

MEMORANDUM

TO: Ad Hoc Committee on Liquor Control

FROM: Craig Howard, Senior Legislative Analyst, OLO
Leslie Rubin, Senior Legislative Analyst, OLO
Justina J. Ferber, Legislative Analyst, Council Staff

SUBJECT: **Worksession – Review of Alcohol Control in Montgomery County
Economic Competitiveness**

The Ad Hoc Committee on Liquor Control will discuss Economic Competitiveness. The following is the agenda for the meeting:

AGENDA

9:30AM to 9:40AM – OLO Follow-Up

OLO Report 2015-6 summarized feedback from alcoholic beverage license holders on DLC's operations and performance, including the results of a survey distributed to 389 licensees (copies of the slides from OLO's presentation summarizing the feedback are attached at ©2-4). At the February 27th Ad Hoc Committee worksession, the Committee requested that OLO re-distribute the survey to gain additional licensee feedback.

On March 9th, OLO re-distributed the survey to 808 Class A, B, D, and H liquor license holders using a new database of email addresses provided by the Department of Liquor Control. The survey will remain open until March 23rd and OLO will brief the Committee on the survey results at its March 27th meeting.

9:40AM to 10AM – Alcohol Policy and Quality of Life

- Christopher Leinberger, Professor at GWU and a Fellow at the Brookings Institution. Bio at ©5-6.
- Bio here: <http://www.chrisleinberger.com/bios.html>

As of the packet deadline, some speakers were not confirmed and therefore not listed. Once they confirm they will be added by the Chair.

10AM to 11AM – Licensees

- Frank Shull, RW Group (Brasserie Beck, Mussel Bar, and others)
- Jackie Greenbaum, Jackie's Restaurant
- Mike Hill, Adegas Wine Cellars & Cafe (See ©7-8)
- Justin McNerny, Capital Beer and Wine (See ©9-10)

11AM to Noon – Distributers and Manufacturers

- Eric Best, National Beer Wholesalers Association
- Mike McGarvey, Three Stars Brewing
- Vicky McDowell, CEO, Presidents' Forum of the Distilled Spirits Industry (See ©11-14)
- Kelly Spillane, Castle Brands (See ©15-18)
- Ed Boyce, Black Ankle Winery

Speakers and others have been invited to provide written comments for the Committee. Comments submitted after the packet deadline will be distributed as they are received.

Written comments included in the packet –

Bob Mutschler, Republic National Distributing Company (See ©19)
Pat Stevens, Global Wines Maryland (See ©20-24)

Councilmembers may wish to bring copies of OLO Report 2015-6 and the PFM Strategic Business Plan to the meeting. The list of five options presented in the OLO report can be found on ©1. The following are links to the OLO Report and Strategic Business Plan:

http://www.montgomerycountymd.gov/OLO/Resources/Files/2015_Reports/OLOReport2015-6.pdf

http://www.montgomerycountymd.gov/DLC/Resources/Files/MontCo_DLC_StrategicBusinessPlan.pdf

This packet contains:

	<u>Circle #</u>
Report Summary, OLO Report 2015-6	1
OLO Report Excerpt re: Feedback from Licensees	2
Biography, Christopher B. Leinberger	5
Mike Hill, Adega Wine Cellars & Café	7
Justin McInerney, Capital Beer and Wine	9
Vicky McDowell, CEO of Presidents' Forum of the Distilled Spirits Industry	11
Kelly Spillane, Castle Brands	15
Bob Mutschler, Republic National Distributing Company	19
Pat Stevens, Global Wines Maryland	20

Office of Legislative Oversight Report Summary

Review of Alcohol Control in Montgomery County

OVERVIEW

This report responds to the Council's request for an examination of the alcoholic beverage distribution system in Montgomery County and the County's Department of Liquor Control (DLC). Montgomery County is the only "control jurisdiction" in Maryland – controlling the wholesale sales of alcohol to retail businesses and controlling the retail sales of packaged liquor at 25 County-run stores. Based on our review, OLO developed a continuum of five options for changes to Montgomery County's alcohol structure for Council consideration. Each option estimates the budgetary/fiscal impact and the impact on County positions of the specific change.

OLO Contacts:

Craig Howard 240.777.7985

Leslie Rubin 240.777.7998

FINDINGS

- Maryland law regulates all facets of the manufacture and sale of alcoholic beverages. Changes to the County system require changes to State law.
- DLC's gross profit (\$75.8 million in FY14) pays DLC operating expenditures, debt service for Liquor revenue bonds, and a transfer to the General Fund (\$20.9 million in FY14).
- Feedback from a sample of over 100 licensees indicates many are dissatisfied with DLC's operations, processes, and performance as the sole wholesaler of alcoholic beverages in the County and particularly dissatisfied with the availability of wine and special order products.

OPTIONS FOR COUNCIL CONSIDERATION

- **Option 1** Fully deregulate the alcohol system in Montgomery County and allow private wholesale distribution and private retail sale of beer, wine, and liquor.
- **Option 2** Allow private wholesale distribution of beer, wine and liquor, maintain County control of the off-premise retail sale of liquor.
- **Option 3** Allow private wholesale distribution of beer and wine, maintain County control of the wholesale and off-premise retail sale of liquor.
- **Option 4** Allow private wholesale distribution of special order beer and wine, maintain the current wholesale and retail structure for all other alcohol products.
- **Option 5** Increase DLC's efficiency and effectiveness within the current structure.

