

The Economic Impact of the Alcohol Industry in Michigan

James Hall – CAP Advisory Council

Thursday, March 22, 2012

Radisson Hotel Lansing



CENTER FOR

ALCOHOL POLICY

What is the Center for Alcohol Policy?

- The purpose of the Center is to educate policymakers, regulators and the public about alcohol, its uniqueness and its regulation
- Launched in 2007, the Center has accomplished a great deal in five short years of operation



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CAP Accomplishments

- CAP conducts an annual national survey to learn about Americans attitudes toward alcohol regulation

Nearly three-quarters of adults nationwide believe that alcohol is different than other products and needs state regulation.

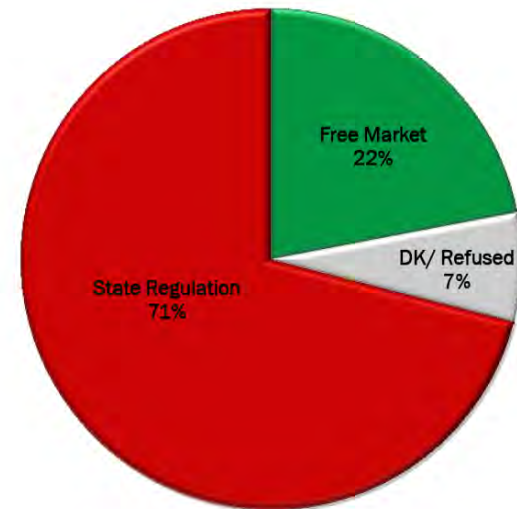


Thinking specifically about the way states regulate alcohol, which ONE of these positions on alcohol regulations best summarizes your own opinion?

The free market is the best option to regulate any industry including the alcohol industry

Or

Since alcohol is different than other consumer products, it needs a different set of rules and the state should be regulating this industry



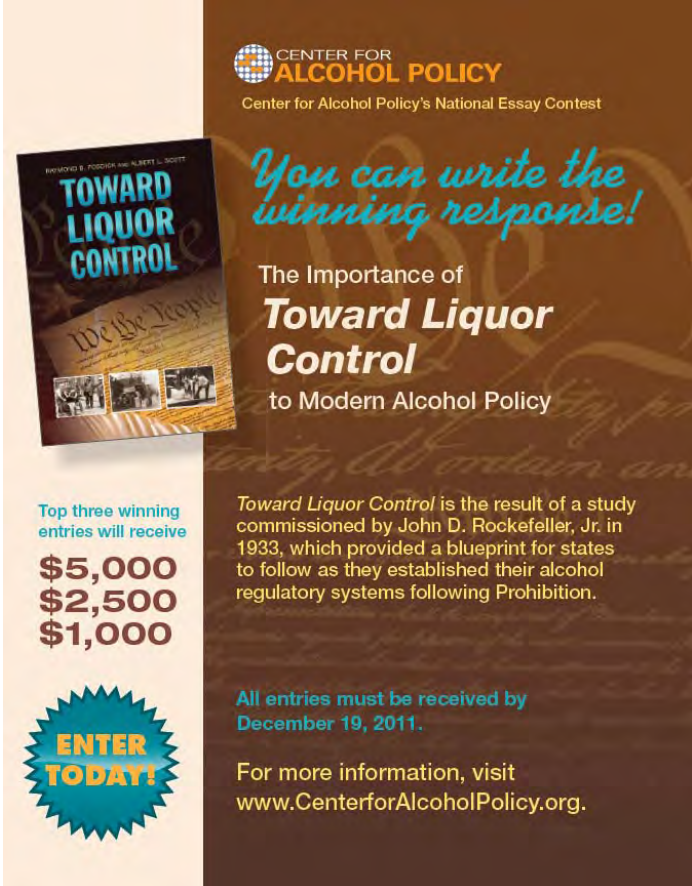
CAP Accomplishments


- The Center conducts an annual Legal Symposium bringing together a wide array of alcohol interests to discuss appropriate regulation.
- September 9-11 Dallas



CAP Accomplishments

- The CAP holds an annual essay contest on alcohol regulation bringing the issue before students, scholars and professionals



 CENTER FOR ALCOHOL POLICY
Center for Alcohol Policy's National Essay Contest

You can write the winning response!

