

# AMERICAN BEER DISTRIBUTION

## More Relevant Today Than Ever

From America’s Birth, beer has been an integral part of the culture and the nation’s economy. But there was also a dark time in our nation’s beer history – the failed experiment of Prohibition. Prohibition destroyed legal jobs, gave rise to organized crime and turned ordinary citizens into common criminals.

Following the repeal of Prohibition with the 21<sup>st</sup> Amendment, a *state-based three-tier system* of alcohol distribution was established. Why three tiers? There are lots of reasons, including that before Prohibition suppliers held unfettered ownership stakes in retailers (known as “tied houses”) leading to rampant anti-competitive business practices and marketing tactics aimed at inducing excessive consumption. To remedy these problems, the 21<sup>st</sup> Amendment gave the states sole authority to regulate the distribution of alcohol within their borders, and the states responded by requiring that each tier be independent. States who enacted this system looked to the distributor tier as the physically present, locally owned and regulated buffer between distant mega-manufacturers and licensed retailers.

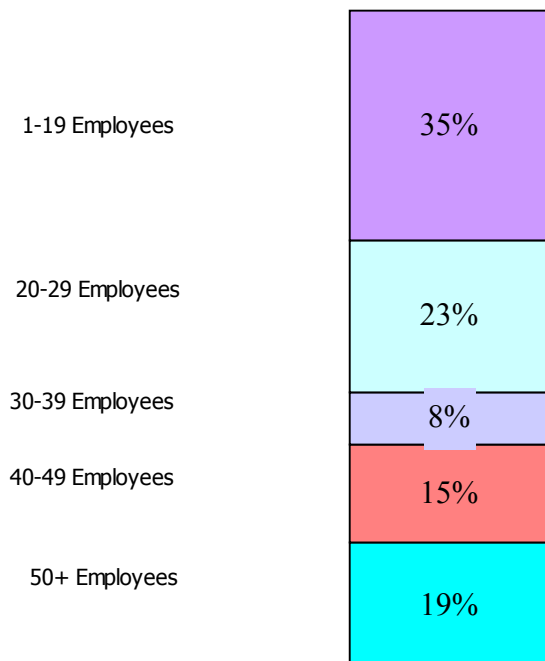
The system provides safeguards in the way beer is distributed and sold. It ensures that alcohol is not sold to minors, state and local laws are observed and consumers are provided with a wide variety of product choice at reasonable prices.

Today, the beer industry is one of the most regulated industries in the nation. Each day distributors work to make certain beer taxes are reliably collected, and their products are consumed legally and responsibly.