Feedback Mechanisms

- Interviews with license holders
- Online “Survey of Liquor License Holders”
 - 389 licensees received the survey
 - 25% response rate
- Feedback from 100+ licensees provides important insight into perceptions of DLC’s performance

Feedback: DLC Wholesale Operations

Overall, how satisfied are you with DLC's performance as the sole wholesaler of alcoholic beverages in Montgomery County? (n=88)

Satisfied/ Very Satisfied	Neutral	Dissatisfied/ Very Dissatisfied
32%	19%	49%

How satisfied are you with DLC's wholesale operations for...

Product Type	Satisfied/ Very Satisfied	Neutral	Dissatisfied/ Very Dissatisfied
Beer (n=89)	39%	13%	47%
Wine (n=88)	34%	18%	47%
Spirits (n=62)	34%	24%	42%

Feedback: Product Availability

How satisfied are you with the availability and selection of products from the Department of Liquor Control? (n=72)

Satisfied/ Very Satisfied	Neutral	Dissatisfied/ Very Dissatisfied
33%	21%	46%

DLC's selection of products is adequate for my business.

	Agree/ Strongly Agree	Neutral	Disagree/ Strongly Disagree
Selection of stock products adequate for my business needs (n=81)	34%	23%	44%
Availability of special order products adequate for my business needs (n=76)	21%	18%	61%

Feedback: Wholesale Prices

The wholesale price of DLC products is comparable to the wholesale price I would pay if purchasing from a private distributor (n=74)

Agree/ Strongly Agree	Neutral	Disagree/ Strongly Disagree
17%	26%	58%

- OLO compared wholesales prices for 96 "top-selling" stock and special order items
- Except for special order beer, DLC's prices were 2-10% lower on average than private wholesale prices

Feedback: Takeaways

- **Common thread among feedback was some level of dissatisfaction with DLC performance and operations**
 - **Feedback indicates that further examination of changes or improvements to the status quo is warranted**
-

Christopher B. Leinberger

Chris Leinberger is a land use strategist, teacher, developer, researcher and author. He balances business realities with social and environmental concerns. Mr. Leinberger has four institutional connections:

- President of Locus; Responsible Real Estate Developers and Investors LOCUS advocates for the upcoming transportation, tax reform and energy bills before Congress and at various states and metropolitan levels. LOCUS is sponsored by Smart Growth America and is a partner and member of the executive committee of Transportation for America. Please refer to <http://www.smartgrowthamerica.org/locus/>.
- The Charles Bendit Distinguished Scholar and Research Professor at the George Washington University School of Business.
- Nonresident Senior Fellow at the Metropolitan Policy Program of the Brookings Institution in Washington, DC. He focuses on research, strategy and management of "walkable urban" places. Please refer to <http://www.brookings.edu/experts/leinbergerc.aspx>.
- Founding partner of Arcadia Land Company, a New Urbanism/transit-oriented development firm dedicated to land stewardship and building a sense of community. His partners are Robert Davis, the developer of Seaside, Florida, and Joe Duckworth, who has run two Builder 100 home building companies. The firm has active developments in the Philadelphia metropolitan area, a 5,000 house and town center development in Independence, Mo., which is a joint venture with Forest City Enterprises. Arcadia was the managing partner of the catalytic developer for the revitalization of downtown Albuquerque, N.M. Please refer to www.arcadialand.com.

For 21 years, Mr. Leinberger was Managing Director and co-owner of RCLCO (formerly Robert Charles Lesser & Co.), the largest independent real estate advisory firm in the country that today works on over 600 projects a year for developers, corporations and municipalities.

Mr. Leinberger has served on the boards of AvalonBay Communities, one of the country's most respected equity REITs (NYSE), and AMRESO Capital Trust (NASDAQ real estate mortgage trust). He has been a member of the Urban Land Institute (ULI) for 30 years, serving on the jury of JC Nichols Award for Excellence in Urbanism and in the leadership of the Transit-Oriented Development Council.

Mr. Leinberger has also been active on several committees of the National Academy of Sciences, including the creation of the National Biological Survey, sponsored by Secretary of the Interior Bruce Babbitt, and a panel to improve metropolitan governance. He is also on the National Advisory Board of The Conservation Fund and the National Real Estate Leadership Council of Enterprise Community Partners.

Mr. Leinberger has written two books and contributed chapters for nine others. His most recent book is *The Option of Urbanism, Investing in a New American Dream*, published in 2008 by Island Press and released in paperback in 2009. Planetizen,

the urban planning and architecture web site, selected it as one of the top 10 books of 2008. He is also the author of *Strategic Planning for Real Estate Companies*, originally published by ULI in 1993, which was revised by his former RCLCO partners and re-published by ULI in 2008 with the Introduction written by him. His next book is about strategy and management of walkable urban places, which will be published by Island Press, in 2012.

He is an Op-Ed Contributor to the *New York Times* and has written articles for periodicals, including *The Atlantic Monthly*, *Urban Land*, *Wall Street Journal*, *Chicago Tribune*, *Washington Monthly*, *Canada's National Post* and *Los Angeles Times*, among others. He is often quoted by periodicals such as the *New York Times*, *Washington Post*, *Wall Street Journal*, *Newsweek*, *Business Week*, *Associated Press*, among others. His articles and news about him can be found at www.cleinberger.com.

