



# WINE AND SPIRITS WHOLESALERS OF CONNECTICUT, INC.

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## TESTIMONY OF WINE AND SPIRITS WHOLESALERS OF CONNECTICUT

The WSWC appreciates the opportunity to participate in the Task Force's study of the competitiveness of Connecticut's beverage alcohol industry and to provide this testimony. The WSWC agrees that Connecticut consumers should receive the widest selection of wines and spirits at competitive prices.

The Wine & Spirits Wholesalers of Connecticut, Inc. was established in 1964 and since that date has been the trade association representing wine and spirits wholesalers in Connecticut. The WSWC membership totals 53 and its members distribute the vast majority of wines and spirits sold in the state of Connecticut. The members of the WSWC span a diversity of size from very large to very small, but all are family owned businesses. Individually, employ as many as 230 employees and as few as a one person working part-time. Collectively they are significant and integral part of Connecticut's economy. The members of the WSWC:

- contribute in excess of \$200 million dollars in direct and in-direct benefits to the state's economy;
- provide in excess of 1,700 direct jobs to Connecticut residents;
- Pay in excess of \$167 million dollars in wages;
- pay in excess of \$48.8 million dollars in state excise taxes;<sup>1</sup>
- promote, market, sell, warehouse and deliver nearly 36,000 different brands; and
- assist the Department of Revenue Services in the collection of Sales and Use Taxes, in excess of \$141 Million Dollars annually<sup>2</sup>.

Beverage alcohol wholesalers are highly regulated and must obtain license from both the state and federal government. Their business dealings with both suppliers and retailers are regulated and controlled by both state and federal governments. In addition to paying the excise taxes on the products that they sell wholesalers are legally responsible to insure that the wines and spirits brought in to the state by manufacturers and importers, with whom they deal, are properly registered and are sold and distributed only to licensed retailers (package stores and restaurant). Each product sold in the

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<sup>1</sup> FYE June 30, 2012.

<sup>2</sup> \$141 million is the total sales and use taxes estimated to be collected on the retail sale of wine, spirits and beer in 2010. Spencer Kane, Cain Associates, LLC, Economic Impact, March 2012. Each year the Department of Revenue Services requests that wholesalers furnish sales made to retailers to determine if individual retailers are fully accounting for all sales.

state must be registered with the Department of Consumer Protection and bears a brand registration fee of \$200.00 per label,<sup>3</sup>

Many people perceive wine and spirits wholesalers as mere “distributors” of the products they sell. While wine & spirits wholesalers do provide critical logistics through the warehousing and delivery of beverage alcohol, they spend one third of their expenses on the education of retailers and the sales and marketing of the products they sell, which is equal to the expenses spent for warehousing and delivery. Beverage alcohol is a true experience product; thus, the wholesaler’s knowledge of the local market and their ability to focus appropriate sales efforts is critical to spurring consumer demand. By way of example wholesalers interact with retailers weekly and have a detailed knowledge of the products that are selling well on a retailer basis. Armed with such knowledge wholesalers can convey to suppliers consumer purchasing habits as well as target promotional activity to desired audiences and advise retailers as to how to best market any one of the 36,000 available products to consumers.

Wholesaler investments in the marketing and promotional development of brands is often critical to helping to bring new brands to market. Consider that 25% of the spirits products today were not available 10 years ago. These new products generate little return on investment early in their life and are costly to distribute. The constant innovation of new and different beverage alcohol products requires continual investment and reinvestment in the marketing and promotion of new brands as well as the reinvestment into mature and established brands to help grow and maintain their market share. The required investments in the marketing and promotion of brands demands that wholesaler expend significant funds. A typical wholesaler devotes slightly more than one third of its net revenues towards sales, marketing and promotion of the products it sells, and amount equal to its warehouse and delivery costs.

In addition to their investments in sales marketing and the promotion of products, to remain competitive in an ever more challenging business environment, wholesalers must also make continuous investments in their warehousing, administration and delivery systems. Wholesalers must operate efficiently in order to be profitable. Wholesalers deliver approximately 8 million cases of wine and spirits a year, the equivalent of nearly 1,000 tons of goods each delivery day. Examples of these investments range from high speed efficient conveyor systems to help organize orders within the warehouse for delivery to specialized computer software which maps the most efficient delivery routes to minimize delivery times and fuel costs.

