Maryland Beer Wholesalers Association

Private Beer Wholesaler Function Overview

John Favazza – Deputy Director / Maryland Beer Wholesalers Association

Tom Mangels - Vice President of Administration / The Katcef Companies

Presented to:

The Workgroup on Montgomery County Department of Liquor Control

Rockville, MD

9/15/2016

Summary Presentation

Review of a Franchised Maryland Beer Wholesaler Activities Vs Activities of The Montgomery County Department of Liquor Control with Supplier Appointed Marketing Representative

Executive Summary

The State of Maryland code allows for Montgomery County to have a monopoly on the wholesaling of all alcoholic beverages (including Alcoholic Malt Beverages).

As the Montgomery County Department of Liquor Control does not provide for conventional wholesaler sales and marketing functions and supplier requirements, manufactures, importers, and related suppliers of all alcoholic beverages are allowed to appoint marketing representatives to promote, enhance, and protect the integrity of their products in the County. Supplier designated representatives are regulated by, and must comply with, all State of Maryland laws and regulations for alcoholic beverages.

Montgomery County is the only control jurisdiction (18 in total in the US) that includes malt beverages.

Alcoholic Malt Beverages or "Beers" are unique in the alcoholic beverage industry as they are, with certain exceptions, inherently "perishable" beverages and have a limited shelf life. Because of this, Beers have specific handling needs in order to protect product integrity and Beer consumers.

Additionally, Alcoholic Malt Beverages are also lower in alcoholic content by volume vs spirits and wine. Malt beverages or "Beer" have always been considered the alcoholic beverage of moderation. Financially, Alcoholic Malt Beverages enjoy a higher unit sales volume and inventory turnover rate than spirits and wine.

The following review details the basic activities of a franchised Maryland Beer Wholesaler (Katcef Brothers, Inc. , primarily an Anheuser Busch Inbev wholesaler, owned by the Katcef family, servicing Anne Arundel, Howard, and SW Baltimore County) versus the activities of the Montgomery County Department of Liquor Control and how a supplier appointed marketing representative (Montgomery Eagle, LLC) covers those value added functions the County does not provide.

The Katcef family operates Montgomery Eagle, LLC, a marketing company representing Anheuser Busch Inbev products in Montgomery County.

Montgomery Eagle provides the logistics, marketing, quality control, and customer / community relations functions for Anheuser Busch Inbev products that the Department of Liquor Control does not provide. The Department of Liquor Control does not pay for any of these services or functions.

Beer Product Supply & Logistics

Katcef Brothers / Annapolis, MD (Katcef)

- Forecasts / orders product from suppliers
- Receives and warehouses product shipped from suppliers
- Upon receipt, all products and related deposit items are integrated in to quality control / tracking / monitoring systems consistent with Katcef Companies and supplier partner guidelines

Montgomery County Department of Liquor Control (MOCO DLC)

- Forecasts / orders product from suppliers
- Receives and warehouses product shipped from suppliers

Montgomery Eagle, LLC Merchandising (MELLC)

- MELLC has full time logistics coordinator on site to manage Anheuser Busch systems as DLC does not provide

Retailer Beer Product Ordering

Katcef

- Pre Sales Reps run retailer route to determine supply needs based on sales rate and inventory limits to protect product freshness
- Sales Reps input order in hand held computer for transmission to warehouse for night delivery loading

MOCO DLC

- Retail accounts place orders directly with DLC
- Night warehouse schedules order for loading for designated delivery day

MELLC

- MELLC Personnel do not place or control retailer orders

Beer Product Delivery and Rotation

Katcef

- Service Reps ***only*** deliver Katcef products to accounts and insure "correctness" of quantities and cost
- Service Reps place product in designated locations (storage, display, etc.)
- Service Reps insure that product is properly rotated to prevent "Out of Code" (OOC) situations
- Any OOC product is removed, legally destroyed and Katcef assumes cost liability

MOCO DLC

- All product delivered by DLC personnel without regard for designated storage area & without rotation process