He has been profiled by CNN, *Urban Land* magazine, Today Show, academic journals, Canadian National Radio, USA Radio, CBS Radio and numerous times by National Public Radio, including Morning Edition, All Things Considered, Weekend Edition Saturday and Marketplace.

Mr. Leinberger has given speeches to nearly every major real estate, downtown management and land use organization in the country and many abroad, as well as many chambers of commerce, councils of governments and environmental organizations. He has been a visiting lecturer at the Santa Fe Institute, Harvard University, Swarthmore College, University of Wisconsin, UCLA, University of Pennsylvania, Virginia Tech, University of New Mexico (as an adjunct professor), Rollins College, Simon Fraser University and other institutions of higher education.

Mr. Leinberger received a Bachelor of Arts degree from Swarthmore College, where he double majored in Political Science and Urban Sociology, and a MBA from the Harvard Business School. He also attended the Martin Luther King School of Social Change, the Institute of Social Research at the University of Michigan, and was a Coro Foundation Fellow in Public Policy in Los Angeles.

Leinberger was voted one of the "Top 100 Urban Thinkers" of all time in a poll conducted by Planetizen, the international urban planning and architecture web site, in 2009 (<http://www.planetizen.com/topthinkers>). He was the 2010 William H. Whyte Urbanism Award winner from Partners for Livable Places.

Mr. Leinberger lives in the Dupont Circle area of Washington, DC, with his wife, Lisa.

Subject: FW: Liquor Control Meeting on Friday, March 20

From: Michael Hill [mailto:mike@adegawinecellars.com]

Sent: Saturday, March 14, 2015 6:09 PM

To: Heyboer, Tommy

Subject: Re: Liquor Control Meeting on Friday, March 20

Good afternoon Tommy. Thank you for taking my feedback into consideration, and thank you for making such significant progress in attempting to improve a very broken and flawed system. I look forward to seeing you on Friday.

To answer your questions:

1. What is your current relationship with the Montgomery County DLC? What kind of business do you do with them?

We are a cafe/retailer licensee through the county. We purchase beer and wine with roughly 85%-90% of our items purchased being special order.

2. What is your experience like working with the DLC? What challenges do you face? If applicable, what are the differences you see between doing business with the DLC and doing business with private distributors in other jurisdictions? Do you think the DLC makes it easier, harder, or neutral for you to do business in the County?

My experience with the DLC has been mostly poor. My greatest challenges are consistent errors with my deliveries, and a lack of communication as to why they consistently drop the ball. The inability for the DLC to deliver items that our loyal customers wait weeks upon weeks for greatly affects our top line. The inconsistencies (3 cases of XYZ wine ordered, 7 cases delivered; 5 cases of 123 wine ordered, 11 bottles delivered!!!) are a major issue.

I had a much easier time as a buyer for a DC restaurant. I even had a much easier time as a buyer in the heart of the bible belt in Atlanta, GA, where I lived for 6 years!!! As a customer, I hate to admit it, but it's much easier buying alcoholic beverages in DC and P.G. County due to lower prices and better selection.

The DLC definitely makes it more difficult for me as I have to explain to my customers why certain items continue to be out of stock, etc. Again, top line revenue is directly affected.

One good note, the delivery drivers have improved dramatically ever since the 'Beer Bust' report!

3. The Committee is considering, at least, five different reform proposals for the DLC. You can view them here: <http://www.montgomerycountymd.gov/COUNCIL/Resources/Files/AdHocComm/DLCReportSummary.pdf> What do you think of each option? Which option would you most prefer? Least prefer?

1. I would fully support a complete deregulation. I realize that this will create a drastic drop in tax revenue collected by the county and the loss of hundreds of union-backed jobs, so Leggett will want nothing to do with this option!

2. Option 2 is a good one. Public safety concerns will diminish if the county still has control of off-premise liquor sales. This will also counter the myth that 'A liquor store will be on every block'...

3. Since we are beer/wine only, I have no preference whether liquor is privatized or not.

4. I like the idea of privatizing special order items, and leaving the stock items to the county. This seems like each side is giving a little, and this would be a win-win for smaller specialty stores like Adega

5. Giving the DLC even more resources to 'function more efficiently' is easily the worst option of the five! The county needs to get out of the alcohol business!

4. The Committee has discussed Option 4 (allowing private distributors to fill and deliver "special orders") at some length. What do you think about Option 4? What would the Committee need to consider to make this option work well for you?

I think option 4 will work. I would be curious as to whether the County Liquor stores would also be able to carry special order items in addition to their normal stock? The two closest county stores have a significant special order craft beer selection, in addition to some special order wines. How would privatization affect the county stores' inventories?

5. Broadly, the Committee would like to discuss how alcohol distribution affects the County's economy and quality of life. From your perspective, what, if any, is the relationship between these?

Most licencees exercise best practices to avoid serving minors and those intoxicated already. I can't imagine anything less than zero tolerance if the county moves towards privatization. Alcohol distribution is a major tax revenue generator for the county, but I can only imagine that the revenue loss from the elimination of 'junk fees' will be offset by the gain due to increased spending due to increased item availability. I for one will spend less in surrounding counties and DC, and keep my money in the county if we move towards privatization.