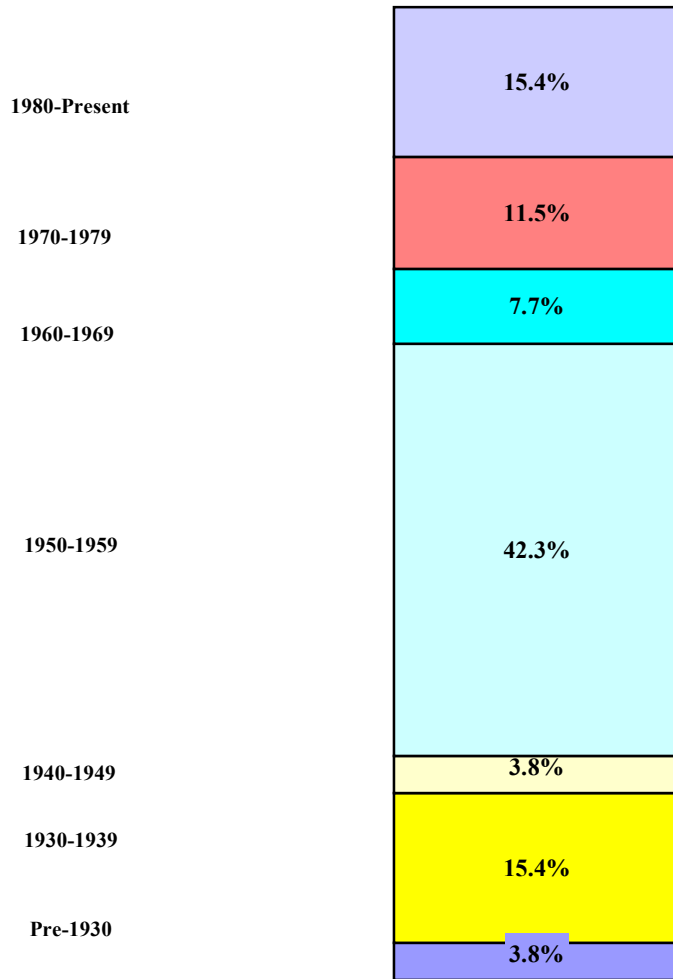
## WHAT IS A BEER DISTRIBUTOR

Iowa’s longest-operating beer distributorship has been in business under family ownership since 1915 and became a beer distributor following the repeal of prohibition. More than 90 percent of the beer distributorships in operation today are family-owned and operated. Many are second or third generation distributors who have grown up in the beer distribution industry. In addition to being successful Iowa business owners, most beer distributors are also active leaders in their local communities and in state and national organizations. Iowa distributors range in size of operation from a single employee to more than 50 employees. Annual sales range from fewer than 100,000 cases annually to more than 1,000,000 cases.

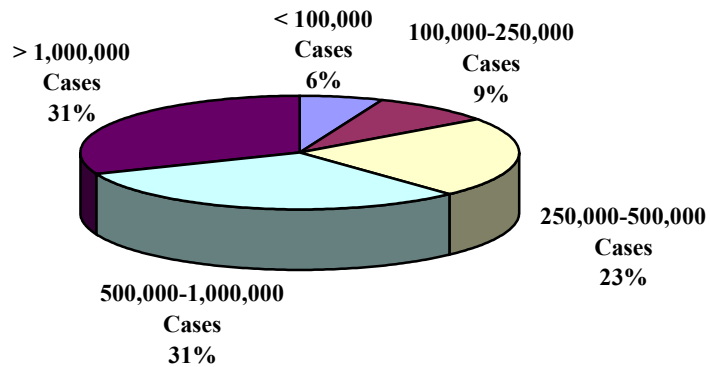
## IOWA BEER DISTRIBUTORS BY SIZE (Based on 2005 Full-Time Employment)



## YEAR DISTRIBUTORSHIP FOUNDED



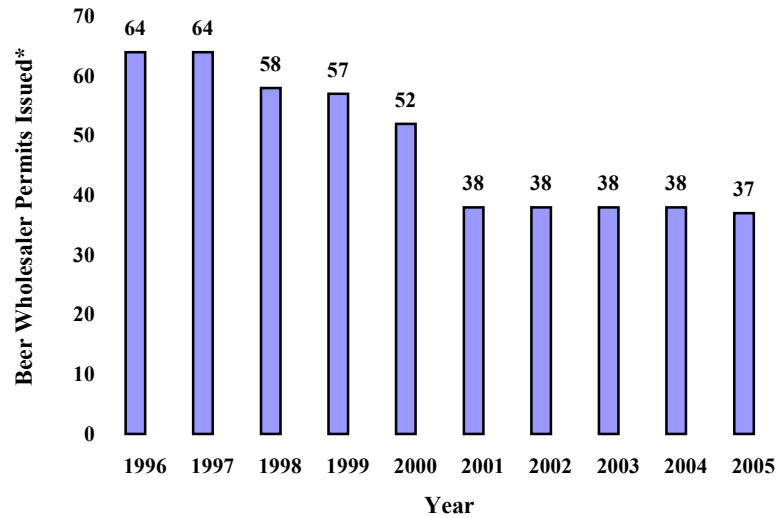
## IOWA BEER DISTRIBUTORS BY SIZE (Based on 2005 Case Volume Sales)



The sale and distribution of beer in Iowa is highly regulated. Beer distributors are the middle tier of a three-tier system in which brewers, distributors and retailers operate as separate and distinct entities within the industry. The goal of the three-tier system is to isolate the retailer from undue influence by the brewer by inserting the distributor in the distribution process. Simply stated, the beer distributor purchases the beer from the brewer and sells it to the retailer. And, in Iowa and many other states, beer distributors operate under a cash law which requires retailers to pay for their beer at the time of delivery.