The Importance of
Toward Liquor Control
to Modern Alcohol Policy

Toward Liquor Control is the result of a study commissioned by John D. Rockefeller, Jr. in 1933, which provided a blueprint for states to follow as they established their alcohol regulatory systems following Prohibition.

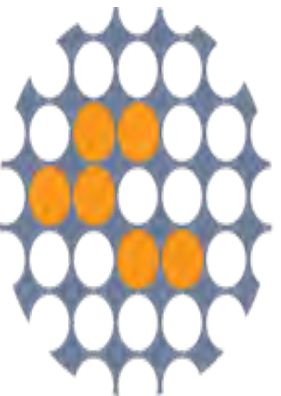
All entries must be received by December 19, 2011.

For more information, visit www.CenterforAlcoholPolicy.org.

Top three winning entries will receive

\$5,000
\$2,500
\$1,000

ENTER TODAY!

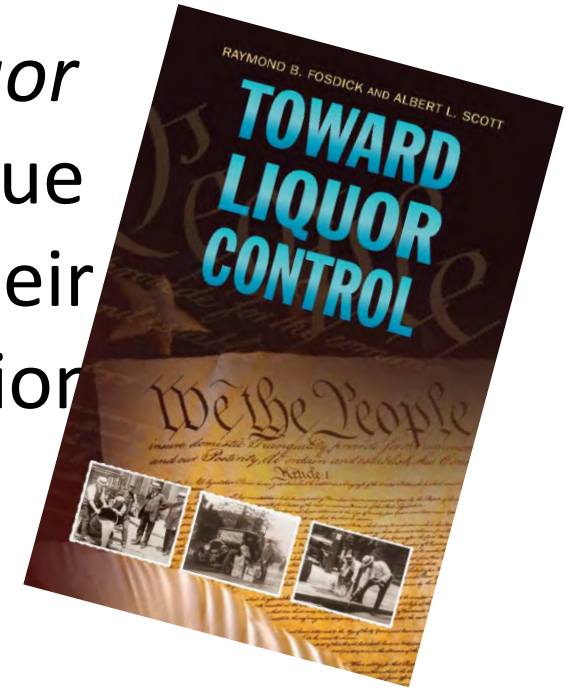


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CAP Accomplishments

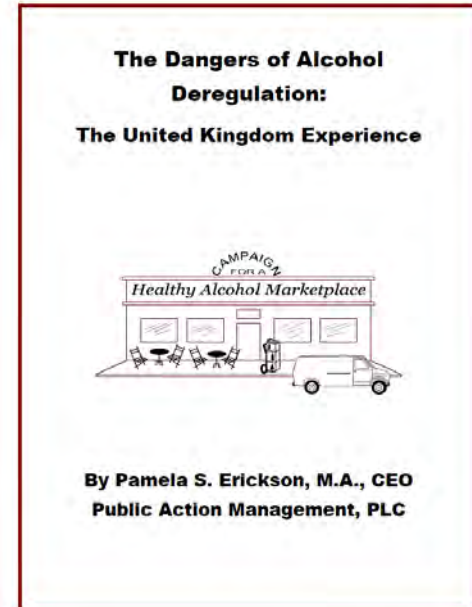
- In 2011, the Center re-published the influential book, *Toward Liquor Control*, which established the blue print for many states to set up their regulatory systems post-Prohibition



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CAP Accomplishments

- The CAP has led the way in contrasting the problems a deregulated alcohol market has had in the United Kingdom versus a regulated market in the United States



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CAP Accomplishments

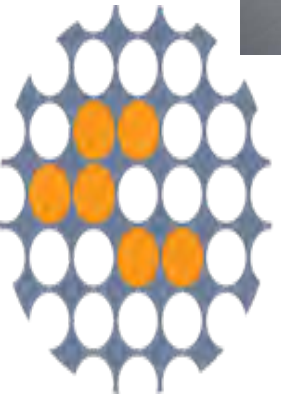
- The Center also served as the Washington, DC sponsor of the highly regarded Ken Burns documentary, *Prohibition*



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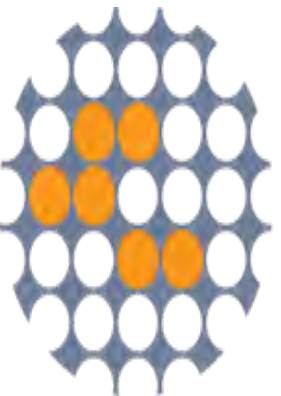
CAP Accomplishments



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Michigan Economic Snapshot

- Establishments:
 - Breweries – 94
 - Wineries – 178
 - Distillers – 11
 - Distributors – 130
 - Retailers – 16,233
- Jobs:
 - Brewing – 484
 - Winery/Vineyard - 882
 - Beer Distributing – 5,100
 - Retailing – 32,953
- Total – 39,419 Direct jobs!