As far as quality of life is concerned, I don't see that being affected. I don't anticipate an increase in alcoholism, or alcohol-related illness. I don't anticipate an increase in alcohol related fatalities. I don't think the two have any correlation.

Thank you for your time,

MH

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Mike Hill
Adega Wine Cellars & Cafe
Store Manager
8519 Fenton Street
Silver Spring, Md 20910
301.608.2200
301.608.8900(f)

On Thu, Mar 12, 2015 at 12:08 PM, Heyboer, Tommy <Tommy.Heyboer@montgomerycountymd.gov> wrote:

Hi Mike —

Thank you for being willing to share your experience with the Montgomery County Liquor Control Committee. In anticipation of the worksession next week, I wanted to share some information with you.

First, the logistics of the worksession are as follows:

Time/Date: 9:30am, Friday, March 20, 2015

Location: Council Office Building

3rd Floor Hearing Room

100 Maryland Ave.

Rockville, MD 20850

Subject: FW: comments for Ad Hoc Committee on Liquor Control

From: justin@capitalbeerwine.com [mailto:justin@capitalbeerwine.com]

Sent: Thursday, February 26, 2015 9:54 AM

To: Riemer Hans

Cc: Heyboer, Tommy

Subject: comments for Ad Hoc Committee on Liquor Control

Dear Councilmember Riemer,

Thank you for asking me to contribute to the Council's Ad Hoc Committee on Liquor Control. The Department of Liquor Control (DLC) is a monopoly. My thoughts are best summed up Article 41 of the Maryland Declaration of Rights:

"monopolies are odious, contrary to the spirit of a free government and the principles of commerce, and ought not to be suffered."

I have read the Office of Legislative Oversight's report (the Report) as well as the plan commissioned by the DLC. In the short term, I am strongly in favor of Option 4 of the Report "Private Wholesale of Special Order Beer/Wine". In the long term, I am in favor of Option 1 "Full Deregulation".

I have lived most of my life in Montgomery County where it has been legal for me to consume and purchase beer and wine since my eighteenth birthday in 1980. Although I am a lawyer, I am also a beer and wine merchant. First as a consumer and now as a merchant, I have found Montgomery County's alcoholic beverage regulatory structure to be both anti-consumer and anti-business. As a consumer, I rarely shopped for beer and wine in Montgomery County unless I was very short on time. In most instances I would shop at retailers in nearby jurisdictions, typically Northwest, DC. Now as a merchant, I am wholly frustrated by the shortcomings of a dysfunctional, unnecessarily cumbersome system which does not need to exist.

The Report is comprehensive and satisfactorily calls attention to practically all of my concerns with the DLC. This e-mail is only meant to highlight a few points from my view as a retailer.

DLC stores practice predatory pricing - A predatory price is a price that is "profit maximizing only because of its exclusionary or other anticompetitive effects". The DLC stores' standard retail wine prices are 28% over wholesale. This is a 21.88% margin which is unsustainable by the average retailer. The DLC stores regularly put wines on sale which yield a 15% margin. Again, this margin is unsustainable by an average retailer. The DLC stores' wine prices are so low that I, and many of my fellow retailers, will carry few, if any, of the same products which the DLC stores carry. This is because a customer will easily note that our prices are significantly higher than the DLC's prices for the same products. As a specialty retailer, my focus is on brands which are not widely available. Nevertheless, many customers still want to purchase some recognizable


brands such as Kendall Jackson. However, I scrupulously avoid carrying brands such as Kendall Jackson because I do not want to look like I am price gouging at my normal mark up. The DLC's retail wine pricing practices effectively exclude national brands from my shelves. This is brazenly anti-competitive and if this were the practice of a private sector retailer, then it would likely seen as a violation of state and Federal anti-trust laws.

Many items listed as special order are not available – This is a small point but I want to note that the Report states that roughly 85% of the DLC's products are special order. Just to clarify, the list of products in the DLC's system is enormous. The fact that a product is listed in the DLC's system only means that the product was at one point available. Many products come and go quickly with the season, market demand, production limits and other factors. The DLC periodically purges its system of the unavailable/discontinued products but it is a never ending process due to the nature of the alcoholic beverages business. Hence, a significant percentage of products which are listed in the DLC's system are not available and will never again be available. Likewise, a significant percentage of products listed in the DLC's system might only be unavailable for a few months or a few weeks until the supply is replenished depending on various factors such as manufacturer's production schedules and the time of year.

In closing, my remarks could go on at length and I hope to engage with the Council further. Thank you for considering my comments. I look forward to continuing this dialogue and participating in the process of addressing the Report's proposals.

Sincerely,



Justin McInerny
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McDowell
Presidents' Forum
Distilled Spirits
Industry

**COMMENTS BEFORE THE MONTGOMERY COUNTY COUNCIL AD HOC
COMMITTEE ON LIQUOR CONTROL**

MARCH 20, 2015 WORK SESSION

Good morning. Thank you, Council Members, for giving me the opportunity to appear before you today to offer some comments from the perspective of a national distilled spirits trade association.