MELLC

- Marketing Reps visit account following delivery and locate their products and move to and rotate in designated location
- Reps identify product that is OOC and arrange for removal and retailer compensation
- OOC product cost is ***not*** assumed by the DLC – supplier bears expense

Beer Product Merchandising / Marketing / Product Support

Katcef

- On- going and following delivery, Sales Reps review with retailers all marketing / merchandising brand specific programs to insure product pull through to maximize retailer investment
- Sales Reps order from graphics art department / deliver / install account specific merchandising materials
- Sales Reps order / deliver / place supplier point of purchase merchandising materials to maximize sales
- Sales Reps schedule 3rd party sampler events to support new product introductions at retail accounts
- Sales Reps provide retailers with current industry sales & marketing trends and emerging opportunities
- Draft beer department frequency of call includes retail draft system line cleaning and quality control review
- Draft beer department provides professional guidance / support / equipment / support for retailer & special community events
- As beer is a perishable beverage, all sales personnel charged with monitoring product integrity to insure that our retailers and consumers expectations are exceeded
- Corporate Responsibility Resources department creates / develops / delivers plans to insure all community stake holders have proper alcohol awareness programs
- Much of marketing and related support expense is paid by Katcef

MOCO DLC

- Does not provide any above or below support

MELLC

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- Draft beer department provides professional guidance / support / equipment / support for retailer & special community events
- As beer is a perishable beverage, all marketing personnel charged with monitoring product integrity to insure that the County's retailers and consumers expectations are exceeded
- Corporate Responsibility Resources department creates / develops / delivers plans to insure all community stake holders have proper alcohol awareness programs
- All marketing and related expense is paid by MELLC

Private Beer Wholesaler Vs Montgomery County Department of Liquor Control Comparison Summary