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Economic Snapshot

- MLCC counts over \$5 billion in sales
- MI is 8th in population according to US Census
- MI is 5th in # of breweries (CA,CO,OR, WA)
- MI is 2nd in # of distilleries (CA)
- MI is 8th in # of wineries(CA,OR,WA,NY,VA,PA)
- MI is 6th in # of Distributors
- Over 16,000 retailers of alcohol



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ECONOMICS

- Growth in Michigan sales (wine and spirits) and tax collections despite economic headwinds
- Increase in “buy local” efforts may only increase these sales for all three segments



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AGENDA

- Introduction of Patrick Gagliardi
- Introduction of Speakers
- Panel
- Questions and Answers



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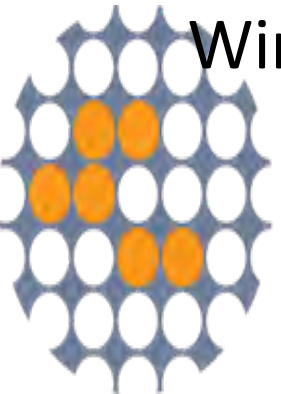
Meet Today's Panel

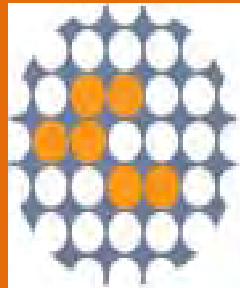
- Aday Arabo, President & CEO, Associated Food & Petroleum Dealers
- Larry Bell, Founder and President, Bell's Brewery, Inc.
- Mike Brown, Partner, Carlin Edwards Brown, PLLC
- Mike Lashbrook, President, Michigan Beer and Wine Wholesalers Association
- Ed O'Keefe III, President, Chateau Grand Traverse

Winery

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Brewing in Michigan

An Economic and Regulatory
Impact Outlook

Larry Bell

President, Bell's Brewery, Inc.



Jobs Provided

- Direct
 - Manufacturing
 - Retail/Restaurant
- Indirect
 - Wholesalers
 - Retailers
 - Contractors
 - Vendors
 - Agriculture