### IOWA BEER DISTRIBUTORS

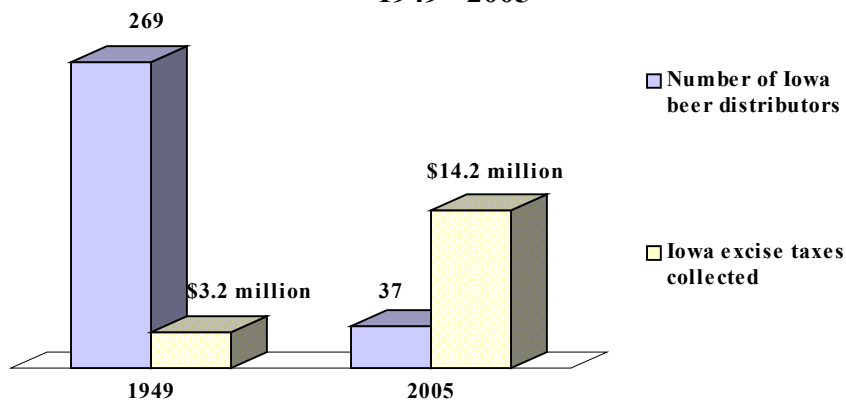
1996-2005



\*Based on listings of full-service beer distributors in IWBDAs annual directory

### STREAMLINING IN IOWA'S BEER DISTRIBUTING INDUSTRY

1949 - 2005



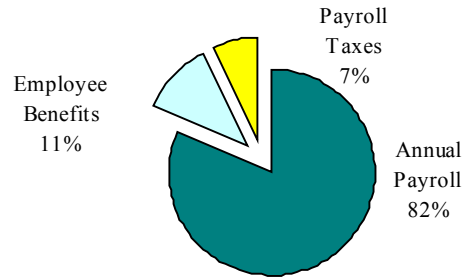
Beer distributors, through their distribution, merchandising and sales support, add value to the beer delivered to retailers. Beer distributors increase the efficiency of beer distribution by reducing the number of transactions required to sell and deliver beer to retailers. They also act as a valuable two-way conduit between brewers and retailers for market information. Working together, brewers, distributors and retailers achieve a high degree of integrity and responsibility in the beer industry as they deliver a quality product to their customers.

## EMPLOYMENT

The US beer industry employs more than 1.8 million workers directly and indirectly and contributes significantly to the nation's economy. Beer distributors are local employers who provide jobs for residents of their communities. In addition to competitive wages and salaries, beer distributors offer their employees a variety of employee benefits, including health insurance.

<b>Direct Employment</b>	<b>945 Full-Time 167 Part-Time</b>
<b>Annual Payroll</b>	<b>\$49,086,494</b>
<b>Employee Benefits</b>	<b>\$ 6,910,357</b>
<b>Payroll Taxes</b>	<b>\$ 4,382,028</b>
<b>Health Care Benefits Provided</b>	<b>100%</b>

**IOWA BEER INDUSTRY - INVESTMENT IN DIRECT EMPLOYMENT**



## COMMUNITY INVOLVEMENT

Beer distributors, their families and employees are active and involved members of the communities in which they live and do business. In addition to direct charitable donations and sponsorship of community activities, beer distributors are actively involved in local alcohol awareness and drunk driving prevention efforts.

<b>Civic/Charitable Contributions</b>	<b>\$574,759</b>
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## RESPONSIBLE CONSUMPTION PROGRAMS

The more than \*1,400 Iowa men, women and families in the beer distribution industry care how their businesses affect the community. Because no reputable business benefits when its products are misused, Iowa beer distributors remain dedicated to finding and adopting creative and effective solutions to alcohol abuse, drunk driving, and illegal underage purchase of alcohol.

