

Testimony of Dawson R. Hobbs
Vice President, Wine and Spirits Wholesalers of America
Senate Law and Justice Committee
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Mr. Chairman and members of the Committee I would like to thank you for the opportunity to testify here today.

I'm Dawson Hobbs and I'm the Vice President of State Affairs for the Wine and Spirits Wholesalers of America. WSWA is the trade association that represents wine and spirits wholesalers large and small across America. Founded in 1943, WSWA includes more than 350 member companies in 50 states and the District of Columbia. Our members distribute more than 70 percent of all wines and spirits sold at wholesale in the United States. Across the country wholesalers employ approximately 63,000 people who receive nearly \$5 billion in wages annually.

While WSWA remains neutral on the issue of privatization, we do believe that any discussion of privatization would be incomplete without a thorough examination of the role wholesalers play in the three-tier system – and the importance of the three-tier system itself. While a full examination of what wholesalers do would take much more time than we have today, I hope to provide you with a snapshot of their operations in the states in which they operate.

In open states wholesalers play a unique role, blending expertise in global logistics and local marketing to bring value and accountability to the distribution of wine and spirits. This value and accountability benefits beverage alcohol producers, retailers, consumers and the states in which they operate.

The value that wholesalers provide comes in three areas: efficiency, marketing and competition.

The average wholesaler warehouse contains approximately 7,000 SKUs of product; in larger markets such as Texas or California that number can approach 15,000 SKUs. Since most states have two or more major wholesalers along with a number of smaller niche wholesalers, that means that most open states have tens of thousands of individual product options.

Wine and spirits wholesalers are uniquely qualified to handle this volume and variety of individual products. While delivering a case of spirits to a retailer may sound simple, it is in reality a very complicated process.

A large retailer may order an entire palette of a popular product while a smaller retailer may order one or two bottles of a lower volume product. Wholesalers are able to process these diverse orders and provide fast and efficient delivery – several times a week – often fulfilling requests overnight when necessary. They are able to do this because they combine decades of expertise with millions of dollars in warehouse and technology investment. No other entity is equipped to deal with such a diverse range of customers and products in such an efficient manner.

Wholesalers also provide essential marketing services to both on-and off-premise retail establishments. These marketing activities are less recognized than the warehousing and delivery services that most people readily associate with wholesalers.

Wholesalers are experts in identifying new products and working hand in hand with producers and retailers to build brands. Each year hundreds of wine and spirits producers bring thousands of products to the WSWA Convention. Once there wholesalers from around the country identify new and interesting products that they believe will be successful in their particular markets and reach distribution agreements with the producers. But wholesalers don't just make the products available and wait for the orders to come in. They partner with the producers and retailers to build the new brands or grow already existing product lines.

Wholesalers employ sommeliers who work with restaurants to create custom wine lists, mixologists who create specialty cocktails for bartenders, spirits experts who conduct educational tastings for bar and wait staff and graphic designers who work with retailers to create marketing and branding items such as colorful aisle displays or seasonal signs and posters. All of these things are done as services to retailers because wholesalers recognize that if retailers thrive then wholesalers thrive. These things also benefit consumers because they bring a vibrancy and excitement to on- and off-premise retail establishments that improves the entire consumer experience.

The existence of multiple wholesalers in a state also benefits retailers and consumers because it introduces competition to the market place. Each wholesaler will carry multiple brands in a given product category, for instance vodka or bourbon. Thus wholesalers are competing to make their particular brand the product of choice in that market. This competitive dynamic ensures that retailers are receiving the most competitive prices and marketing support from wholesalers. Over time that means that consumers benefit by having the opportunity to purchase the best products at the best prices.

But, wholesalers don't just benefit the system by bringing efficiency, marketing expertise and competition to the marketplace, they also create accountability. Since, all products sold in an open state must go through a wholesaler there is a clear chain of custody from supplier to wholesaler to retailer to consumer. This accountability is the primary reason

that the United States does not have the same problems with black market products, tainted alcohol and product diversion that proliferate in so other many other countries – including in developed countries.

One doesn't have to search for very long in order to find horror stories from Europe and Asia about counterfeit alcohol products and smuggling rings that sometimes produce disastrous consequences for unsuspecting consumers. In America those stories are virtually non-existent, largely because of the existence of our healthy three-tier system which includes an active watchdog wholesale tier.

Wholesalers also act as tax collectors on behalf of the state. State and local excise taxes are collected from wholesalers when they sell products to retailers. The result is an efficient and profitable tax collection system.

In closing, I'd like to talk for a minute about who wholesalers are. America's wine and spirits wholesalers are family owned businesses, many entering their fourth generation of leadership. In states where wholesalers operate they deliver to every retailer in every town, large and small – hotels, bars, restaurants, package stores, etc. They are engaged in their local communities contributing to charities, sponsoring local events and providing good paying jobs. They are strong active members of the communities in which they do business. Wholesalers have built hospitals, funded programs for children with special needs and in the case of one of WSWA's largest members, paying the college tuition for the child of every employee who attends college.

Again, I thank you for the opportunity to testify before you today and I am happy to answer any questions you have about wholesalers and the importance of the accountable and responsible three-tier system.