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US WINE MARKET AND THREE-TIER SALES CHANNEL OVERVIEW

The following is a quick overview of the three-tier sales system in the US and the terminology used in describing it. In the US the state is empowered to regulate the sale of wine to the degree that it does not compromise federal laws, and each state is unique in the set of laws governing sales of wine. Only the production, importation, packaging, and marketing of wine are regulated by the federal government.

NATIONAL SALES

This is the tier where a supplier – winery, importer, or other producer – sells to wholesale distributors either in-state or out-of-state. The pricing terminology for this tier is called “distributor FOB”, the price of the wine by the case to a distributor ex-supplier’s warehouse. This price sets the subsequent market pricing and, unless the supplier holds a wholesale and/or retail license, the only price the supplier sets directly.

This tier may engage a regional broker to facilitate sales and provides marketing support to a group of distributors. For their services, a regional broker receives a commission on all sales to the distributors that they manage. That commission is paid by the supplier – not the distributors.

A supplier must be compliant in each state they sell into according to each state’s requirements regarding the sale of wines. The level of compliance varies greatly for each state in terms of cost and requirements. Regional brokers must be licensed according to each state where they conduct business according to that state’s laws.

WHOLESALE SALES

Distributors will pick up wines directly from a supplier’s warehouse after purchasing it at the FOB price, truck it to their warehouse, and add a markup to cover freight, operating costs, and profit margins. This price from the distributor to restaurants and retailers is the “wholesale price”. While the supplier can influence the wholesale price (through FOB pricing, discounting, and cajoling), the supplier cannot dictate the wholesale price to a third-party distributor.

Traditionally, trade accounts such as restaurants and retailers are referred to as “on-premise” (for restaurants, wine bars, nightclubs, bars, taverns, private clubs, etc.) and “off-premise” (for retailers, wine merchants, supermarkets, etc.). The terminology refers to where the wine will be consumed by the consumer.

The distributor will typically have a pricing strategy that may include volume-purchased discounts, by-the-glass (BTG) special pricing, incentive programs (where legal), coupons, etc. The distributor may or may not involve the supplier in either supporting or assisting with special pricing or programming, and often the supplier initiates with the distributor promotions and programming to spur sales.

In the state where a supplier is based, the supplier may be allowed to have a wholesale license, whereupon the supplier can then sell directly to, or engage a broker to sell their wines to on- and off-premise accounts. In the latter instance, a broker makes the sale for a negotiated commission on the sale. In this model, the supplier is directly responsible for setting wholesale pricing, promotions and programming, delivering, invoicing, and collecting payment from the on- or off-premise account. Likewise, a wholesale distributor may be allowed to hold an import license, and import wines directly, if the state allows it.

Wine Sales and Marketing Consultants

T: 707.433.3671 :: F: 707.433.9764 :: P.O. Box 1879, Healdsburg, CA 95448 :: www.marketingwine.com

Both distributors and brokers employ sales representatives, the number depending on the size of the company, that regularly call upon on- and off-premise accounts, generating sales and distribution in the market.

Some distributors are multi-state companies, but in each state the distributor's state division (and sometimes market branches) is independently managed and run. It is not mandatory for a multi-state distributor to carry a supplier's products in every state they operate.

Typically distributors are legally prohibited from, or opt not to sell directly to consumers.

Distributors and brokers are licensed to sell wine, and are regulated by the state in which they operate.

DIRECT SALES

Direct sales are sales by a supplier direct to the end consumers. Regulated by each state, such sales may be conducted through:

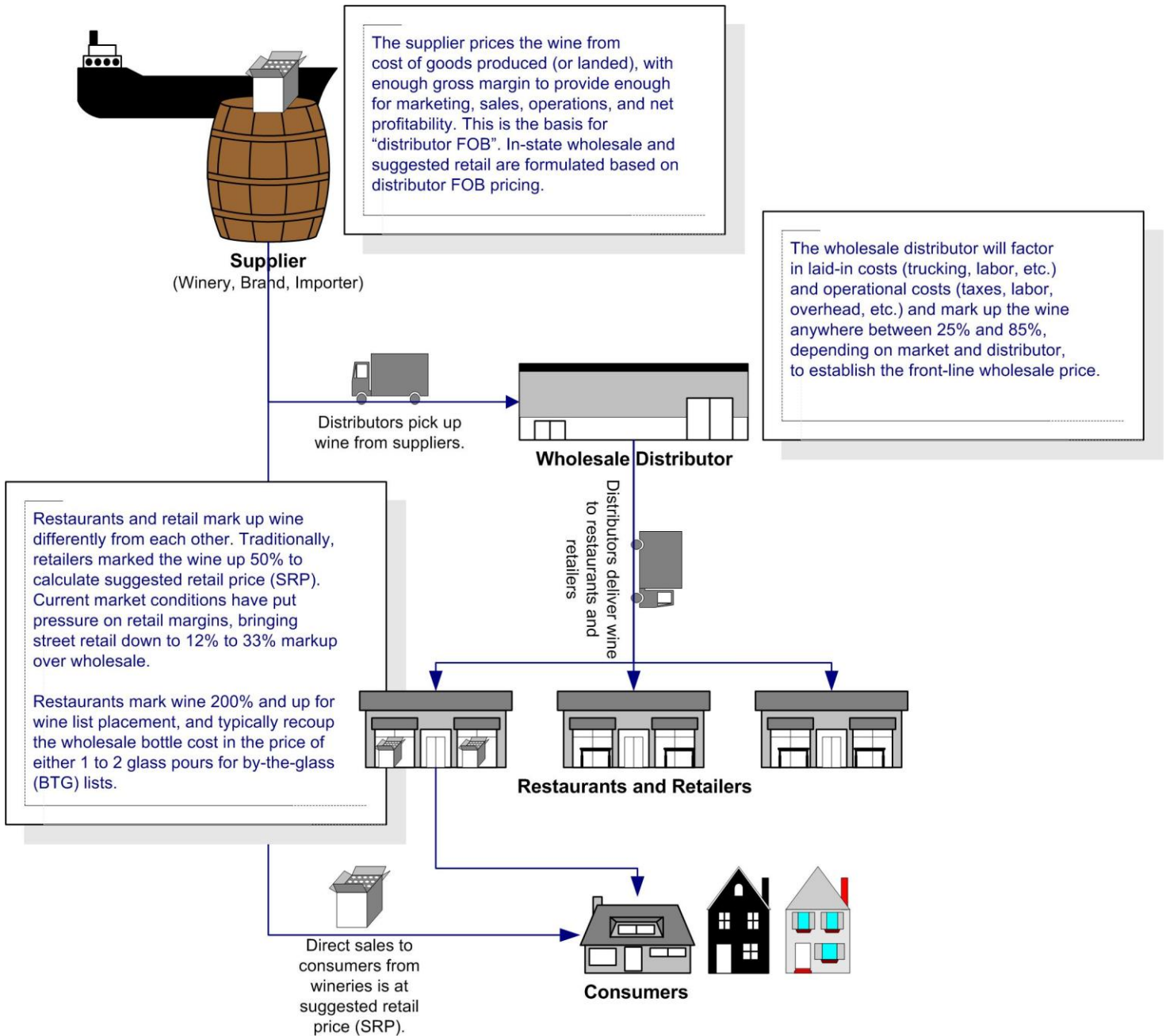
- ▶ Tasting rooms;
- ▶ Retail operations;
- ▶ Consumer events;
- ▶ Supplier-managed wine clubs or subscription sales;
- ▶ Direct mail, such as catalogs or newsletters;
- ▶ Telephone sales;
- ▶ Internet sales.

Suppliers set pricing for direct sales based on traditional, industry-standard markups in each sales tier to create a national, "suggested retail price" (SRP). The SRP can only be enforced in supplier-to-consumer direct sales, and not through the three-tier sales channels. In most cases, a wine's SRP or "frontline" price will be the highest published retail price, and everyday "street" pricing will often be lower, reflecting the markups by the different companies that own the wine throughout the three-tier sales channel, and the effect of each company's pricing strategy, including discounts, promotions, and programming.

Direct sales in-state and out-of-state are regulated by the state where the consumer makes the purchase. Direct sales vary in legality greatly state-to-state, and even county-to-county within some states. A supplier or the consumer may be required to purchase an annual license to conduct direct sales and/or pay state sales taxes. The level of compliance varies greatly for each state in terms of cost and requirements, and whether the supplier or the consumer is responsible for filing and paying for compliance and taxes.

WINE PRICING

WINE PRICING FLOWCHART



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PRICING TERMINOLOGY

Distributor FOB = price from the supplier to a wholesale distributor.

Wholesale = price from the wholesaler to an on- or off-premise account.