My name is Vicky McDowell, CEO of The Presidents' Forum of the Distilled Spirits Industry, a national trade association of small and mid-size distilled spirits companies. Before joining The Presidents' Forum, I served in several management positions in the Alcohol, Tobacco and Firearms Bureau and the Alcohol and Tobacco Tax and Trade Bureau within the United States Department of the Treasury. When I retired from Federal service in 2010, I was the Deputy Administrator of the Alcohol and Tobacco Tax and Trade Bureau. I am also a proud resident of Montgomery County.

The Presidents' Forum was established 25 years ago to provide representation for the interests of small and mid-size companies in the distilled spirits industry. Our members are the CEOs of distilled spirits and importing companies.

We represent about 55% of the distilled spirits sold in the U.S.

The Forum provides a voice for its members and furnishes a vehicle for communicating with other industry organizations.

MISSION:

It is the mission of the Presidents' Forum of the Distilled Spirits Industry to ensure the safe and moderate consumption of alcoholic beverage products produced and sold by its members.

The organization supports an appropriate regulatory framework at both the Federal and State levels.

Specifically, the Presidents' Forum of the Distilled Spirits Industry supports distribution of alcoholic beverages through the existing three-tier system and control states as envisioned by the 21st Amendment.

We support responsible federal, state and local policies toward alcohol that underpin the moderate consumption of alcoholic beverages and the continued implementation of common sense policies towards the regulation, labeling, marketing, advertising and promotion of our products.

CURRENT PRIORITIES:

- Support the current regulatory framework- oppose further deregulation
- Support the three-tier system
- Support the responsible advertising and marketing of our beverage alcohol products
- Oppose control state privatization
- Oppose tax increases

WHAT DO OUR SUPPLIERS WANT FROM THE STATES, CONTROL JURISDICTIONS AND DLC?

- Support for the current regulatory framework
- Oppose further deregulation
- Support for the three-tier system
- Fair and balanced regulation
- Enforcement of trade violations
- Transparency
- Consistency
- Level playing field

WHY WE LIKE THE CONTROL JURISDICTIONS AND DLC

- ▶ Smaller suppliers feel they have a level playing field in the control states because all companies who want to get listed in the states must follow the same criteria and everyone knows that all companies (small, mid-size and large) are following the same rules, i.e., all are treated equally. Thus, smaller companies can achieve success alongside large, multinational companies.
- ▶ In open states, companies have relationships with distributors-most are very good and long-term. The challenge for smaller suppliers can be to find distributors willing to take on products that may not be as well known as the products of large companies. The distributors work very hard and we have the largest selection of products at the retail level than any other country in the world. But, all distributors cannot take on all products-choices have to be made and they're made by individual distributors who have their own, different criteria for selecting products.

HOW CAN WE MAKE IT BETTER?

- ▶ Better communication with legislators, consumers and the public about the three-tier system.
- ▶ Revise laws and regulations that are outdated.
- ▶ Bring balanced responsibility and consequences to the three-tiers.
- ▶ Focus on modernizing when/if necessary.
- ▶ Give the customer a better experience with more choice, convenience, knowledgeable staff and attractive stores.
- ▶ Fair and balanced regulation
- ▶ Enforcement of trade practice violations
- ▶ Transparency
- ▶ Level playing field

Our member companies do business in all 50 states. We value responsible, well regulated, and innovative control models like the Montgomery County DLC.

As I mentioned earlier, The Presidents' Forum supports distribution of alcoholic beverages through the existing three-tier system and control jurisdictions as

envisioned by the 21st Amendment to the Constitution. Therefore, we generally do not take positions on what we consider to be state and local issues that should be decided in accordance with the wishes of local citizenry. We simply wanted to share with the Committee the views of small and mid-size companies that are members of our association with regard to the value we place on control jurisdictions.

I'll defer to my colleague from Castle Brands, Kelley Spillane, to address the specifics of how his company operates in Montgomery County.

MEMBER COMPANIES:

Campari America	Jacquín et Cie
Castle Brands, Inc.	Laird and Company
Destilería Serrallés, Inc.	Luxco, Inc
E & J Gallo Winery	Maurice Cooper et Cie
Florida Caribbean Distillers	McCormick Distilling Company
Heaven Hill Distilleries	M.S. Walker
Hood River Distillers, Inc.	O'Neill Vintners and Distillers
Infinium Spirits	Palm Bay International
Phillips Distilling	Stoli, USA
Proximo Spirits	Edrington Group, USA
Sazerac Company	The Wine Group
Shaw-Ross International Importers	VeeV
Sidney Frank Importing Co, Inc.	William Grant and Sons, USA
Star Industries, Inc.	44 North Vodka

Website: thepresidentsforum.org

Good morning Chairman and members of Council, my name is Kelly Spillane and presently am Senior Vice President for Global Sales at Castle Brands.

The Goals Of My Testimony Today Are...

- Provide a supplier's look at Control Systems
- Debunk de-regulation myths
- Offer assistance in future discussions

First, let me provide some overview information about our company...

- Castle Brands produces and markets premium spirits in four major categories: rum, whiskey, liqueurs and vodka.
- Over the last few years, Castle Brands has consistently grown its core brands at much faster rates than industry norms.
- Case sales this year are expected to be 387,000 (9L) generating revenues of \$57 million.
- The Company has a strong and supportive shareholder group with officers and directors owning approximately 50% of its shares on a fully converted basis.
- Castle has a strong portfolio of brands, with Gosling's Rum and Jefferson's Bourbon as core growth drivers.