<b>Conducting Responsible Consumption Programs</b>	<b>\$574,689</b>
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## CAPITAL ASSETS

Supporting a business in Iowa involves a commitment to the physical infrastructure necessary to operate the business. Beer distributors express that commitment to their businesses and their communities by investing in their assets and paying the taxes that support their communities.

<b>Value of Business Assets</b>	<b>\$98,220,102</b>
<b>Capital Investment (Last 5 years)</b>	<b>\$28,700,444</b>
<b>Property Taxes Paid in 2005</b>	<b>\$ 1,423,357</b>

\*Economic Impact Study conducted by John Dunham & Associates

## TRANSPORTATION COSTS

The primary responsibility of the beer distributor is to transport product from the brewer to the retailer. To accomplish this, beer distributors maintain a strong fleet of delivery vehicles. To support these vehicles involves payment of a variety of permits, fees and taxes.

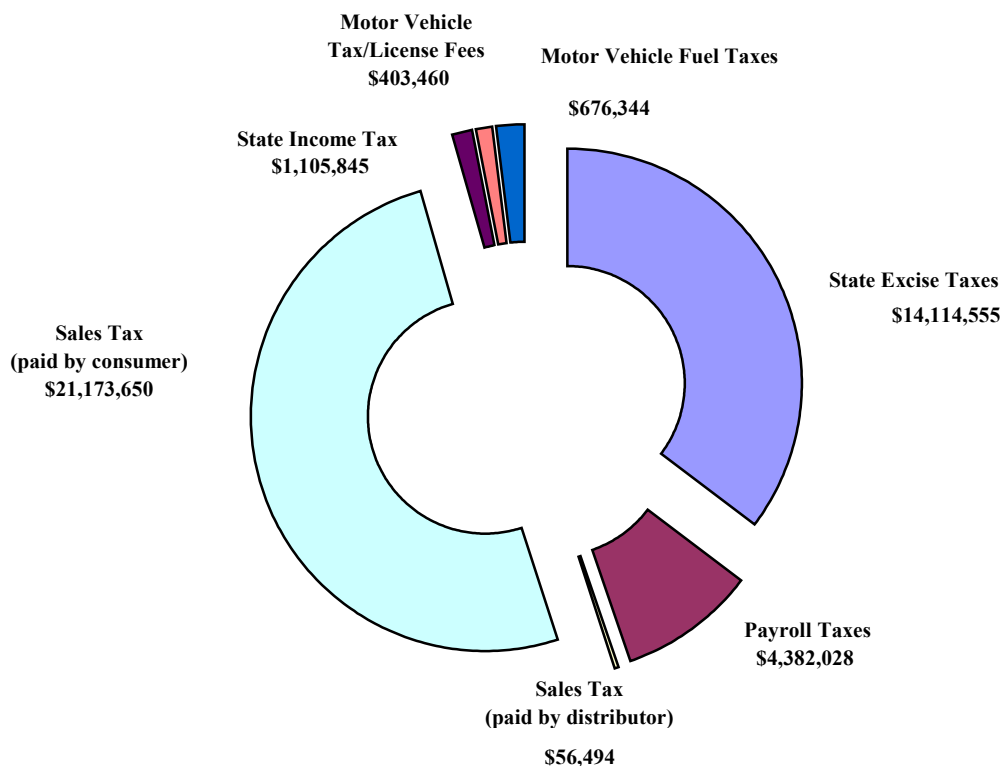
<b>Total Number of Vehicles</b>	<b>1,116</b>
<b>Motor Vehicle Tax and License Fees</b>	<b>\$403,460</b>
<b>Motor Vehicle Fuel Tax</b>	<b>\$676,344</b>

## ENVIRONMENTAL PROTECTION

Iowa is one of only 9 states with a mandatory beverage container deposit law. Enacted in 1979, the Iowa “bottle bill” sets the state apart from its neighbors. None of the surrounding states have adopted bottle bill legislation and no state has enacted such laws since 1983. In addition to the 5 cents per container deposit paid by the consumer, there is also a one-cent handling fee on each container.

