

Have You Talked to Your Wholesaler about Interstate Shipping?

BY IAN GRIFFITH

We have a unique view of the wine industry at *Beverage Media* in that we work with retailers, wholesalers, importers and wineries to support their businesses. Of these industry players the mostly maligned tends to be the wholesaler who is hidden from public view and appears to operate in mysterious ways.

Wholesalers fill an important role in the sale of wine and spirits in the U.S. They not only manage the movement of cases through the supply chain, they have salespeople on the street selling product, and they register brands and pay excise taxes. This is the middle-tier of the three-tier system, created by the 21st Amendment which gave states the right to control how beverage alcohol is sold.

THE CHANGING SALES LANDSCAPE

Internet sales of wine have been redefining the limits of state control by enabling direct shipment to consumers that bypass the wholesale tier. Wineries and retailers want access to a national market, but wholesalers through their national association, WSWA, have been arguing against this liberalization of trade. Wholesalers see direct shipping as the narrow end of the wedge and are aggressively defending their special position as the state's gatekeeper. If wineries and retailers are permitted to ship direct to consumers, then they expect the next battle to be over whether wineries and other drinks suppliers can sell direct to retail.

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The legal campaign to increase direct shipping access for retailers has been coordinated from California where retailers can already buy direct from wineries. At times the rhetoric on both sides of the argument can seem extreme, but there is a growing, anti-three-tier narrative that suggests wholesalers should be cut out from the equation.

THE IMPORTANCE OF THE WHOLESALER

From an East Coast retailer's perspective a different view prevails of the wholesaler's role; store owners often see the success of their business depending on their relationship with their wholesalers. Even beyond the day-to-day interactions of buying product, retailer associations call on wholesalers as an ally when they need help with political campaigns. In recent years wholesalers have been generous contributors to campaigns that blocked wine sales in grocery stores, both in NY and MA. These are family owned operations,

some very large, that have been active in their communities for decades.

In the past month, Massachusetts became the latest state to lose an appeal that would have blocked direct shipping from wineries. In this state, retailers face a ban from "exporting" wine and many have been warned by the ABCC to stop shipping orders to other states. Faced with the prospect of wineries shipping into the state, there has been a shift in attitude that may lead to a reversal on the export ban for retailers. A change would likely allow MA retailers to ship out legally for the first time, but without opening access for out-of-state retailers.

When retailers ship wine across state lines, that wine was likely purchased from a distributor. Would wholesalers really be that worse off with a national market for retail wine sales? It could happen that trade imbalances develop between states, but having strong retailers in a market would be the best insurance against lost sales. As retailers grow stronger and more competitive with online sales, their wholesalers stand to benefit from this business.

While the legal battles are a necessary part of the campaign to open states to retailer shipments, there are relationships on the ground where retailers can make their case to wholesalers. Rather than demonizing the wholesaler, retailers would do better to make the case that both are better served by allowing interstate shipping.

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