What Do Control States Mean To Us?

- In revenue terms, in our most recent released financials through September, 2013, control states provided 23% of our gross revenue.
- This number represents a 17.4% increase over the prior year.
- The continued strength of our core brands show no signs of weakening through a strong holiday period

What Have Control States Historically Meant To Us?

- CBI would have had a hard time surviving early on if we did not have the level playing field to introduce consumers to our brands
- Many wholesalers turned us away until we showed them the ability to market, sustain, and grow our portfolio within the control system
- Brands showed true consumer demand and took off in neighboring open states as a result of the exposure.

Two widely different definitions that are closer than many think in Beverage Alcohol.

- Historically, many wholesalers were limited to doing business in one market or in a region providing suppliers with a multitude of choices concerning route to market
- Since the 1990's this landscape has changed considerably as demonstrated in the attached table

CONTROL	OPEN
Government Monopoly	Duopoly
Consumer driven agenda	Supplier driven agenda
Equality of distribution based on sales	Chain driven distribution based on the needs of large suppliers
Broad based education, training, and enforcement of alcohol laws	Moving towards deregulation, distribution and business controlled by a few private companies with differing agendas
True selection for consumers based on a level sales criteria for all	Selection decided by large companies and their own internal priorities

The Three Myths of Going "Open"

1. Prices will come down due to competition.

- Retaining state revenues while adding a fourth tier run by two distributors do not make prices go down.
- As we all have seen in the state of WA, the only losers have been consumers, who now pay much higher prices for brands they have long been loyal to and private citizens who bid for licenses only to find out the law as it was written does not leave them with any possibility of surviving

2. Selection will increase

- Control States have done a great job over the past 20 years in modernizing their systems, increasing selection to better serve consumers and National Accounts by objectively adding and deleting brands consumers want or do not accept strictly by sales measurements
- Open systems are like an hour glass with many suppliers up top, two wholesalers in the middle, and thousands of outlets at the bottom. The selection is many times based on a wholesaler or supplier need and selection in many chains is strictly limited

3. Control and regulation will not suffer

- From wide youth alcohol abuse in Western Europe, counterfeit product on shelves in England and Ireland, to a big increase in theft in Washington State, regulation and control suffer under a deregulation of the business. To the degree a state is willing to understand this as a consequence is not for me to judge. To say that it will not happen, is a very big stretch.

Who Cares if Small Companies Survive?

- We are the harbingers of innovation. Nearly every major new product success in the past twenty years has come from a small company and then bought by a major international company.
- We employ thousands of people and ask for no special treatment other than the opportunity to provide a given states consumers with a high quality product
- Finally, we provide the checks and balances by forcing large companies to be sharp with their pricing, protesting against the homogenization of the business by recognizing each states differing needs and concerns when it comes to beverage alcohol regulation and balancing an international agenda with the needs of local business

Mutschler
Republic National
Distributing Company

From: Mutschler, Bob <Bob.Mutschler@RNDC-USA.COM>
Sent: Tuesday, March 17, 2015 10:31 AM
To: Ferber, Justina
Subject: RE: March 20th Meeting

Justina,

Unfortunately, I can't be part of your panel, but I would like to offer some opinions based upon my everyday experiences working with the DLC..

I've worked close to 20 years in MoCo representing as a broker wine, beer and spirits. My company also is a supplier of primarily special order wines totaling about \$4,000,000 annually. I'm responding to your request by simply pointing out two areas that directly affect my business in the county and I am not offering any opinions on a direction to go to in the future.

Concerning option #4. private distributors to fill and distribute special orders, would alleviate a major licensee complaint. Assuming that the Maryland Beverage Journal would apply, licensees would have a greater selection of wines, lower prices by eliminating a tier of mark up, quantity deals that might be available and probably credit terms. Special orders are very difficult to manage in the DLC warehouse because when they are received, they have no warehouse location, therefore when pulled to be delivered are difficult to find. Because of this, my reps get hammered when expected deliveries are not received on time.

The differences between DLC and private distributors are more than a few, but it's only the customer service function that is severely lacking in MoCo. At best the DLC customer service department is an order department with very little customer service. They do not have the ability to answer any questions concerning an order once it is placed. I gave up on that department years ago. Under the new system begun February, when my rep is asked by a licensee where their order is, we end up called a warehouse manager or the Director of Operations, There is no go to person and because getting answers to licensee questions is difficult, it reflects negatively on my reps

Similar to the distributor I work for, there are many good loyal hard working people working for the DLC. My opinion and that of my seven reps, fix special orders and create a real customer service department.

Bob Mutschler

From: Ferber, Justina [mailto:Justina.Ferber@montgomerycountymd.gov]
Sent: Thursday, March 12, 2015 10:29 AM
To: Mutschler, Bob
Subject: FW: March 20th Meeting

Thank you for being willing to share your experience with the Montgomery County Liquor Control Committee. In anticipation of the worksession March 20, I wanted to share some information with you.

