

## MICHIGAN BEER GUIDE

### The Role of the Middleman

Brad Probert

When the 21st Amendment repealed Prohibition, the federal government left the regulation and control of alcohol to the states. As states enacted their alcohol laws, the 3 Tier system emerged, creating separation between Breweries, Distributors (Wholesalers), and Retail stores. Each state approached it somewhat differently and they also have evolved and changed those laws differently since 1933. The underlying concept of the 3 Tier law is to keep giant powerful breweries from wreaking havoc on the free market and exerting undue control over alcohol availability to the end consumer.

Of course the brewery landscape is significantly different now than it was in 1933. There are still giant mega-breweries owning most of the total volume of beer sales, but these breweries are few in number compared to the piles of small breweries across the U.S. Many states have made attempts to modify their 3 Tier alcohol laws to try to adapt to the proliferation of small breweries. As an example, in November of 2011, Washington State eliminated the 3 Tier system, allowing retailers to buy directly from breweries. Closer to home, in March of 2014, Michigan law changed to allow brewers that sell less than 1,000 barrels a year to skip the distribution tier and sell directly to retailers. Last year, 233 of the state's 280 licensed brewers made less than 1,000 barrels. Those with distribution contracts already in place though, are still bound even if under 1,000.

When a brewery reaches a certain size, the logistics of maintaining a distribution network can get quite involved. Sales calls, customer visits, and last-minute keg deliveries compete for time with brewing operations. However, with most states' beer franchise laws, it's a major commitment to enter into a distribution contract with a wholesaler. Not only is a brewer entrusting their brand growth to this



new business partner, but franchise laws make it almost impossible for brewers to terminate a distributor.

Jason Schlaff and Jason Hendricks, 2 of the 3 co-owners of

#### Farmington Brewing

Company, have been open for just over a year. They are soon opening a second brewing space, and within 2 years expect to be at the 1,000 barrel limit where their option to self-distribute under Michigan law will go away. Schlaff commented about their retailer customers, "We're friends with them now. We

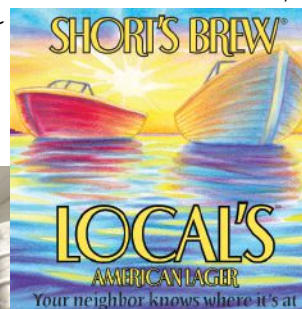


Pallets of half-barrels filled with Short's Brewing Company flagship beer, Short's Local's American Lager 4% ABV, 6 IBU, ready for distribution.

wouldn't have that relationship without doing the distribution ourselves." They acknowledged the logistics and legwork involved in getting their beer into new retailers takes up a lot of their time. But the thought of entering into a lifetime distribution contract with a wholesaler gives them pause. Signing up their personal creation into a forever-lasting contract is scary.

**Short's Brewing Company** is on the other end of this spectrum. Based on their production volumes and distribution territory in Michigan, a wholesaler partner is a necessity. They speak with high regard of Imperial Beverage and their 12 year history together as Short's sole distributor in Michigan. This past January, Short's announced plans to distribute

out of state. Pauline Knighton, Short's Sales Coordinator explained, "Every state and city has their own beer culture and we can't go into a new area making any assumptions." Scott Newman-Bale, Partner at Short's, expanded on the effects of this learning curve in their new markets, "We are learning what the new territories' needs are, and our production team is adjusting their schedule as we continue to receive new sales data. Production has had to adjust multiple times to changes in sales since we launched." Until they develop a mature



database of sales in these areas, he noted that they've called on the entire Short's team to support the dynamics of the roll-out.

Jeff Bright,

Director of

Marketing for Powers Distributing, explained the process they follow for bringing a new brewery on board. They first look to see what the brewery's product offerings are and how it would fit within Powers' portfolio. Next they review the brewery's facilities and production capacity. He notes, "We don't want to sign on a new brewery partner if they don't have the right equipment to produce high quality beer at the needed volumes to meet consumer demand." Once on board,

they start to introduce the beer into specific cities/locations well-known for craft beer, and then expand successes from there.

Jeff Abdulnoir, owner of Meadows Fine Wine in Farmington, MI described how he determines what new beers to put on the sales floor. If it's a new product from a brewery they already carry, he usually brings it in to see how it sells. If there's a new Michigan brewery added to a distributor's portfolio, typically a representative from the brewery comes along with the distributor to visit the store. They spend some time talking about their beer, their brewery, and of course tasting samples. Jeff notes, "If someone's willing to spend the time to come out and get to know us, we tend to give them more placements." With out of state

breweries he's typically a bit more choosy, looking to see if they have a particular style that's currently a hot trend. Of course there are occasions that a new beer doesn't take off with customers. In those cases, he drops the price to move it out. He adds, "I don't want to be a beer museum."

In a society where the middleman is seen as an inefficiency in most cases, the role of the beer distributor is unique. For one thing, state laws require the distributor role in most cases so it's an inevitable part of the system. For larger breweries, or those with a large distribution region, a distributor is a necessary and beneficial partner in ensuring growth. For smaller breweries, these state law mandated business partners can feel like an uninvited dinner guest. For those situations, hopefully we'll continue to see the trend of increased flexibility in the 3 Tier system, and less burdensome franchise laws for small breweries. The laws need to maintain protection from big-money breweries squeezing out the little guys, but not create an undue burden on the same little guys trying to stay in the business of beer.

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