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Customer Discovery Process: Distribution Channels and Pricing

Before I break down distribution channels and pricing assumptions for my company, I will need to explain the rules and regulations that the distribution of alcohol is confined to. Alcohol distribution is tightly regulated in the United States with individual states imposing their particular set of laws and regulations. Almost all states mandate the “three-tier” distribution system for the control of alcohol sales.

In a three-tier distribution system, manufacturers sell to wholesalers/distributors; wholesalers/distributors sell to retailers, and retailers sell to consumers. Proponents of this arrangement, namely the wholesalers/distributors, claim it protects consumers, limits consumption and provides an efficient and dependable method of tax collection (Monahan, 2014). This type of distribution system has created barriers to market entry, higher prices, and fewer options for consumers, which increase monopoly in the industry. This process of costly distribution regulations can overwhelm beginner companies, causing them to close down or never open (Monahan, 2014). This three-tier system also promotes monopolies between large manufacturers and distributors. Distributors can have an adverse influence on the market. Sellers may refuse to ship the products of smaller manufacturers at the demand of large brewers, thus leaving start-ups with nowhere to turn. This situation reduces competition in the industry, giving consumers fewer options at higher prices (Monahan, 2014).

States Liquor Control Acts, which heavily influence the cost of alcohol sales, sets boundaries for the industry. The following is a 2009 summary by the Minnesota Office of the Legislative Auditor explaining the details of The Liquor Control Act. The Liquor Control Act requires each business in the liquor industry to hold a permit from the Department of Consumer Protection (DCP). Each permit has different requirements and limits the permittee's activities in various ways. The provisions of the act directly affected liquor prices in that it: (1) prohibit wholesalers from extending credit to retailers for more than 30 days, (2) require manufacturers to give all purchasers the same price discounts, (3) require sellers to post and hold their prices for the month with DCP, (4) require manufacturers and wholesalers to post a schedule of suggested consumer resale prices with DCP; (5) require wholesalers to sell to each retailer in their geographic territory; (6) prohibit selling at prices intended to destroy or prevent competition, (7) prohibit sales below cost and prescribe how "cost" must be calculated for this purpose; and (8) allow retailers to advertise the net price after manufacturer rebates are deducted. The act, in the way that it structures the liquor industry, includes several provisions that have an indirect effect on prices. These (1) establish the three-tier system (manufacturers, wholesalers, and retailers); (2) protect wholesale distributorships and their geographic territories; (3) limit the number of package store permits a business can have; (4) restrict the number of package store licenses that may be allowed in each town; and (5) require all liquor brands to be registered with DCP before they can be sold in the state (Duffy, 2009).

Now that I have explained the complexity of selling liquor in America, I will provide a simplistic approach to my pricing assumption. Breaking down the competing products cost association is difficult; most cost comparisons are inconsistent because of the state-mandated three-tier requirement. Factoring in that each state imposes different regulations along with knowing that regulations imposed on products produced outside the U.S., I will rely on pure market price. There are some exemptions to the three-tier system. For example some exceptions to the traditional system allows brewers to act like retailers depending on the amount of product produced per year, my production and distribution will act on this premises. I do not mind the negatives associated with direct sales e.g. small coverage, high fixed cost, difficulty in generating leads, and the whole solution. I believe that these mentioned negatives can be positives also. With little coverage, I expand on my schedule and have intimate connections with my customer. The high fixed cost will provide me with a mindset to be efficient.

Since Alcohol is a non-monetary product, my initial cost offering of my product will be two times the cost of producing it. The fixed, variable and sunk cost for my competitors is extremely different. From packaging to taxes to material, all are different based on where you are producing your product. Therefore, the primary cost comparison that I can use as mentioned earlier are what the distributor are currently selling to the customers. The breakdown cost of liquor is packaging, production, marketing, and advertisements. The warranty and return policy of alcohol is usually handled by the distributor and retail outlets e.g. liquor stores, bars, and grocery stores.

The following chart shows the average price of liquor from my potential customers.

Competitor: Size 375 ML		**Competitor: 750 ML**		**Competitor: 1.75 L**	
Product	**Price**	**Product**	**Price**	**Product**	**Price**

Alize Liqueur	$9.99	Alize Liqueur	$15.99		
Grand Marnier	$27.99	Grand Marnier	$39.99	Grand Marnier	$89.99
Hpnotq Liqueur	$15.99	Hpnotiq Liqueur	$21.99		
		La Belle Orange Liqueur	$25.99	La Belle Orange Liqueur	31.99
Nuvo Sparkling Fruit Liqueur	$22.99	Nuvo Sparkling Fruit Liqueur	$26.99	Cointreau Orange Liqueur	$79.99
		Paton Citronge Orange Liqueur	$22.99	De Kuyper Triple Sec	$16.99
X-Rated Pink Fusion Liqueur	$23.99	X-Rated Pink Fusion Liqueur	$28.99	Hiram Walker Triple Sec	$19.49
		Agavero Tequila Liqueur	$32.99		
Chambord Liqueur	$20.99	Chambord Liqueur	$34.99		

References

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