



PRÉCIS OF THE U.S. WINE MARKET AND THREE-TIER SALES CHANNEL

The following is a quick overview of the three-tier sales system in the U.S. and the terminology used in describing it. In the U.S., the state is empowered to regulate the sale of wine to the degree that it does not compromise federal laws, and each state is unique in the set of laws governing sales of wine. Only the production, importation, packaging, and marketing of wine are regulated by the federal government.

DISTRIBUTOR SALES

This is the tier where a supplier – winery, importer, or other producer – sells to wholesale distributors either in-state or out-of-state. The pricing terminology for this tier is called “distributor FOB,” the price of the wine by the case to a wholesale distributor ex-supplier’s warehouse. This price sets the subsequent market pricing and, unless the supplier holds a wholesale and/or retail license, the only price the supplier sets directly.

This tier may include a regional broker retained by the supplier to facilitate sales and provide marketing support to a regional group of wholesale distributors. For their services, a regional broker receives a commission on all sales to the wholesale distributors that they manage. That commission is paid by the supplier – not the wholesale distributors.

A supplier must be compliant in each state they sell into according to each state’s requirements regarding the sale of wines. The level of compliance varies greatly for each state in terms of cost and requirements. Regional brokers must be licensed according to each state where they conduct business according to that state’s laws.

WHOLESALE SALES

Wholesale distributors will pick up wines directly from a supplier’s warehouse after purchasing it at the FOB price, truck it to their warehouse, and add a markup to cover freight, operating costs, and profit margins. This price from the wholesale distributor to restaurants and retailers is the “wholesale price.” While the supplier can influence the wholesale price (through FOB pricing, discounting, and cajoling), the supplier cannot dictate the wholesale price to a third-party wholesale distributor.

Traditionally, market outlets such as restaurants and retailers are referred to as “on-premise” or “on-sale” (for restaurants, wine bars, nightclubs, bars, taverns, private clubs, etc.) and “off-premise” or “off-sale” (for retailers, wine merchants, supermarkets, etc.). The terminology refers to where the wine will be consumed by the consumer.

The wholesale distributor will typically have a pricing strategy that may include volume-purchased discounts, by-the-glass (BTG) special pricing, incentive programs (where legal), coupons, etc. The wholesale distributor may or may not involve the supplier in either supporting or assisting with special pricing or programming, and often the supplier initiates promotions and programming with the wholesale distributor to spur sales.

In the state where a supplier is based, the supplier may be allowed to have a wholesale license, whereupon the supplier can then sell directly to, or engage a wholesale broker to sell their wines to on- and off-premise market outlets. In the latter instance, a wholesale broker makes the sale for a negotiated commission on the sale. In this model, the supplier is directly responsible for setting wholesale pricing, promotions and programming, delivering, invoicing, and collecting payment from the on- or off-premise outlet. Likewise, a wholesale distributor may be allowed to hold an import license, and import wines directly, if the state allows it.

Both wholesale distributors and wholesale brokers employ sales representatives that call upon on- and off-premise market outlets.

Some wholesale distributors are multi-state companies, but in each state the wholesale distributor (and sometimes the wholesale distributor's regional branches) is independently managed and run. It is not mandatory for a multi-state wholesale distributor to carry a supplier's products in every state they operate.

Typically, wholesale distributors are legally prohibited from, or opt not to sell directly to consumers.

Wholesale distributors and wholesale brokers are licensed and regulated to sell wine by the state's alcohol regulatory bureau in which they operate.

RETAIL SALES (DIRECT-TO-CONSUMER, CONSUMER-DIRECT)