Based on survey results, IWBD members report the fees and costs related to the bottle bill (amount spent by the company in 2005 for related costs including handling fees, transportation, labor and other related costs) amounted to \$8.6 million. (This figure does not include costs incurred by retailers, soft drink or other alcohol beverage containers covered by the Iowa deposit law.)

## SUMMARY OF IOWA TAXES PAID RELATED TO BEER SALES



## SALES VOLUME

Beer consumption patterns have been steady to declining over the past several years. On a national basis, domestic beer sales dropped 1.2%\* in 2005 and per capita consumption was 30.0 gallons, down from 30.5 gallons in 2004. Among the 50 states and the District of Columbia, Iowa ranked 17th in per capita consumption in 2005, compared to 16th in 2004. Per capita consumption in Iowa was 34.3 gallons in 2005 down slightly from 34.7 gallons in 2004. Overall, Iowa beer sales increased .31% from 2004 to 2005.

<b>Total Sales</b>	<b>\$ 469,771,244</b>
<b>Sales Volume</b>	
<b>(case equivalents sold)</b>	<b>33,016,501</b>
<b>(gallon equivalents)</b>	<b>74,287,129</b>

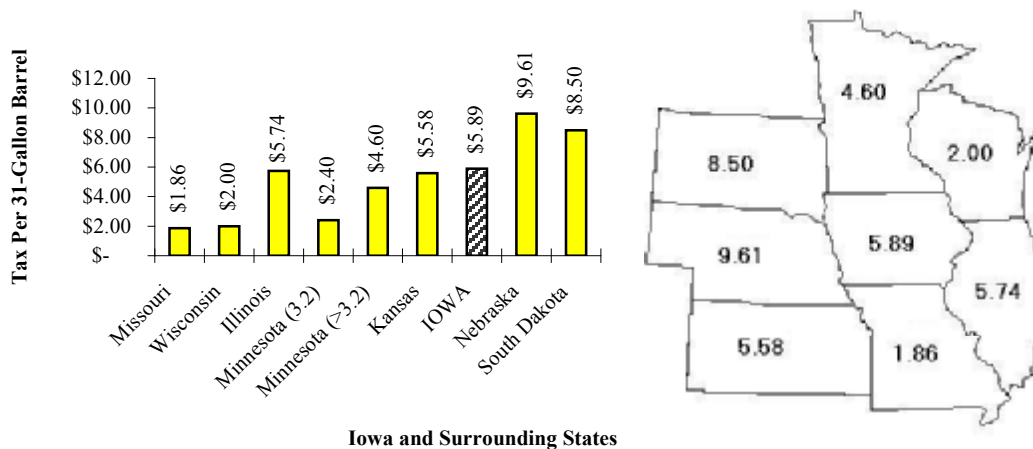
Sources of Information: Lester Jones, Director of Statistical & Information Services, Beer Institute - \*Subject to revision

## TAXES PAID ON SALES

Beer distributors carry a heavier tax burden than Iowa industry in general. The industry is subject to income tax, property tax, motor vehicle fuel tax and other normal operating taxes, as well as a variety of other permit and license fees. In addition, there is a federal excise tax on beer of \$18.00 per barrel and a state excise tax of \$5.89 per barrel. Iowa's excise tax is significantly higher than the tax in all but two neighboring states. Iowa beer distributors act as collectors of the state excise tax and forward it to the Iowa Alcoholic Beverages Division on a monthly basis. Based on information gathered, each case of beer sold in Iowa in 2005 generated \$2.43 in state and federal taxes.