While anecdotal evidence of Connecticut beverage alcohol prices compared to other states shows that some selected Connecticut prices are higher than surrounding states, one cannot conclude from that information that Connecticut’s prices are uncompetitive when compared to surrounding states. Beverage alcohol prices, both at the wholesale level and the retail level vary from month to month. Furthermore,

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<sup>3</sup> Registration is valid for a three year period. CGS 30-63

because of disparity in supplier pricing and incentives, prices vary from state to state. Simply stated what may be on discounted in Connecticut one month may not be the same product on sale in either New York or Massachusetts and visa versa. For this reason in order to have a complete picture of how Connecticut stacks up against its neighbors, one must look at pricing across a breadth of product price ranges and over a long period of time. The WSWC is in the process of undertaking such a study. The WSWC study proposes to examine 120 different wine and spirits products over a year long period<sup>4</sup> with the data being gather by Neilsen's. The data consists of the top 5 selling items (wine & spirits) in established pricing categories (ie. Premium, Super-premium, etc.). While not yet complete, some of the key conclusions of the study appear to be:

- Over the period of the subject study, Connecticut prices were lower than New York pricing 36.5% of the time and when compared to Massachusetts Connecticut prices were lower 18.9% of the time.
- In those instances where Connecticut prices were higher, the average price differential was small.
- Two of the significant factors that influence Connecticut prices are its high excise taxes and general high costs of doing business in the state

Thus, while Connecticut may not have the lowest price all of the time it does have the lowest price a good portion of the time despite higher taxes and a challenging business environment.

Furthermore, one must place in context the overall impact that Connecticut's beverage alcohol laws have upon the consumer. Certainly one overall measure of the consumer's satisfaction with the retail market place is consumption. While there is no statistical data that directly measures consumer consumption, per capita beverage alcohol sales, often referred to as "presumptive consumption", is often cited as an indirect measure of actual per capita consumption<sup>5</sup>. Connecticut's per capita presumptive consumption rates place Connecticut in the middle of the country, on par with Massachusetts and higher than New York.<sup>6</sup> Connecticut consumer's endorsement of the current system through their purchases is in line with the opinions of the overwhelming majority of Americans who believe that alcohol is a unique product and that the current level of beverage alcohol regulation is appropriate.. A study conducted by the Center for Alcohol Policy during July 2012<sup>7</sup> concludes:

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<sup>44</sup> August 20, 2011 through August 18, 2012.

<sup>5</sup> The "presumptive consumption" data does not account for cross boarder sales or sales to non-residents who might be visiting the state and consume beverage alcohol within the state –ie tourists.

<sup>6</sup> NIAAA, Surveillance Study #92, **Apparent Per Capita Alcohol Consumption: National, State, and Regional Trends, 1977–2009**

(LaVallee, Robin A.; Yi, Hsiao-ye) August 2011

<sup>77</sup> <http://www.centerforalcoholpolicy.org/research-and-studies/>

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- Americans do not think alcohol is just like other consumer products, and they support state restrictions on alcohol that are not found on other consumer goods.
- Americans believe that local businesses that understand the local community should manage local alcohol distribution and sales.
- Americans do not want to replicate the United Kingdom's disastrous experience with alcohol deregulation.

The members of the WSWC are committed to ensuring that the best possible safeguards to prevent the sale of beverage alcohol to minors are in place and adults of legal drinking age consume beverage alcohol responsibly, while at the same time providing an efficient method of distribution which provides access to a wide variety of quality wine and spirits from all over the world.

Respectfully submitted,



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- 72% believe states should regulate alcohol because it is different from other consumer goods.
  - 79% believe that alcohol is NOT just like toilet paper and tin foil.
  - 78% support the current drinking age of 21 or older.
  - 81% support the rights of states to determine their own laws and regulations regarding the sale of alcohol.
  - 76% support the rights of individual states to regulate the manufacture, sale and distribution of alcohol.
  - 74% believe that local businesses should be in charge of alcohol distribution in the local community because they understand local preferences.
  - 72% agree that the U.S. should not follow the UK and remove alcohol regulation.