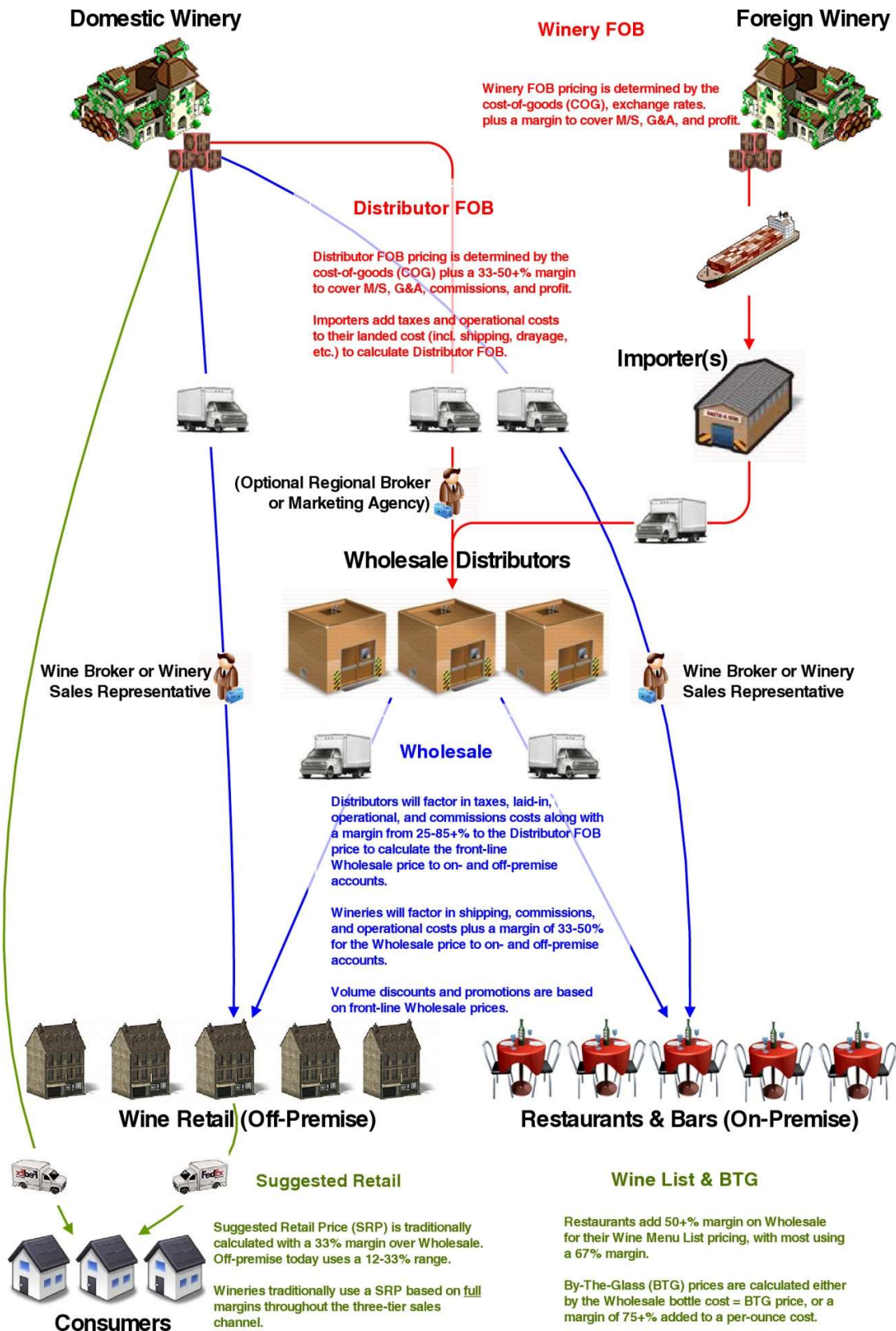
Retail sales are sales by a supplier or a market outlet direct to consumers. Regulated by each state, retail sales by a supplier may be conducted through:

- Tasting rooms
- Retail operations
- Consumer events
- Supplier-managed wine clubs or subscription sales
- Direct mail, such as catalogs or newsletters
- Telephone sales
- Internet sales

When selling retail, suppliers set pricing for direct sales based on traditional, industry-standard markups in each sales tier to create a national, "suggested retail price" (SRP). The SRP can only be fixed by a supplier in supplier-to-consumer retail sales, and not through the three-tier sales channels. In most cases, a supplier's SRP or "frontline" price will be the highest published retail price, and every day "street" pricing will often be lower, reflecting the markups by the different companies that own the wine passing through the three-tier sales channel, and the effect of each company's pricing strategy, including discounts, promotions, and programming.

Retail sales in-state and out-of-state are regulated by the state where the consumer makes the purchase. Retail sales vary greatly in legality state-to-state, and even county-to-county within some states. For out-of-state retail sales, a supplier, market outlet, or the consumer may be required to purchase an annual license to conduct retail sales and/or pay state sales taxes. The level of compliance varies for each state in terms of cost and requirements, and whether the supplier, market outlet, or the consumer is responsible for filing and paying for compliance and taxes.

Wine Pricing



PRICING TERMINOLOGY

The 750-mL bottle is the standard unit used to set the pricing throughout the three-tier sales channel in the U.S. The 9-L, 12 x 750-mL case is the standard used for conveying inventory, plus the distributor FOB and wholesale pricing in the U.S. (not in bottles).

Distributor FOB = price from the supplier to a wholesale distributor.

Wholesale = price from the wholesaler to an on- or off-premise account.

Suggested Retail Pricing (SRP) = the price from a supplier or off-premise account to a consumer:

- *Super Value* (sometimes referred to as *Jug Wines* or *Ultra Value*) = wines priced \$1.99 or under per 750-mL bottle;
- *Value* = wines priced between \$2.00 – \$5.99 per 750-mL bottle;
- *Fighting Varietal* (sometimes referred to as *Economy*) = \$6.00 – \$8.99 per 750-mL bottle;
- *Popular Premium* = wines priced between \$9.00 – \$11.99 per 750-mL bottle;
- *Premium* = wines priced between \$12.00 – \$14.99 per 750-mL bottle;
- *Super Premium* = wines priced between \$15.00 – \$24.99 per 750-mL bottle;
- *Ultra-Premium* = wines priced between \$25.00 – \$49.99 per 750-mL bottle;
- *Luxury* = wines priced between \$50.00 and \$99.99 per 750-mL bottle;
- *Ultra-Luxury* = wines priced \$100.00 and over per 750-mL bottle.

*Please note that the precise breakdown of the SRP pricing categories varies to a degree between industry sources.

Wine List = the price on a restaurant wine menu.

By-The-Glass (BTG) = the price of a glass of wine in an on-premise outlet to a consumer. It also refers to a special, discounted, wholesale price offered by the supplier or wholesale distributor to on-premise outlets.

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