



# VIEW*S* & VISIONS

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## Beer Distribution and the Craft Beer Movement

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Andrew McMillan is the chief operating officer of Jefferson Distributing Company, an Anheuser-Busch beer wholesaler located in Martinsburg, West Virginia. Originally trained as a scientist, McMillan's experience also includes finance, operations management and sales and marketing. He earned a bachelor's degree in chemistry from the University of North Carolina at Chapel Hill and a Ph.D. in chemistry from Emory University.

Prior to returning to West Virginia in 2013 to help manage his family's business, he worked as a scientist with NASA at the Ames Research Center in Mountain View, Calif., and then as a principal with 5AM Ventures, an early-stage venture capital investment firm with offices in Silicon Valley and Boston.

McMillan is a member of the Rotary Club of Shepherdstown, and serves on the board of directors for Jefferson Security Bank, the Eastern West Virginia Community Foundation, the United Way of the Eastern Panhandle and the Friends of Music. He also serves on the UNC Chapel Hill Board of Visitors, the UNC Graduate Education Advancement Board, the UNC Chemistry Department Advisory Board and the WVU Professional Sales Advisory Board.

Jefferson Distributing Company (JDC) is an independent, family-owned beer distributor servicing the Eastern Panhandle of West Virginia. JDC, situated in Martinsburg, delivers nearly one million cases of beer annually, serving 335 retail accounts in Berkeley, Morgan and Jefferson Counties, a territory of approximately 700 square miles.

Our largest supplier at JDC is Anheuser-Busch, whose brands Bud Light, Michelob Ultra and Budweiser collectively account for roughly 90 percent of our volume. However, we also distribute many craft brands including Yuengling, Flying Dog, New Belgium, Devils Backbone, Anchor Steam, Magic Hat, Rogue, Green Flash, Mountain State, Morgantown Brewing Company, Greenbrier Valley, Escutcheon Brewing and several other quality imports and local craft beers and ciders. Our total craft beer portfolio is steadily growing at greater than 20 percent per year and represents an exciting segment of the total beer category. We also represent several West Virginia craft breweries: Mountain State Brewing Company, Morgantown Brewing Company and Greenbrier Valley Brewing Company. While our larger, more established craft brands such as New Belgium and Devils Backbone enjoy steady growth, we also find that there is a movement from consumers favoring local brews, and there is strong demand for our West Virginia craft portfolio.

### The Three-Tier System

There are approximately 3,300 independent beer distributors across America. Beer distributors operate between retailers and breweries. The beer distributor's job is to enable placement at retail locations and to ensure product is fresh and readily stocked.



Beer distributors exist solely because of the 21st Amendment to the U.S. Constitution, which repealed the prohibition of alcohol sales. The amendment gave states the primary responsibility to regulate alcohol, as governed by franchise laws. These laws are a key component of state alcohol regulations, and they address the relationship between beer suppliers, distributors and retailers – three distinct “tiers” within the system. Franchise laws provide balance within the system by providing guidance to brewers and distributors, while supporting consumer choice.

### Three-Tier Benefits

The three-tier system has enabled the proliferation of the craft beer movement. Franchise laws prohibit one tier from overly influencing another, thus preventing a monopoly. One needs only to look at the diversity in selection offered within large retail establishments that sell beer to see an abundance of choices for the consumer. Beer distributors are free to promote all of the brands they carry, and while the large brewers that supply the most popular brands are often predominant, this is only a result of the sales volume of those brands. Therefore, no brewer or supplier can exert undue influence on another tier, leading to more variety for the consumer at retail and providing an opportunity for small brewers to grow. By contrast, stroll down the soup or soda aisle in a grocery store, and you'll see suppliers that are free to exert influence or even pay for shelf space and exclusivity.

Another example of the benefits of the three-tier system and franchise laws becomes evident when



*Jefferson Distributing Company's clientele includes independent businesses, chain stores and local restaurants, supplying more than a million cases of beer annually*



*JDC serves a territory of approximately 700 square miles within Jefferson, Morgan and Berkeley Counties*



*JDC facilities include climate-controlled storage for a large, well-rounded selection of domestic, imports and craft beers and ciders*

you look outside the United States. In Europe, where there are no such laws, breweries are free to own retail establishments such as restaurants and pubs – called Tied Houses. This creates a monopoly and leads to a lack of choices for the consumer.

### **Rise of the Craft Brewing Industry**

The craft brewing movement in America is truly a success story. There are currently more than 4,000 breweries operating in the United States, with more than one new brewery opening every day. Craft brewers produce innovative, quality products, and partnerships with independent beer distributors allow brewers to ensure their beers reach the consumer at retail. Distributors make significant investments in brands to help them reach the consumer and grow.

Many people question whether the U.S. beer industry can support the continued rise of the craft boom. Many of these 4,000 breweries are regional microbreweries or local, small brewpubs or restaurants that brew relatively small amounts of beer for customers. In West Virginia, the craft beer movement is still in its infancy, and we believe this segment of the beer category will continue to grow as more and more breweries and brewpubs are established across the state. The challenge for the industry as a whole will be to keep pace with the demand of the growing millennial consumer base whose drinking style favors variety and choice over brand loyalty. These are exciting times for the beer industry in America. ▽

*\* Some data provided by the National Beer Wholesalers Association (NBWA), nbwa.org*