Bell's Brewery Farm

Shepherd, MI



Hop Farming

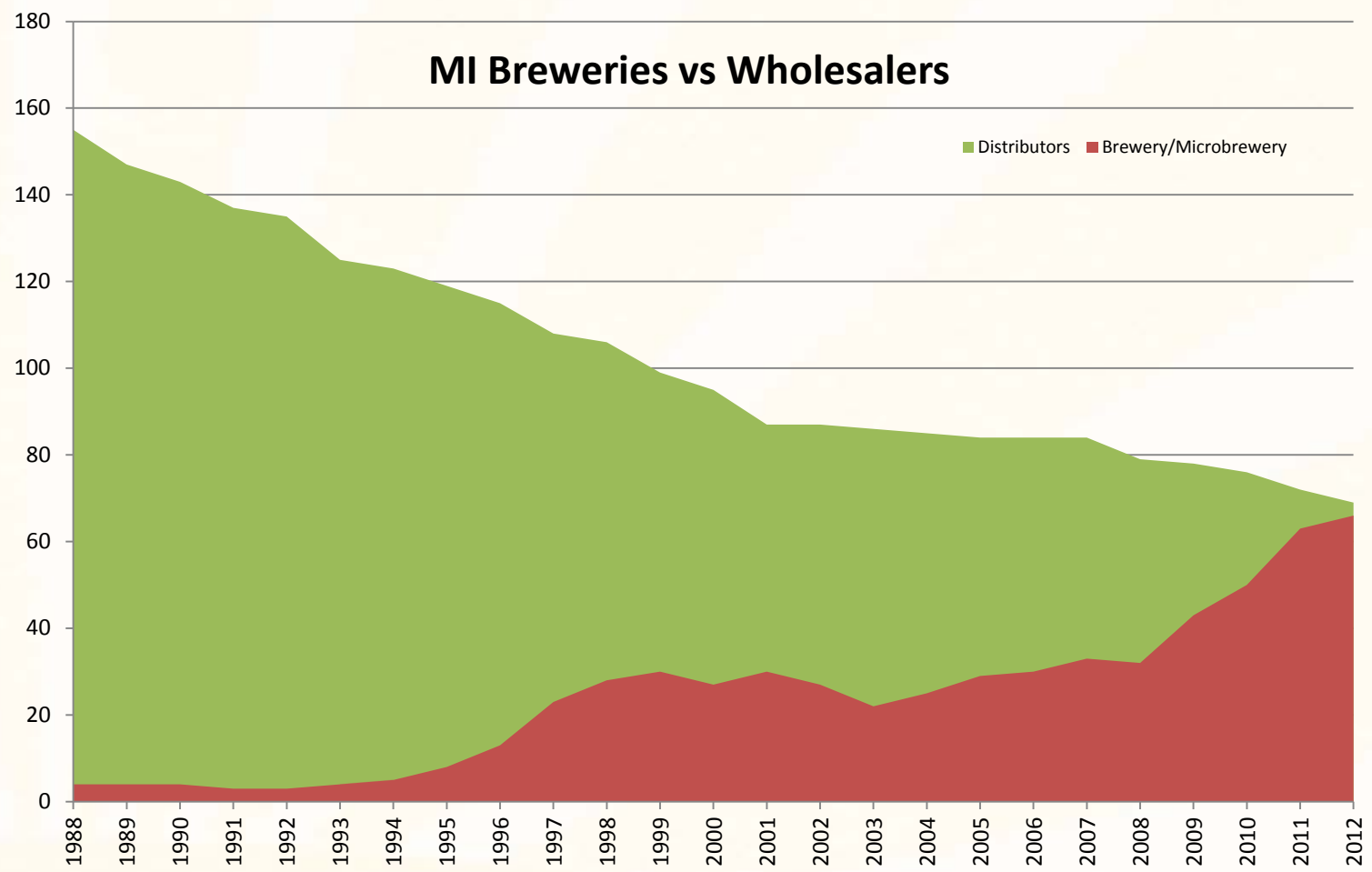




Brewed in
Michigan
and sold in
Michigan = 2.5% of
Michigan
beer volume



MI Breweries vs Wholesalers





Locally brewed beer drives tourism

- Beer festivals
 - Michigan Brewers Guild
 - Charitable
- Brewery sponsored events
 - Sporting
 - Arts
 - Educational



Regulatory Impacts

- Positive
 - Efficient tax collection
 - 3 tier system provides level playing field
 - Provides for consistent pricing
 - Provides for fair supplier/retailer relationships



Regulatory Impacts

- Negative
 - 3 tier system works but... needs updating
 - Antiquated law (written 1984)
 - Small brewers need better contractual rights with wholesalers
 - Brewers license fees support rival industry (Michigan Grape and Wine Industry Council – law written 1985)



Going Forward

- New regulatory laws need to be crafted carefully with fair representation from all tiers at the table
- We must remember the history of the industry and how we got to where we are today



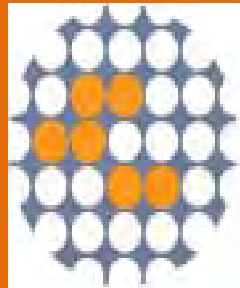
If Michigan's largest wholesaler
were a brewery, they would be
the 6th largest brewery in the USA

BELL'S®



Inspired Brewing®

Thank you!



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THE ECONOMIC IMPACT OF THE MICHIGAN WINE INDUSTRY

CENTER FOR ALCOHOL POLICY CONFERENCE
Lansing, Michigan ▪ March 22, 2012

*Presented By: Eddie O'Keefe III, President
Chateau Grand Traverse Winery*

MICHIGAN VITICULTURE AREAS & WINE TRAILS



MICHIGAN WINERY SALES TRENDS

ALL MICHIGAN WINERY SALES
2002 through 2010
State of Michigan Tax Paid Sales Only
Data Source: MLCC Winery Reported Tax Paid Sales



FAST FACTS OF MICHIGAN WINE

Licensed Wineries

- 86 winery licenses in 2011 vs. 47 in 2006, up 83% (Michigan ranks #7 in USA)

Vineyard Acreage for Wine Production

- 2,500 planted grape acres in 2011 vs. 1,300 in 2006, up 92% (14,600 acres including juice grapes)

In-State Sales Volume

- 590,000 cases sold in Michigan in 2011 vs. 334,000 cases in 2005, up 76% (6.5% market share)

Estimated Winery Visitors

- Estimated 1,000,000+ Visitors to Michigan Winery Tasting Rooms in 2011

The wine industry contributes \$ 300 million annually to Michigan's economy

Estimated by Michigan Grape & Wine Industry Council

WINEMAKING IS A LONG-TERM INVESTMENT

Wineries are long-term investments.

