

MATTHEW J. FUNCHION
SENATE LAW & JUSTICE COMMITTEE
TESTIMONY 06/04/2013

Thank you Chairmen McIlhinney and Ferlo.

My name is Matthew Funchion; I am the President and owner of Penn Distributors Inc.

We are located on Domino Lane in Philadelphia, Pennsylvania.

We employ 120 people, 70% of whom are teamsters, represented by teamsters local 830.

All are family sustaining jobs with health & welfare and retirement benefit packages that are the envy of most industries. We are all very proud of our employees and of the wage and benefit coverage's that we provide.

Penn Distributors represents over 20 suppliers, the largest being Anheuser-Busch/Inbev which represents 94% of the business. We also partner with several in state Pennsylvania craft brewers (Victory, Troegs, Boxcar, Susquehanna Brewing and Prism), as well as others from around the country and the globe. We market, sell and deliver beer to over 2300 retail licensees within our service area.

Because I have much in common with Mr. McGinley and in the interest of time, I will discuss the basic operational and logistical responsibilities of beer wholesaling.

As beer wholesalers or importing distributors, we are referred to as the "middle tier" of the three tier delivery system.

The first tier of the three tier system includes brewers, distillers and vintners (suppliers).

We then fill in the second tier and the third tier is represented by the many different retail trade channels.

In Pennsylvania, these retail channels include beer distributors, restaurants, taverns, delis and supermarkets.

The three tier system was developed immediately following the repeal of prohibition. Its intent was to legally and responsibly manage the sale and distribution of alcohol from suppliers (brewers, distillers, vintners) through wholesalers...to retailers...and ultimately to the end consumer.

Since the repeal of prohibition, the three tier system has been proven effective...and a highly successful method of alcohol sale distribution and management.

Over the years since prohibition, and due to the many responsibilities that we have in our businesses and communities, we have clearly been defined as the “service responsibility” and “community dedicated” component of this very successful system.

We store products in climate controlled, clean and safe warehouse operations with very strict stock rotation procedures. This careful management of product flow and storage ensures optimum quality product and packaging to our end consumer. Following receipt and proper storage, and after thoughtful consideration and planning, we develop independent...fair...and responsible pricing strategies for all brands and packages.

These strategies include the service and delivery needs of each retail trade channel within our customer base. We then execute delivery of our many fine products to all metro Philadelphia.

As beer wholesalers, we are also responsible for the collection of state sales tax on beer sales and remission of payment of that sales tax to the Commonwealth on a monthly basis. Due to the limited number of entry points into the marketplace through importing distributors, it is very beneficial to the Pennsylvania department of revenue with tax collection and audit review.

In addition to state tax collection and payment, we also have the privilege of doing business in the city of Philadelphia, and we pay a business privilege tax to the city annually which is based on a combination of gross receipts and net income.

Finally, though we are closely regulated, as with many other businesses, we are very proudly compliant with all federal, state and local taxing, administrative and enforcement authorities. It is our collective intent to demonstrate full responsible and community dedicated business representation.

Having explained who we are as beer wholesalers, I’d like to take a few more minutes to discuss the impact of privatization on our businesses.

We oppose House Bill 790 in its current form and believe that it is bad for beer.

As an industry, beer is by no means going through “heady” times. Through the first five months of 2013, the beer industry in Pennsylvania is down almost 4%.

In a struggling industry, increased and unfair competition from wine and spirits through a doubling of retail outlets is sure to accelerate the decline of beer throughout the Commonwealth.

In addition, this significant increase in retail outlets creates a competitive environment that will surely put many long time and successful multi-generational businesses...out of business. And finally, the cost impact at the ID level will be substantial, putting many strong employers in harm’s way.

We fully embrace change for the benefit of all Pennsylvania residents and we believe that modernizing the current beer system through package reform is the most efficient, effective and sensible way to execute changes that are needed.

Thank you for your time and consideration.