delivery employees who deliver customized inventory to a vast network of large and small retailers including restaurants, bars and neighborhood stores. After delivery, the distributors continue to monitor retailer shelves to ensure product freshness and integrity. This system has given consumers and retailers

unparalleled access to a tremendous variety of styles and producers of beer.

**Safe Storage and Transportation** The distributor's infrastructure, including state-of-the-art warehouses and fleets of temperature controlled trucks and vans—combined with their warehousing, delivery, driver and merchandising personnel, ensures the efficient and safe delivery of a wide range of products resulting

in immense consumer choice at a great value. But it doesn't stop there. Distributors continue to monitor the product after it arrives on store shelves, disposing of beer reaching its expiration date and helping track product.

While providing choice and value to retailers and consumers, distributors work simultaneously with state regulators to ensure accountability of these unique products and an orderly marketplace.



**Chain of Custody** The distribution system provides a transparent chain of custody in the sale of beer, making it easier to enforce state laws and local ordinances. The system also regulates retail sales, ensuring that retailers



hold the appropriate license, do not sell to those under the legal drinking age, pay state and local taxes, and generally comply with state and local alcohol beverage laws.

***Transparent and Accountable*** The same regulations that provide accountability in beer sales also ensure states can efficiently collect taxes on alcohol products. Because they retain the ability to monitor the sale of the products from the time the beer leaves the brewery until it arrives at a licensed retail outlet, distributors are often best equipped to collect state taxes. Many states find it easier to collect taxes from a limited number of federally and state licensed beer distributors than the hundreds or thousands of retail establishments in their state that sell alcohol products.

***Market Access*** The beer distribution system also makes the most economic sense. It provides the best method for large and small breweries to get their product to diverse markets and provides small retailers with a wide variety of beer at a great value. The system provides a level playing field for all brewers, retailers and consumers.

***State Alcohol Control*** Alcohol is not like other consumer goods. Alcohol beverages are unique, and unfortunately, can have consequences if abused by adults or consumed illegally by those underage. As society addresses problems like underage drinking and drunk driving, the importance of maintaining effective state alcohol regulation is critical.

The regulatory system allows states the flexibility to deal with local circumstances. A one-size-fits-all approach to alcohol regulation simply does not work. People in New York feel very differently about alcohol than those in Utah. The 21st amendment was designed to allow states to reflect local views of the level of regulation needed for alcohol.





# How does the distribution system benefit the consumer?

***Choice and Convenience*** By working with numerous brewers – large and small, imported and domestic – distributors are able to provide an immense amount of choice and variety for consumers. Beer distributors allow thousands of beer brands – from multinational beers to the smallest local microbrews – equal access to the market. This helps ensure a level playing field for large and small brewers.

Beer distributors help small brewers grow and compete by maximizing their sales reach - they unlock the market for startup and small beer brands and other innovative beverages. Distributors provide the infrastructure small brewers need to reach a wide network of retailers. Consumers benefit by having the choice between the largest international brands and the smallest local brands, all on the same store shelf, restaurant list and bar tap. And because of the economic efficiencies of the distribution system, retailers are able to offer hundreds of choices at a great value.

***Economic Contribution and Community Support*** Beer distributors also give back to their communities. While they are often closely identified with the brands they sell, beer distributors are actually small business owners active in economic development and local business groups. Distributors also support local events such as community festivals, sporting events and philanthropies. As local employers, the more than 1,900 beer distributors nationwide employ more than 92,000 Americans and provide their employees with rewarding jobs, health care and quality wages.

## Fast Facts About Beer Distribution

- The nation's 1,908 beer distributors are responsible for creating 92,248 jobs for hardworking Americans, generating \$7.6 billion in wages and benefits for their employees.<sup>1</sup>
- Beer distributors offer rewarding jobs with quality wages and healthcare for all employees. They also offer specialized training for everyone from their truck drivers to their sales team.
- Every dollar spent on beer distribution adds \$1.50 in economic activity – generating 30 cents in federal tax revenue and 18 cents in state and local tax revenue.<sup>2</sup>
- Distributors reduce inventory costs for all retailers by managing portfolios of perishable products.

1 Economic Impact Study conducted by John Dunham and Associates, 2005.  
2 Guerrilla Economics, LLC

# Are Federal Judges Attempting to Rewrite State Alcohol Laws? *Granholm v. Heald*

In May 2005, the Supreme Court's *Granholm v. Heald* decision ruled on the narrow issue of discrimination as it relates to wine sales. The plaintiffs, aided by the \$45 billion wine industry, sought to overturn state alcohol distribution laws to allow out-of-state wineries to offer unregulated, door-step delivery of alcohol to consumers across the country. The defendants—the states and their regulatory agencies—sought to have their laws upheld in accordance with the 21<sup>st</sup> Amendment which gives states the right to regulate the sale and distribution of alcohol within their borders.

