

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. Almost all states mandate the “three-tier” distribution system for regulation 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). The current system also promotes monopolies between large manufacturers and distributors. Distributors may refuse to ship the products of smaller manufacturers at the demand of large brewers, thus leaving start-ups with nowhere to turn. This 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 different 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 wholesaler distributorships and their geographic territories; (3) limit the number of package store permits a business

can have; (4) limit the number of package store permits 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 with distribution is difficult most cost comparisons are inconsistent because of the state mandated three-tier requirement. However, these days it is hard to find a state that is a pure three-tier system, where suppliers only sell to distributors (Shepard, 2014). Some exemptions allow brewers to act like retailers depending on the amount of product produced per year, my production and distribution will act on this premises. Direct sales, I believe this fits my initial aspirations. I do not mind the negatives associated with direct sales e.g. small coverage, high fixed cost, difficulty in generating leads, and whole solution. I believe that these mentioned negatives can be positives also. With small coverage, I expand on my schedule and have intimate connections with my customer. The high fixed cost will provide me with a mind sight to be efficient.

Because alcohol a non-monetary product, which is why my initial cost of my product will be 2 time the cost of producing it. The fixed, variable, & sunk cost for my competitors are extremely different. From packaging to taxes to material, all are different based on where you are producing your product. Therefore, the main cost comparison that I can use are what the distributor are selling product to the customer. The break down cost of liquor is packaging, producing, marketing, and advertisements. The warranty and return policy of liquor 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
Hpnotiq 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	\$22.99	De Kuyper Triple Sec	\$16.99

		Orange Liqueur			
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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- Shepard, C. (2014, February 1). REVEALING HOLES IN THE THREE-TIER SYSTEM. *All About Beer Magazine*. Retrieved from All About Beer Magazine: <http://allaboutbeer.com/article/revealing-holes-three-tier-system/>