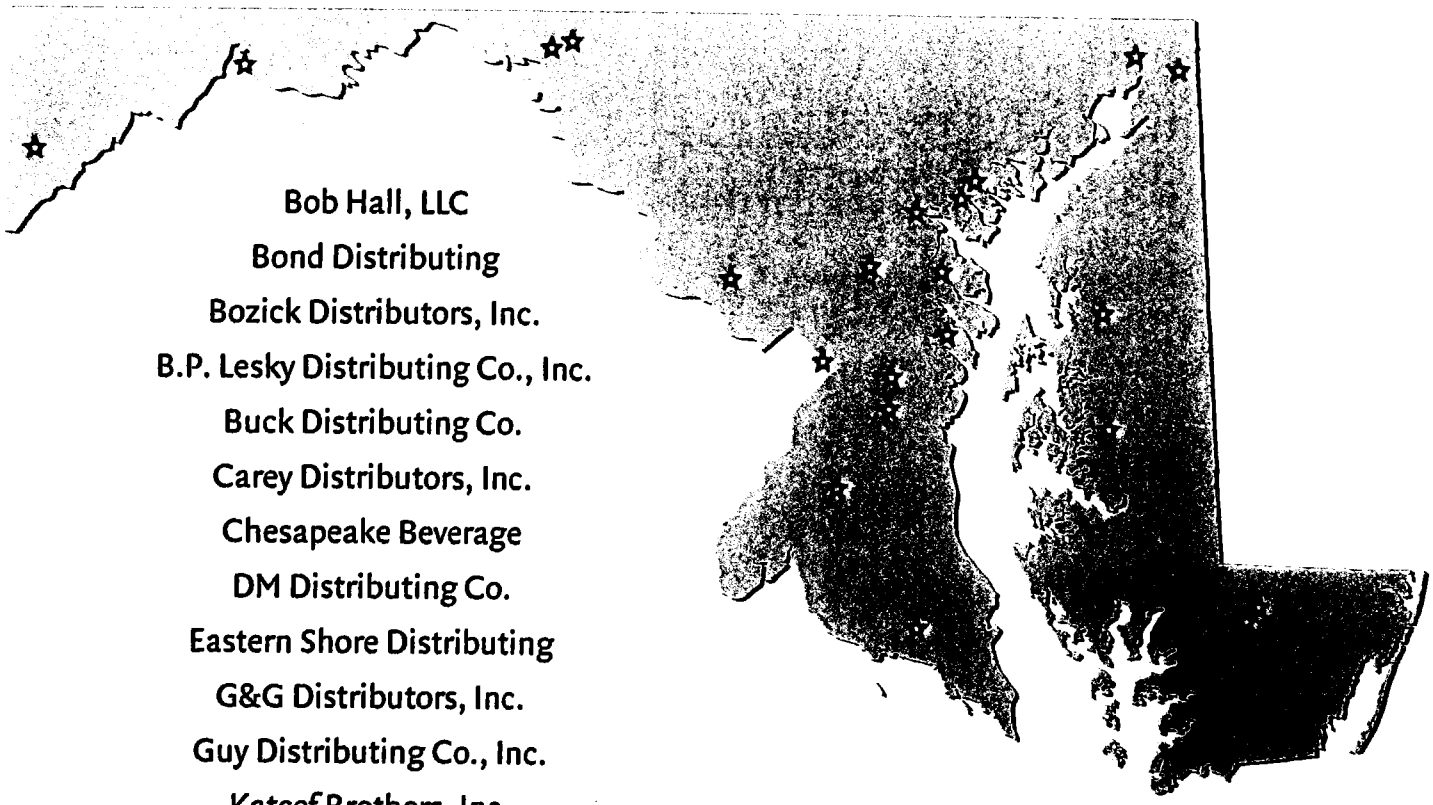
Functions / Activities / Responsibilities	WHLS	DLC
Maintain & operate warehouse facility	Yes	Yes
Comply with specific supplier agreement - warehouse guidelines (space /QC/ staffing)	Yes	**No**
Maintain and operate a product delivery fleet	Yes	Yes
Comply with specific supplier agreement guidelines for fleet (condition/QC / identification)	Yes	**No**
Establish and maintain a product freshness rotation process in warehouse and at retail	Yes	**No**
Comply with individual supplier agreement product quality control guidelines	Yes	**No**
Use reasonable efforts to sell, distribute, market & service products per supplier agreement	Yes	**No**
Provide retail customers with product portfolio that meets their consumer's needs & expectations	Yes	**No**
Recruit, train, & maintain an alert aggressive sales force	Yes	**No**
Provide added value services to retailers and consumers	Yes	**No**
Assume the responsibility of Out of Code / Unsalable product removal and expense	Yes	**No**
Maintain active and leadership presence in local community (philanthropy and related)	Yes	**No**
Partner with retailers to execute Consumer Awareness and Education programs	Yes	**No**
Comply with supplier reporting and information requirements in a timely and accurate manner	Yes	**No**
Maintain deposit item inventory control process and conduct required audits	Yes	**No**
Maintain Information Technology systems consistent with supplier requirements	Yes	**No**
Agreement to maintain appropriate insurance coverages with supplier named as additional insured	Yes	**No**
Subject to supplier right to terminate in accordance of Maryland law (Article 2b)	Yes	**No**

Maryland Beer
Wholesalers
Association, Inc.

Maryland Beer Wholesalers Association

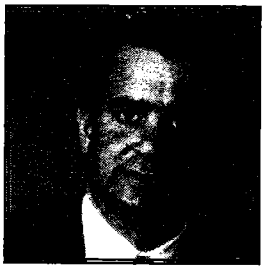
Maryland Beer Wholesalers Association, Inc.

Proudly Represented for Over 50 Years by Family Owned Businesses



Bob Hall, LLC
Bond Distributing
Bozick Distributors, Inc.
B.P. Lesky Distributing Co., Inc.
Buck Distributing Co.
Carey Distributors, Inc.
Chesapeake Beverage
DM Distributing Co.
Eastern Shore Distributing
G&G Distributors, Inc.
Guy Distributing Co., Inc.
Katcef Brothers, Inc.
Kelly Distributors
Legends Limited Importing
Lohr Distributors, Inc.
Montgomery County Dept. Of Liquor Control
Northeast Beverage Corporation
Premium Distributors of Maryland
Republic National Distributing Co.
Sentman Distributing
Wantz Distributors, Inc.
Western Maryland Distributing Co., Inc.