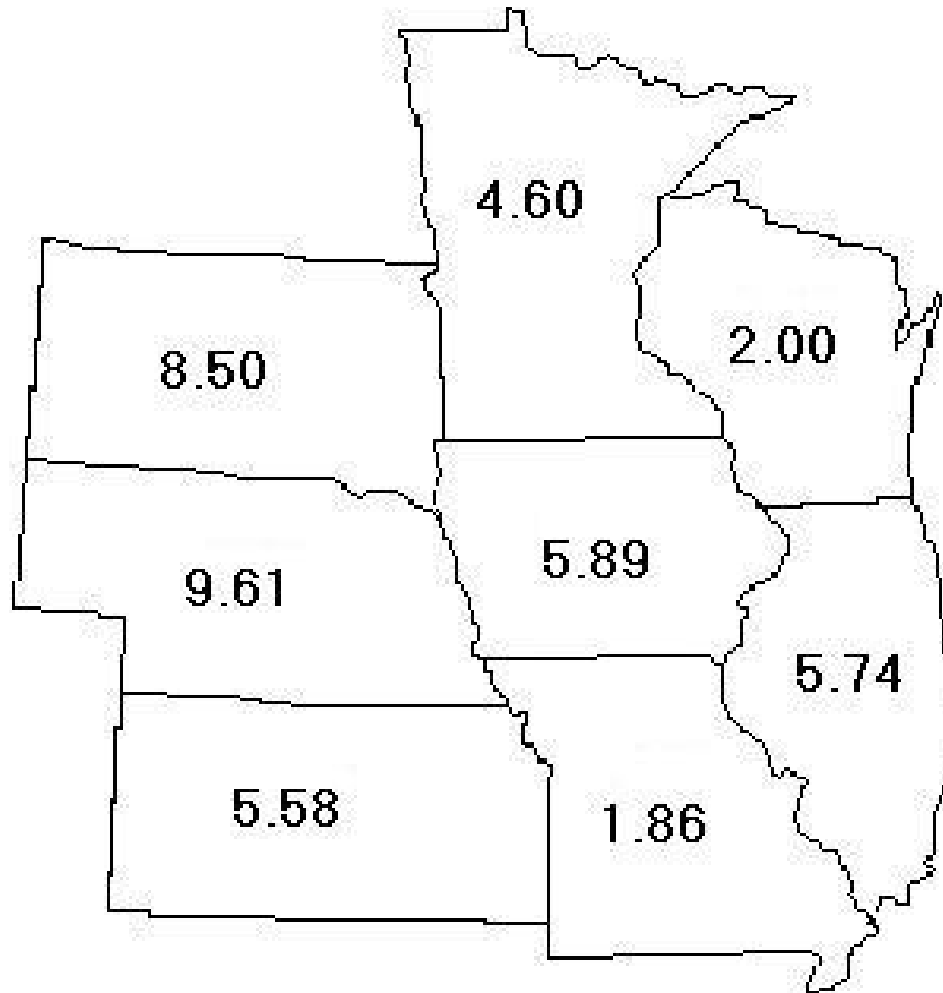
<b>State Excise Tax on Beer Sales</b>	<b>\$ 14,114,555</b>
<b>Federal Excise Taxes on Iowa Beer Sales</b>	<b>\$ 43,134,462</b>
<b>Sales Tax</b>	<b>\$ 56,494</b>
<small>(Note: Distributor beer sales not subject to sales tax; sales tax is paid at retail.)</small>	
<b>Sales Tax Paid by Consumers at Retail</b>	<b>\$ 21,173,650</b>
<b>Income Taxes Paid for 2005</b>	
State of Iowa	<b>\$ 1,105,845</b>
Federal	<b>\$ 4,439,216</b>
<b>Total Taxes Paid By Distributors On Sales In 2005:</b>	<b>\$ 62,850,572</b>

### STATE EXCISE TAX ON MALT BEVERAGES -- 2005\*



\*Sources of Information: Lester Jones, Director of Statistical & Information Services, Beer Institute

## IOWA & SURROUNDING STATES 2005 EXCISE TAX RATES



Iowa beer distributors act as collectors of the state excise tax and forward it to the Iowa Alcoholic Beverages Division on a monthly basis. Iowa's beer excise tax is significantly higher (\$5.89 a barrel) than the tax in all but two neighboring states – South Dakota and Nebraska. Based on information gathered, each case of beer sold in Iowa in 2005 generated \$2.43 in state and federal taxes. Surprisingly, taxes are the single most expensive ingredient in beer, costing more than the labor and raw materials combined. A detailed economic analysis (Standard & Poor's DRI, 2001) found that if all the taxes levied on the production, distribution and retailing of beer are added up; they amount to an astonishing 44% of the retail price!