The Supreme Court landed somewhere in the middle. In a 5-4 decision, the justices decided on what ultimately was a compromise: states may prohibit wineries from shipping wines to the door-step of their citizens. However, a state cannot grant in-state wineries the ability to ship while at the same time preventing out-of-state wineries from doing so. The Supreme Court upheld the alcohol distribution system (known as the “three-tier system”) calling it “unquestionably legitimate.”<sup>3</sup>

Unfortunately this decision is being twisted by those that wish to see alcohol deregulated. Those that want alcohol available anytime, anywhere and to anyone are using the *Granholm* decision to misinform the public and convince federal judges and state legislators that the Supreme Court has rejected state-based alcohol regulation.

3 Majority Opinion of the Supreme Court of the United States, *Granholm v. Heald* p. 26.

## The Facts About *Granholm v. Heald*:

- The Supreme Court upheld a state's right to determine how alcohol is regulated within its borders.
- "States have broad power to regulate liquor under section two of the 21st Amendment."<sup>4</sup>
- HOWEVER, a state may not discriminate against a winery located outside of its borders while providing a different set of rules for wineries located within the state.
- "If a state chooses to allow direct shipment of wine, it must do so on even handed terms."<sup>5</sup>
- States must make the decision to allow all wineries to ship to their citizens, or none. They do not have to open their borders to interstate wine shipments.
- States may also require that all sales pass through a three-tier system of alcohol distribution.

<sup>4</sup> Majority Opinion of the Supreme Court of the United States, *Granholm v. Heald*, p. 30

<sup>5</sup> Majority Opinion of the Supreme Court of the United States, *Granholm v. Heald*, p. 30

## Washington State Legal Action

In April 2006, a U.S. District Judge in Washington State ruled on a lawsuit brought against the Washington State Liquor Control Board by a large national retailer. This retailer sought to break down existing alcohol laws to advance its economic interests.

The judge ruled that eight long-standing alcohol control statutes were antitrust violations and not permitted under the 21<sup>st</sup> Amendment, even though the 21<sup>st</sup> Amendment gives states the explicit authority to regulate alcohol beverages within their borders in a manner appropriate for their citizens. The state is appealing this ruling.

While not every state has all of the laws challenged in Washington, many states have certain provisions that are now at risk due to this judicial activism. Alcohol regulations differ by state because there is no "one size fits all" approach to alcohol control. What is appropriate for one state's citizens may not be appropriate for another state.

The Washington State Liquor Control Board contends that the judge's ruling is a gross misapplication of antitrust laws and, "failed to balance legitimate societal concerns about the negative effect of alcohol consumption with the interests of large corporations that profit from the sale of alcohol."<sup>6</sup>

<sup>6</sup> Washington State Liquor Control Board Press Release, May 3, 2006.



# The Importance of State Alcohol Regulation

It is of concern that activist judges – not elected by the people – may take over decision making on alcohol law from the states and allow large corporations to weaken the alcohol beverage control system.

The 18th and 21st Amendments to the U.S. Constitution reflect a very heated debate which resulted in a compromise that has worked well for over 70 years: the states will regulate alcohol through their legislative and regulatory process. Now, non-elected judges are upsetting a well-structured constitutional balance. Consumers, small brewers and retailers will be adversely affected by this trend. In addition to loosening alcohol beverage regulations, decisions such as that in Washington State would give mega-retailers even greater competitive advantages to muscle out smaller retailers. When independent retailers suffer at the hand of huge corporations, consumers are also impacted through the loss of choice and convenience.

Providing the transportation, logistics, refrigerated storage, sales, marketing, delivery and constant maintenance of a perishable product, such as beer, is costly. This is especially true if the infrastructure for this system does not already exist.

Americans place a high priority on having convenient access to the numerous choices of quality beer and other alcohol beverages available in the marketplace today. If large retailers begin dealing with producers as a result of this ruling, the smaller businesses – microbreweries, mom and pop stores and independent retailers – will be left in the lurch. Smaller brewers and wineries do not have the market power or profit margins to deal with the enormous clout of large retailers. The retailers, not consumers, distributors or brewers, will determine what beer options are available.

The strength of state alcohol regulation is the key to a safe and viable system of alcohol control and distribution. Serving in numerous roles and performing an array of tasks, beer distributors serve as a critical link in an efficient system that allows smaller, more unique beers a vehicle to market, provides consumers with the choice they desire at a great value and ensures a safe and orderly marketplace.



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