MARYLAND BEER WHOLESALERS ASSOCIATION, INC.



Maryland Beer Wholesalers Association, Inc.

January 2016

We are proud to represent the Maryland Beer Wholesalers Association who stand among the best of Maryland employers, providing jobs for hard working men and women. MBWA members are small family owned businesses that are leaders in their communities as they actively support numerous organizations including athletic teams, hospitals, schools, non-profits, etc. to name a few.

Control:
Alcohol is not like other consumer goods – it is a unique product intended for responsible consumption by adults. Distributors work with state regulators to ensure these beverages are sold only to licensed retailers, who are accountable for selling to those of legal drinking age.

Level playing field:
The distribution system provides a level playing field for large retailers and mom and pop stores alike. Different retailers have different types of customers and different needs. Distributors fulfill the needs of each account by delivering customized inventory to a vast network of large and small retailers including restaurants, bars and neighborhood stores.

Choice:
Distributors provide the infrastructure small brewers need to reach a wide network of retailers. Consumers benefit by having the choice between the largest international brands and the smallest local brands, all on the same store shelf, restaurant list and bar tap. Retailers also benefit from the economic efficiencies of the distribution system, offering hundreds of choices to consumers at a great value.

Freshness:
After delivery, the distributor continues to monitor retailer shelves to ensure product freshness and integrity. The distributor's delivery infrastructure, including state-of-the-art warehouses and fleets of temperature controlled trucks and vans, ensures the efficient and safe delivery of a wide range of malt beverages.

Sincerely,

Nicholas G. Manis
Executive Director

John F. Favazza, Esq.
Deputy Director

Betty Buck
President

George N. Manis, Esq. (1929-2014)
Executive Director

Nicholas G. Manis
Executive Director

John F. Favazza, Esq.
Deputy Director

12 FRANCIS STREET
ANNAPOLIS, MD 21401
(410) 263-7882
FAX (410) 263-7925

Beer Distributors Delivering Economic Value in MARYLAND

32
Distributor Facilities

1,854
Employees

$161.1 Million
Wages & Salaries

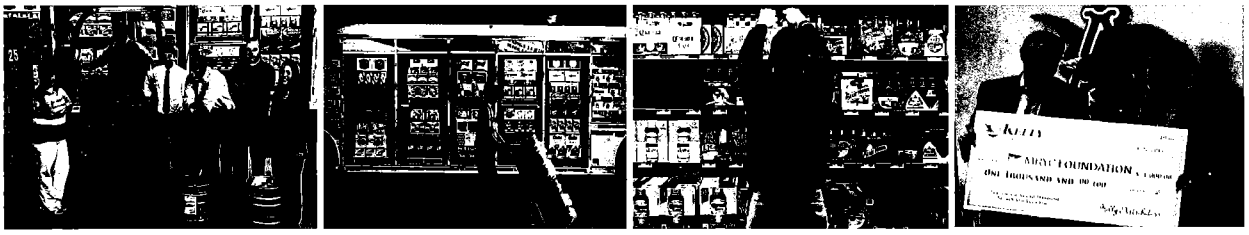
$2.5 Million
Economic Impacts in Communities
Support of Charities, Local Events & Economic Development

$193.5 Million
Federal, State & Local Taxes

$913.6 Million
Total Economic Impact

Source of data: William Latham & Kenneth Lewis, Center for Applied Business & Economic Research, Alfred Lerner College of Business & Economics, University of Delaware, 2015

National Beer Wholesalers Association
1101 King Street, Suite 600 • Alexandria, Virginia 22314-2965
www.nbwa.org



Who Are America's Beer Distributors?

