Exhibitor Education Essentials
Vinexpo New York

UNDERSTANDING ROUTES TO MARKET IN THE USA

The system of beverage alcohol (bev alc) distribution laws in the United States may seem complex when assessing routes to market, but navigating the system is manageable when taken in a step-by-step approach. The structure of the US bev alc system mandates which laws must be strictly adhered to on a state-by-state basis. Success in the US comes with understanding the system and then customizing an approach to market entry.

When it comes to beverage alcohol distribution, the US is not one country, but more like 51: the fifty states plus the District of Columbia.

The Three-Tier System

For products imported into the US, the flow of goods resembles the path described in Figure 1. This system mandates that a producer can only sell to a distributor and a distributor can only sell to the retail/restaurant tier who then are licensed to sell to the consumer. If a supplier makes enough product to be attractive to an importer that is connected to a national distribution system, their route to market will look very much like Figure 1. When discussing imported products, the importer is typically included in Tier One for simplicity's sake, but it is more like a tier "1½" that is in between tiers one and two. In this case, a producer sells to an importer who sells through to the distributor, and so forth.

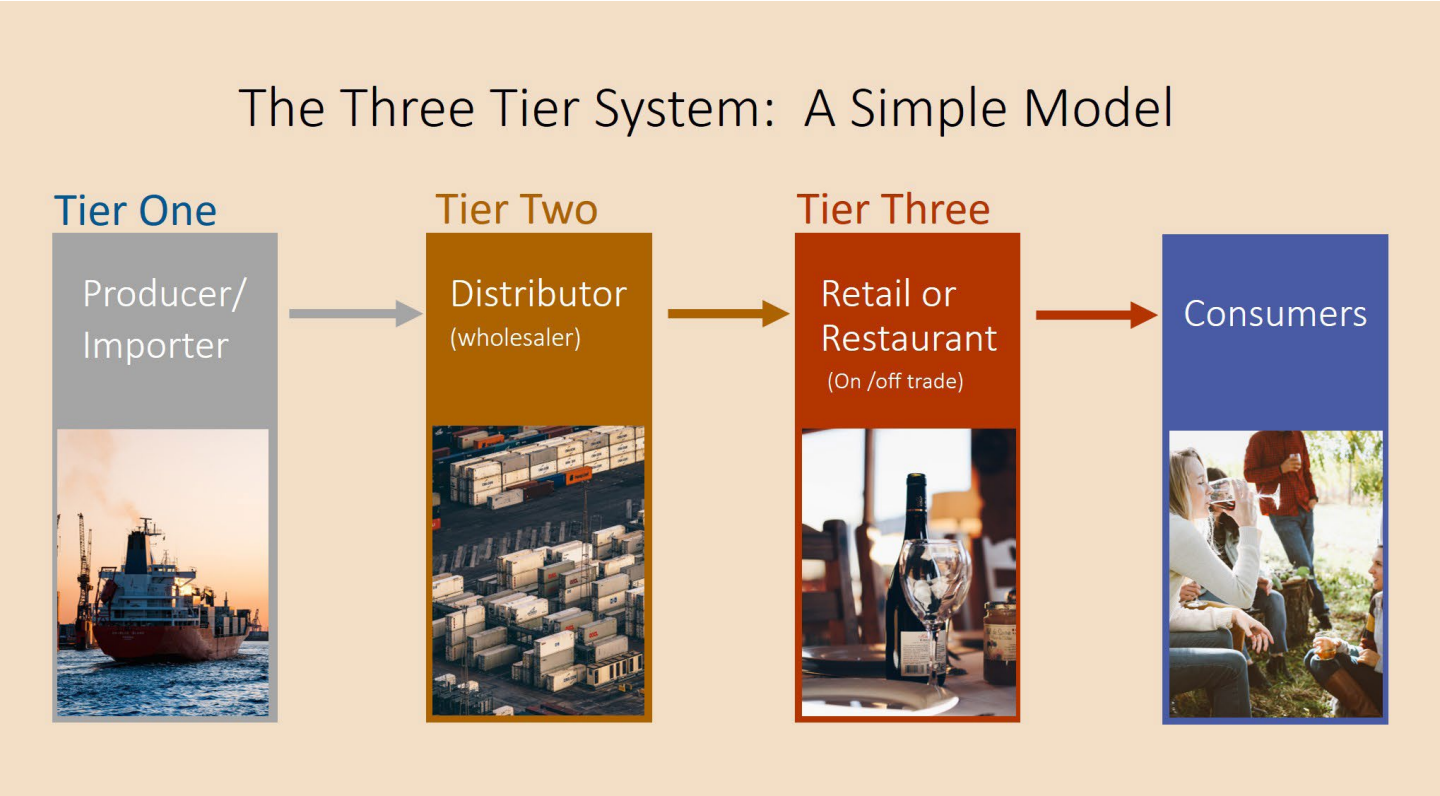

Figure 1. Traditional Model of the Three-Tier System

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Exhibitor Education Program in collaboration with Sonoma State University Wine Business Institute
Designed to help exhibitors navigate market entry and successful brand building in the US

