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## Regulating Private Label Wines and their Affect on the Three Tier System

Dear Client:

In our conversation with Nielsen's Danny Brager featured in WSD yesterday, he noted that chain retailers are "winning" against their smaller, independent counterparts. As this movement continues to grow, so do the number of private and control label wines sold through their channels.

Some experts estimate that private and control label wines make up as much as 40% of total market volume, said John Hinman, partner at Hinman & Carmichael law firm, at the annual NABCA legal symposium this year. "More and more volume is moving from small package stores to chains all the time," he continued. "In open states where the national chains are pushing an increasing amount of volume through their stores and an increasing amount of that volume is private and control label."

**WHAT IS DRIVING PRIVATE LABEL GROWTH?** John attributes it to three factors: (1) private label allow for more efficient management of products from retail corporate headquarters; (2) retailers can have uniform offerings across multiples states; and (3) they allow the retailer to have more control over the supply chain.

We would add that private and control labels also usually come with a higher margin because there's not much wholesaler markup. This is increasingly important to an industry that was just deemed one of the top five least profitable industries based on net profit margin by financial consulting group Sageworks.

**THE AFFECT ON THE THREE TIER SYSTEM:** The flip side of retailers gaining more control over the supply chain is that distributor control

over relationships between suppliers and retailers are weakened, said John. Though, he doesn't worry that the tier will adapt to the change.

As for regulators, one of the biggest challenges they have right now is "understanding the business of the licensees being regulated are conducting between themselves," he said. "There's an increasing disconnect between what's actually happening in the regulated world and the world of the multi-state retailer and the individual state regulations that are occurring."

**REGULATING PRIVATE LABEL:** To tackle the ways in which regulators can handle private and control label products, Matt Botting from California Alcohol Beverage Commission stepped in.

He said as far as he sees it, regulators have three options, only two of which are realistic. The first option is to ban private and control labels out right. "I'm not sure that's a great idea," he said. The other two are to prohibit them from going to one specific retailer and instead make them available to all retailers within the state, or allowing the retailers who put their brands on a label and pays the costs that go along with that are the only ones permitted to sell it.

We'd like to hear your thoughts on the topic of private label wines. Given that these type of products are only going to increase, how is your business handling them and what are the best way for states to regulate them? Email your thoughts to [emily@winespiritsdaily.com](mailto:emily@winespiritsdaily.com).