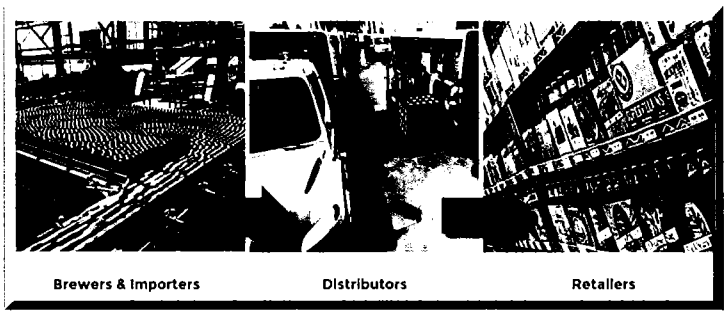
Independent beer distributors, licensed by both the federal and state governments, get bottles, cans, cases and kegs from a brewer or importer to the shelf of your favorite store, local restaurant or neighborhood bar through a safe, transparent and accountable system. They work to help new brands get to market and to ensure that consumers can choose from a vast selection of beer. Thousands of labels of beer are available to American consumers today.

America's more than 3,000 independent beer distribution facilities are local businesses that operate in every state and congressional district across the United States. They provide 135,000 solid jobs with good benefits to people who live in their communities.

Independent beer distributors do more than buy, store, sell and deliver beer. They also are small business owners, civic leaders, parents and philanthropists who are active in their communities. Beer distributors play a vital role in working to keep the communities where they live and work safe by sponsoring a wide array of programs to promote responsible consumption, combat drunk driving and work to eliminate underage drinking. Beer distributors also value their role in the state-based system of alcohol regulation that works to keep communities and citizens safe while encouraging healthy competition and a robust marketplace.

What Is the Independent Three-Tier System of Alcohol Distribution?

America's independent beer distributors are a critical link in a three-tier distribution system. Distributors are regulated by the states and provide a tremendous variety of beer brands and styles to licensed retailers at a great value while protecting the public. The three-tier system is made up of brewers and importers, distributors and retailers.

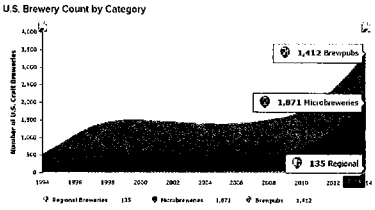


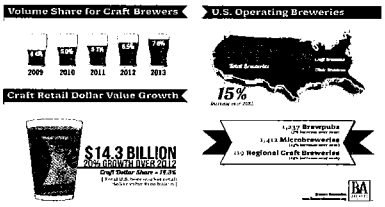
Benefits of the Three-Tier System and Beer Distributors

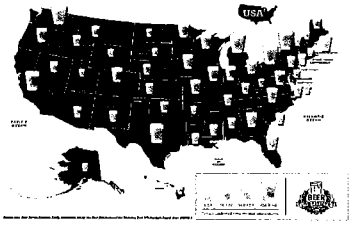
GENERATING HEALTHY COMPETITION AND A ROBUST MARKETPLACE

Beer distributors source beer from a wide variety of importers and manufacturers. By working with numerous brewers, distributors provide a vehicle to market for the largest multinational beer brands to start-up craft brewers. Because of this system, you can order a California craft beer off a menu in Illinois; enjoy a Vermont brew in a Tennessee restaurant; and see a tap handle from Pennsylvania in a Texas bar.

The three-tier system provides the infrastructure, capital and personnel small brewers need to reach a wide network of retailers. Distributors' infrastructure includes state-of-the-art warehouses and fleets of temperature-controlled trucks and vehicles that preserve these perishable products. Distributor personnel include not only employees that handle warehousing, transporting and delivering all types of beer to local retailers, but also sales and merchandising professionals who help promote each label of beer they sell. Distributors deliver customized inventory based on the requirements of each individual retailer in their local market.