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Navigating the Three-Tier System: Choosing the Route That Meets Sales and Distribution Goals

Finding the Right Partner

Finding the best route to market in the US is often the result of matching production volume to the size of an importer/distributor partner. Small importers are often looking for new, unique products to bring to market. Medium-sized importers are typically looking for products that already have a level of business in the US that are at the stage in their life cycle where they can grow with a distributor capable of promoting the product on a larger stage. Large importers are usually looking for brands that are either already built or that have the immediate capability to be built up significantly.

While every company is different, a simple way to assess this situation is to align how much product you are looking to sell (and have the capability to produce) in the US to the size and scope of the importer. If you are a small brand that requires a sales force to hand-sell your product, a small, specialist importer may be the best match. They have relationships with small, specialist, local and/or regional distributors. This ensures that the product and brand image is treated properly as it passes through the three-tier system. An example of this can be seen in Figure 2.

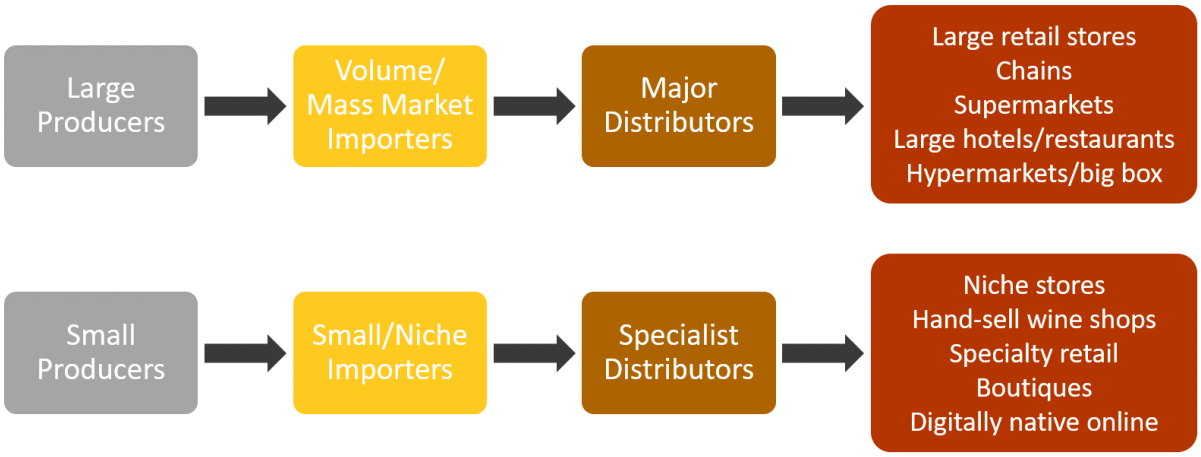

Figure 2. Producer-Importer Alignment Based on Mutual Size and Scope

Starting small if production is small is a sound strategy. Once market presence is established and the products have gained some representation or sales, growing alongside the right importer can be a reality, making change unnecessary.

A different but related strategy is matching up product portfolio with an importer that specializes in your country or region. There are situations where a producer may choose to use several different importers in different parts of the country who are then connected to several or multiple distributors, forming a network as in Figure 3. This approach may be preferable if the strategy is to target certain regions or states individually. Oftentimes, this is the system that many small and medium-sized producers must use simply because they cannot meet the volume expectations of large, full-on national importers and distributors.