Suggested Retail Pricing (SRP) = the price from a supplier or off-premise account to a consumer:

- ▶ *Super Value* (sometimes referred to as *Jug Wines* or *Ultra Value*) = wines priced \$1.99 or under per 750-ml bottle;
- ▶ *Value* = wines priced between \$2.00 – \$5.99 per 750-ml bottle;
- ▶ *Fighting Varietal* (sometimes referred to as *Economy*) = \$6.00 – \$8.99 per 750-ml bottle;
- ▶ *Popular Premium* = wines priced between \$9.00 – \$11.99 per 750-ml bottle;
- ▶ *Premium* = wines priced between \$12.00 – \$14.99 per 750-ml bottle;
- ▶ *Super Premium* = wines priced between \$15.00 – \$24.99 per 750-ml bottle;
- ▶ *Ultra-Premium* = wines priced between \$25.00 – \$49.99 per 750-ml bottle;
- ▶ *Luxury* = wines priced \$50.00 and over per 750-ml bottle.

*Please note that the precise breakdown of the SRP pricing categories varies to a degree between industry sources.

Wine List = the price on a restaurant wine menu.

By-The-Glass (BTG) = the price of a glass of wine in an on-premise account. Sometimes refers to a special discounted price offered by the distributor to on-premise accounts.

BOTTLES SIZES – STANDARD AND NON-STANDARD

- ▶ Minature: 50 ml and 100 ml
- ▶ Split, Quarter, Piccolo, Fairhead, or Pony: 187.5 ml
- ▶ Quarter, Fairhead, Pony, Picolo, or Piccolo: 200 ml
- ▶ Chopine: 250 ml
- ▶ Half Clavelin: 360 ml
- ▶ Half, Demi, Fillette, or Tenth: 375 ml
- ▶ Pint: 400 ml
- ▶ Imp, Turette, or French Pot: 500 ml
- ▶ Imperial Pint: 587.5 ml
- ▶ Clavelin: 620 ml
- ▶ Liquor Standard (old): 700 ml
- ▶ Standard or Fifth: 750 ml
- ▶ Liter: 1.0 L (1.25 bottles)
- ▶ Magnum: 1.5 L (2 bottles)
- ▶ Bordeaux Marie-Jeanne; Portuguese Tregnum or Tappit Hen: 2.25 L (3 bottles) or 2.5 L (3.33 bottles)
- ▶ Double Magnum: 3 L (4 bottles)
- ▶ Champagne/Burgundy Jeroboam: 3 L (4 bottles)
- ▶ Dame-Jeanne: 3.75 L (5 bottles)
- ▶ Champagne/Burgundy Rehoboam: 4.5 L (6 bottles)
- ▶ Bordeaux Jeroboam: 4.5 L (6 bottles)
- ▶ US Jeroboam: 5 L (6.75 bottles)
- ▶ Bordeaux Imperial or Imperiale: 6 L (8 bottles)
- ▶ Champagne/Burgundy Methuselah: 6 L (8 bottles)
- ▶ Champagne/Burgundy Salmanazar: 9 L (12 bottles)
- ▶ Bordeaux/Champagne/Burgundy Balthazar: 12 L (16 bottles)
- ▶ Bordeaux/Champagne/Burgundy Nebuchadnezzar: 15 L (20 bottles)
- ▶ Champagne/Burgundy Solomon or Double Salmanazar: 18 L (24 bottles)
- ▶ Bordeaux/Champagne/Burgundy Melchior: 18 L (24 bottles)
- ▶ Champagne Sovereign: 25 L (33.33 bottles) or 25.5 L (34 bottles)
- ▶ Italian Primato: 26.25 L (35 bottles)
- ▶ Champagne Primat: 27 L (36 bottles)
- ▶ Champagne Melchisedec or Melchizedek: 30 L (40 bottles)
- ▶ US Sovereign: 50 L (66.75 bottles)

BOX SIZES

- ▶ 1-Liter Fine Wine Box/Cask (1.25 bottles)
- ▶ 1.5-Liter Fine Wine Box/Cask (2 bottles)
- ▶ 2-Liter Fine Wine Box/Cask (2.67 bottles)
- ▶ 3-Liter Fine Wine Box/Cask (4 bottles)
- ▶ 4-Liter Fine Wine Box/Cask (5.33 bottles)
- ▶ 5-Liter Bag-in-Box (BiB) (6.67 bottles)
- ▶ 10-Liter Bag-in-Box (BiB) (13.33 bottles)
- ▶ 18-Liter BiB (24 bottles)

OTHER

- ▶ 187-ml Aseptic Box Package (aka Tetra Pak[®] or “drink box”)
- ▶ 187-ml PET Bottle (plastic)
- ▶ 187-ml Aluminum Bottle
- ▶ 187-ml Aluminum Can
- ▶ 250-ml Aseptic Box Package
- ▶ 375-ml PET Bottle
- ▶ 750-ml PET Bottle
- ▶ 750-ml Aluminum Bottle
- ▶ 1-Liter Aseptic Box Package (1.25 bottles)
- ▶ 1.5-Liter Aseptic Box Package (2 bottles)



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