Long-term employers.

Vineyards are unique to their location.

Operations cannot be moved or transported.

Planting a vineyard is an expensive commitment.

Some Michigan wineries are now 2nd and 3rd generation family-owned.

Federal Government does not subsidize winemaking or grape growing.

THE MULTIPLIER EFFECT

Wineries have an enormous value-added component.

Winery tourism has an economic multiplier effect .

A winery operation, its employees and tourism are three examples of total economic impact.

Wineries & vineyards preserve agricultural land, often revitalizing rural communities, supporting local charities, improving property values, and generally enhancing quality of life.



The Largest Selection of Chateau Grand Traverse Wines
...apart from Driving to Old Mission Peninsula
Exclusively at Mejer of Auburn Hills



MICHIGAN WINE IN THE MARKETPLACE

Wine is considered an affordable luxury.

Three MI Wineries are Top 15 brands.

Favorable press, awards, accolades.

Consumers support Michigan made products.

Access to Michigan wine continues to grow.

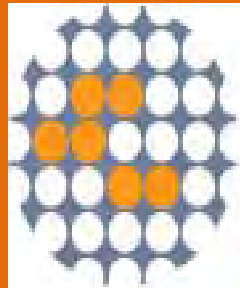
Michigan wine category coveted by retailers .

Connects inextricably with food/cooking/travel .

Untapped out-state, e-commerce and export markets.



**Wineries & Vineyards Promote Tourism,
Support Local Farms and
Keep Land in Agricultural Production.**



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Beer and Wine Distributor Economic Impact

MIKE LASHBROOK

PRESIDENT

MICHIGAN BEER & WINE WHOLESAERS ASSOCIATION

Role of the Distributor – It's Logistics

- Purchase beer and wine from breweries and wineries
- Transportation from production site to warehouse
- Inventory control
- Sales and marketing product to retailers
- Delivery to retail
- Merchandising at retail – displays, signage, pricing, rotation, etc.
- With bottle bill, recycle all containers

Licensed Distributors

- Roughly 130 licensed distributors
- 57 member companies of MB&WWA – 98% beer/90-95% wine
- Several importers or religious supply companies that handle sacramental wine
- Handful of distributors set up to handle boutique wines and craft beers
- No statutory/regulatory limit on number of distributor licenses
- \$300 and willing supplier

Distributor Profile

- Family owned
- Range from 8-10 employees (mostly family) to over 800
- Average 82 employees
- Fleet of 58 vehicles
- Temperature controlled warehouse
- Average distributor represents 59 suppliers, and distributes 418 different beverage brands including different Michigan brands
- Service nearly 1,700 retail accounts – 788 on-premise, 908 off-premise
- Active business leader in community

Direct Economic Impact

- 5,100 employees
- Average salary/benefits = \$60,000
- Annual sales of over \$1.6 billion
- Facility and fleet investment over \$300 million
- MB&WWA survey revealed over \$3 million to local charities

Other Economic Impact

- Assist craft brewers/local wineries obtain access to market
- Recycling 1.7 billion containers at cost of over \$17 million
- Sustainability initiatives – fleets, warehouse
- Programs to reduce underage drinking and drunk driving

Regulatory Impact

- Distributors serve regulatory role
- Product lands in-state at distributor, clear chain of custody
- Tax verification
- Service all licensed retailers
- Accountable, transparent system assists with product recalls

Economic Benefits of Regulation

- Level playing field supports strong independent retail sector
- Independent tiers of industry increase market access for small producers
- Product variety increased
- Supports small, family owned businesses
- Proper regulation does reduce costs associated with alcohol abuse

2012 CAP Michigan Policy Series

Next Events:

Public Safety and Law Enforcement in Alcohol Regulation

April 18, 2012

What's Happening in the World of Alcohol Regulation

May 3, 2012

Radisson Hotel Lansing