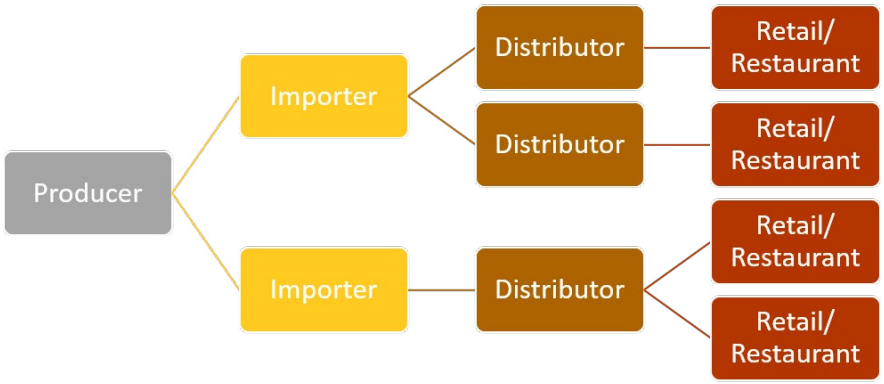

Figure 3. Networked Model of the Three-Tier System

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Other Options

In the US, it is also possible for a large distributor to directly import (DI) product. It is important to note that in general, distributors are not in the brand building business and producers that use the distributor DI route, may not have access to all the states they wish. Other examples of importation options include large chains or retailers, internet sites, and even control states that do their own DI.

Another option to enter the US market is to use a service importer. Service importers typically clear product into the US, handle logistics and payments and some even have distribution licenses in major states. Sales and marketing execution are usually left to the producer to sort out. Fees can be on a per service basis.

Other recent entrants into the marketplace that offer nontraditional and somewhat unique services include companies such as LibDib and Merchant 23—these are worth considering, especially if you are having trouble securing entry into the US. In the end, the pros and cons of all these choices need to be weighed against the producer's business goals.

Understanding US Laws Can Help Producers Identify Target Markets

On top of the federal three-tier system, the US is also divided at the state level in terms of control laws. Essentially each state has the right to set additional laws that manage the sale of beverage alcohol. The model at the state level is one of "open" vs. "control" *(see Figure 4)* and the definitions of each are straightforward—an open state operates more like a free market where distributors, retailers, and restaurants are not as limited by state intervention; in a control system, the operators are controlled (regulated) heavily by the state.

Each state is different than its neighbor and the regulations are complex, with 50 states plus the District of Columbia, and several other smaller jurisdictions being included. However, producers can successfully develop market entry strategies that will enable them to thrive no matter what the system. For more information on control states, consult the National Alcohol Beverage Control Association's website.

The last piece of US alcohol beverage control laws to be aware of concerns franchise states. A franchise state is usually described as one where a distributor can represent a brand in

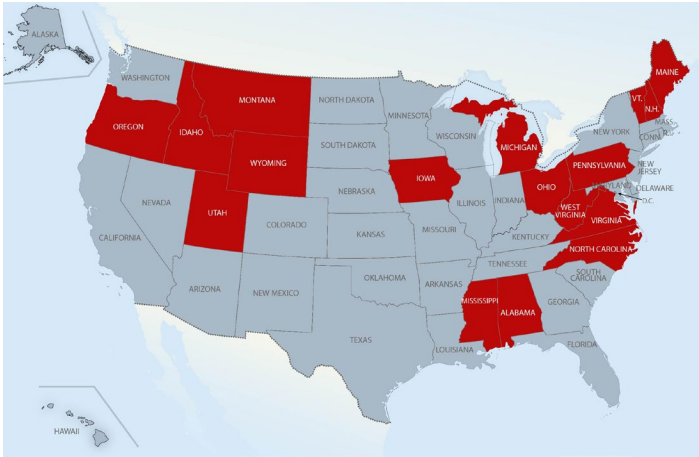

Figure 4. Control states *(red)* vs. open states *(gray)*

the sense that it "owns" that brand and that brand can never leave. That is an exaggeration; brands *can* part ways with a distributor in a franchise state, but the process can be cumbersome and expensive. On the bright side, distributors in franchise states often have different priorities than in open states. Usually smaller, and often more interested in selling smaller brands, a relationship with the right partner in a franchise state can be successful. The key is to be aware that the laws exist and then to learn how to use the systems to your advantage. A few examples of control state laws and how they overlap with franchise laws are shown in Figure 5.

Figure 5. Examples of overlapping control, open, and franchise state laws

Further Information

Confirmed Vinexpo New York exhibitors can access the full story on the US three-tier system and other laws – be sure to consult the Exhibitor Education Video Series, Episode 1, *The US Market Structure*. Also, in Episode 2, *The US Import & Distribution Landscape: Understanding the Playing Field*, different import and distribution models in the US market are discussed by industry experts. Use these videos to match up your market entry goals to the right model. To access more in-depth books on success strategies for entering the US market or see a list of current wine & spirits industry newsletters where you can access US market data, please consult the Resources Directory found here.

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