First, the logistics of the worksession are as follows:

Time/Date: 9:30am, Friday, March 20, 2015
Location: Council Office Building
3rd Floor Hearing Room
100 Maryland Ave.
Rockville, MD 20850

Parking: There is a public parking lot adjacent to the Council Office Building that you may use.
Metro: The Council Office Building is a 5-10min walk from the Rockville Red Line Station
Contact: Tommy Heyboer in Councilmember Riemer's Office

Stevens
Global Wines

Subject: FW: Crisis with DLC and DLC reform
Attachments: Global Wines Maryland Letter to Council Ad Hoc Committee 20150317.pdf

From: Pat Stevens [<mailto:pstevens@globalwinemd.com>]
Sent: Tuesday, March 17, 2015 12:23 PM
To: Elrich's Office, Councilmember; Leventhal's Office, Councilmember;
councilmember.riemer@montgomerycounty.gov
Cc: Ueland, Craig; 'Noah Stevens'
Subject: Crisis with DLC and DLC reform

Members of County Council Committee on DLC Reform

I am a small wine wholesaler who sells special order wine through the Montgomery County DLC and a 40 year resident of Montgomery County. The attached letter comments on the recent report prepared by your committee and my company's experience selling special order wines through the County DLC. As a wholesaler and county resident, I applaud the Council's making the effort to investigate how to improve the long-standing problems with the County DLC.

The letter also urges that the Council require the DLC and County IT to deploy a task force to repair and improve the current computerized order management system. The implementation of the new system has created a crisis situation that requires immediate attention. My company's continuing to do business in Montgomery County depends upon it.

Thank you for your attention

Pat Stevens
Managing Director
Global Wines Maryland
pstevens@globalwinemd.com
240-432-8531

Patricia Stevens
Global Wines Maryland
9110 Red Branch Rd, Suite W
Columbia, MD 21045



March 16, 2015

Montgomery County Council – Ad hoc Committee on Liquor Control Council Office Building
100 Maryland Avenue, 5th Floor
Rockville, MD 20850

Dear Committee Members,

I have just completed reading the detailed report Review of Alcohol Control in Montgomery County. As a licensed wine distributor operating in Montgomery County I would like to respond with our experiences and observations. Before I go into detail, I need to emphasize that the Committee needs a clearer picture of the relationships among producers, wholesalers, Montgomery County DLC and retailers. These are complex and overlapping relationships that are overly simplified by the report. This is especially true of the wine business and the County's special orders wine business.

Global Wines Maryland urges that the County Council require the DLC and the County IT group to deploy a task force to focus on getting the new computer system to work. It is a shambles and is chewing up many hours of staff time among distributors, county DLC staff and retailers. The implementation shows a lack of understanding of the business relationships among those who use the system. It is unnecessarily difficult to understand and use. For example, a three-step process to log in instead of one. Many things don't work as advertised, e.g. deleting an order failing to delete an order.

The report makes clear that changes in state law are required to effect any major change in the current DLC structure. If and when changes to state law are made, implementation may take 3 -5 years. In the meantime, our business depends on the Montgomery County DLC being able to send us an accurate purchase order and then in turn delivering those wines to the retailers who ordered them in a timely fashion.

I'd also like to commend the many employees in the DLC who have attempted to make the system work as well as possible. The staff in the Special Orders section and warehouse managements deserve special commendation. They hear many complaints but continue to provide the best service they can.

Business Background: My son, Noah and I are the principals in a small wine distribution business that opened its doors in November 2013. We currently provide about 150 wines to retailers in Maryland and DC. By far the greatest majority of our business is done in Montgomery County because we have chosen to concentrate our sales effort there. To some extent this is natural since our family has lived in in Montgomery County since 1975. Previously, we operated a Huntington Learning Center in Silver Spring and Noah had worked in restaurants in the County. We have a professional and personal network to

exploit. Despite this, we hesitated to sell in Montgomery County as we had heard of the many difficulties associated with selling wine here. As we did our initial market research, we changed our minds for the following reasons: Personnel at the Montgomery County Department of Liquor Control helped us understand the processes. Retail licensees were very eager for service from us as they were not receiving service they expected from the larger distributors. The County framework provided a very stable pricing structure – only case pricing. The County paid its bills reliably. The County would physically deliver our wines for us, freeing us to focus our resources on sales.

Experience prior to Feb 2015. Over the last 15 months, Global Wines has increased the number of wines we sell and the accounts we serve. We sold 5 wines to the County as stock items but the majority of our wines were sold as special orders. With wines sold as special orders, Global Wines and other wholesalers retain almost all the functions of a wine distributor. Wholesalers seek out wines that will sell in Montgomery County's restaurants and stores. Wholesalers purchase wines and pay for shipment to the area. Wholesalers warehouse the wines in sufficient quantity to meet customer need. Wholesalers research accounts to determine what their needs are; wholesalers provide wine samples to the accounts so that they can decide if a wine will work; wholesalers conduct tastings for the accounts customers; wholesalers provide shelf talkers, signs, or other point of sale materials; wholesalers train retail and restaurant staff on the wines so they can represent them to the customer. Montgomery County distributes wines physically and accepts payments. In essence, for special order wines, the DLC acts somewhat like a contracted delivery service.

In order to keep wines affordable, wholesales sell the wine to the County at a deeply discounted rate. Even with this deep discount, because of the Montgomery County markup, as the report points up, wines in Montgomery County sell at a higher price point than they do in other Maryland jurisdictions, DC or VA. So, in summary, we wholesalers sell for less, bear the burden of warehousing, and see our wines sold at a premium.