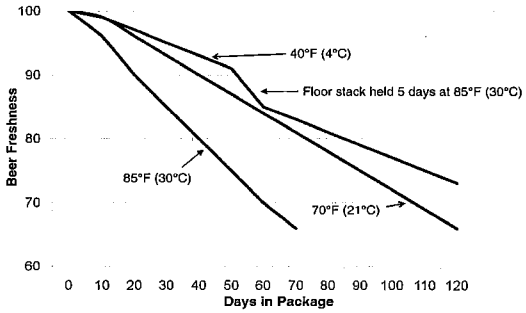
PROVIDING TREMENDOUS VARIETY TO CONSUMERS

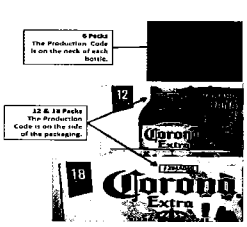
Because independent beer distributors help get new brands to market, consumers benefit by having the choice between the largest international brands and the smallest local brews all on the same store shelf, restaurant list and bar tap. Today, American consumers can choose from a wide variety of beer brands and labels, ranging from lambics and lagers to porters and pale ales. There is a flavor and style for every palate!

PROTECTING CONSUMERS

Beer distributors provide a clear chain of custody in the sale of beer. America's independent beer distributors are licensed by both the state and federal governments. Distributors source fresh beer only from federally-registered brewers and importers and sell it only to state-licensed retailers including restaurants and convenience stores. This system helps to ensure that retailers hold the appropriate license, do not sell to those under the legal drinking age and comply with local alcohol beverage laws. The system also ensures that beer is traceable; so if there were a suspected problem with a product, distributors could act swiftly to track the identified product and pull it from the marketplace.

This regulated distribution system also helps protect American consumers from counterfeit and poisonous alcohol that is prevalent in many other countries that lack an effective regulatory structure. American consumers enjoy unequaled safety thanks to the three-tier alcohol distribution system.



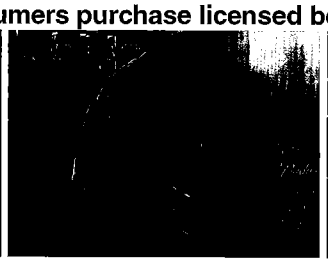


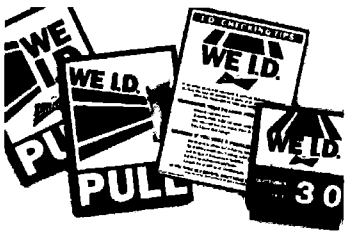
Production Codes for Affected Packages			
6-Packs	12-Packs	12-Packs	18-Packs
G014C059	G024B069	G214C069	F294A049
G024C059	G034C069	G244B069	
G064A059	G044C069	G244C069	
G064C059	G054B049	G254C069	
G074B059	G054C069	G264C069	
G104A049	G064C049	G274C069	
G104C049	G074B049	G294B069	
G114C049	G084B049	G304B069	
G124C049	G084C069		
G134C049	G094B049		
G144C049	G094B069		
G154C049	G104A069		
G164C049	G104C069		
G244C049	G114C069		
G254A049	G124C069		
G264A049	G164A069		
G274A049	G174B069		
G304C059	G184B069		

PROVIDING VALUE AND EFFICIENCY FOR RETAILERS

By storing perishable products, providing access to a diverse selection of brands at various price points, and hiring local citizens dedicated to helping sell beer and promote local businesses, America's more than 3,000 licensed beer distributors provide tremendous value and efficiency to America's more than 600,000 licensed alcohol retailers. Distributor services— like monitoring retailer shelves, taps and keg lines to ensure consumers are receiving the freshest product—reduce retailer operating costs and translate into dramatic annual savings for retail outlets across the country. Distributors also assist retailers through point-of-sale advertising, merchandising and stocking.

Additionally, beer distributors help ensure that bars, restaurants and stores that sell beer do so responsibly and only to those of legal drinking age by routinely providing materials that discourage underage sales. These materials—like signs, posters or stickers— are often seen on cooler doors and at cash registers when consumers purchase licensed beverages.





Source: National Beer Wholesalers Association