The system in place before Feb. 1, 2015 had many possibilities for error. Most of our customers place their orders with us on a weekly basis. We encourage this as we know our inventory and can alert them to any upcoming shortages. We would then send a weekly email to the County with the Customer ID and the Item IDs and quantity that the customers were ordering. The special order team would enter that data and we would receive a Purchase Order that detailed the items ordered and to whom they would be delivered. Because of the repeated entry of codes there were often errors when codes were entered incorrectly.

There were mysterious occurrences when wine simply disappeared. For Valentine's Day 2014 one of our restaurant customers had planned a special menu around two wines. One wine, San Felo Romantico was not delivered on time and has never appeared again. Of course, the special marketing materials that we had developed with the restaurant owner had to go into the trash. Please note that this was a loss to the County as well. We were paid for the wine as we delivered it, but the County never received payment because the wine was never delivered.

We had, however, largely figured out the system. It often felt that we were using a robot arm to deliver our wines but the robot was largely a known quantity.

Experience since Feb. 2015. With the new system, the experience is like dealing with a rogue robot arm that is alarmingly inconsistent. As the report highlights, the new system was intended to improve service. To date, it has done the exact opposite. While this system implementation is not on the scale of healthcare.gov, it shares many of that systems' problems.

Problems started at the beginning. It took repeated attempts to receive user ids and passwords for iStore and iSupplier. We started asking for them when availability was announced months before implementation; we received them the week before implementation. At the training session I attended, there were many concerns that were addressed with promises of future reports or human intervention. The toughest questions were about the allocation of shipments. If a particular item is intended for a particular customer how will the system guarantee that the item gets to that customer? In the previous system, the Purchase Order specified the licensee and the supplier wrote that licensee number on the box. In the new system, the Purchase Order was silent on the intended licensee. We were promised that we would receive a report that detailed who had ordered the wine so that we could send an email to notify the County to cancel orders that would send the items to the incorrect customer. We had exchanged one manual email process for another.

So, on the first week, we entered our orders into iStore and waited for Friday for the report to appear. No report appeared and we received a Purchase Order that included only some of the wines we had entered on behalf of customers and for a number of wines that we don't sell. We did our best and delivered wines and hoped that this was just a shake out. Instead the situation has continued to be inconsistent and erratic with no recognizable patterns. We have never received a Purchase Order that reflected only our wines and exactly what was ordered. We have repeatedly sent reports to the DLC specifying which orders should be removed but we continue to see those orders on our Purchase Orders.

And, on the delivery side, things were worse. Our customers almost never receive all the wines that they order. The buyer at Roots Market told me on March 6th that he had received 50.7% of the wines ordered in his delivery. Recently, our customer, Cork and Fork in Bethesda received two of the five wines ordered. All were ordered on the same day and delivered on the same day, but they arrived weeks apart. We must call all our customers every week to see what has arrived because we have no report that shows what did, in fact, get delivered. Because our customers have to receive wine to sell and reorder wine, we often go to the warehouse and pull the wines out of stock and deliver them ourselves. This means that our advantage of not needing to deliver the wines physically has disappeared and in addition we are spending valuable staff time reviewing reports and in meetings with warehouse personnel to track down our wines. The week of March 6th almost none of our wines were delivered. Because of miscommunication on orders that needed to be removed from Open Orders most of our orders were cancelled. This took about 8 hours of staff time to resolve. This is 8 hours of time not selling wine. It was also many hours of county staff time to correct.

Wine is different. The wine trade is a different animal than spirits and beer. Both liquor and beer are dominated by a few large companies, each having a number of brands. Sales are very brand driven. The wine industry does have some large producers and Montgomery County buys directly from a number of them. On the whole, however, the wine industry is splintered with very large numbers of small and medium independent wine producers around the world. This explains why 47% of DLC wine sales in 2014 were through special orders versus 4% of beer sales and 11% of liquor sales. Montgomery County DLC relies on its wholesale suppliers to bring those medium and small production wines to market in Montgomery County. Montgomery County DLC relies on those wholesalers to warehouse the wines for sale and to introduce them to the market. If the County Council wants County wine lovers to have access to the world's wines through retailers and restaurants in Montgomery County, it needs to consider the critical role that these distributors play. I was surprised to see that no distributors were surveyed or interviewed for the report. This means that the report is missing a large piece of the puzzle.

Suggested changes: Unfortunately, I don't see a way forward that will keep everyone happy and keep the County revenue stream from the DLC intact. We would prefer to have a more direct relationship with our accounts so that we could offer them the same pricing options we offer customers in the Open State and in DC. As a wholesaler, the idea of paying a fee to distribute in Montgomery County is particularly odious. I can say that if the County were to institute a \$1,000 flat fee per item, most small production wine would disappear from the shelves. We are often only allocated a small number of cases to sell. We would simply sell those cases elsewhere.

As I said at the beginning of this letter, the most important work to do now is to deliver the computerized order system that was promised. The problems are much larger than a few simple bugs that need fixing through shakedown. There are fundamentally wrong assumptions built into the original design.

Sincerely,

Patricia Stevens

Patricia Stevens
President, PWSWN, Inc. dba Global Wines Maryland

c: Noah Stevens, Executive Director, Global Wines Maryland