

How We Get Our Booze: The Three Tier System

The United States uses a rather complicated system to get Americans their booze. With few exceptions, all wine, spirits, and beer are distributed using a three tier system of the supplier, the distributor, and the retailer. Whether consumers are aware of it or not, the three tier system has a substantial effect on which six packs are in stock at their local store, or what beer is on tap at their favorite restaurant. Let's delve into the effects of the three tier system and how technology can play a major role in keeping customers' favorite beer in stock.

The first tier is the supplier, also commonly known as the brewer or distiller. Suppliers are the ones in charge of brewing, fermenting, and/or packaging the beer. Suppliers range all the way from the big dogs at Anheuser-Busch to your city's smallest nano brewery. Essentially, this tier is in charge of making the product. There are four main types of suppliers you will find in the United States. Macro-breweries like MillerCoors and Anheuser-Busch, regional craft breweries like Bell's and Sierra Nevada, micro-breweries like Upland, and local micro/nano breweries like Four Day Ray in Fishers.



The distributors, also commonly known as the wholesaler, purchase the product (in this case, beer) from the suppliers, then turn around and sell it to retailers. There are also multiple distributor types. Let's take Indiana as an example. There are two MillerCoors distributors that cover most of the state of Indiana. There are roughly 22 Anheuser-Busch distributors that have monopolies over specific counties in the state, and lastly, independent distributors, they can distribute anywhere and carry any type of beer.

Retailers purchase the beer from distributors and sell it to the consumer. Retailers can range anywhere from liquor stores, supermarkets, and convenience stores, to bars, restaurants, and hotels.

Okay, that makes sense, but why can't suppliers just sell straight to retailers and cut out the middleman? Good question. And you definitely aren't the first person to ask it. This three tier system is in place so no single entity can act in all three roles. This distribution system was initially set up in the United States after the repeal of Prohibition. After Prohibition, power was given to the states to control the sale of alcohol. The states wanted to collect taxes on alcohol producers, regulate the industry, and promised to help prevent the establishment of monopolies. This led states to create a system where single ownership of all three tiers is outlawed.



For better or for worse, distributors are a necessary element of the three tier system. For brewers, their fate is often in the hands of the distributor, so it can be a difficult and tedious process figuring out which distributor type to work with. This can be a good thing, distributors help get your favorite beer in your glass, after all, but there are also some cons to the three tier system. Being the middleman, distributors make a huge impact on suppliers and retailers alike. Breweries are forced to work with distributors if they want their beer to be sold in retailers. Retailers are also forced to rely on distributors to provide them with the beer that can keep their customers happy.

Have you ever discovered a really good beer at a restaurant, tried to find it the following week and it was off the menu? This may be more common than you would expect. Smaller brewery types (like the micro breweries and local micro/nano breweries I mentioned earlier) often sign with major distributors (like MillerCoors distributors) so their beer can be sold all over the state. The potential issue here is the number of beers major distributors distribute. Small, craft breweries are a small fish in a very large beer pond. Beers from these breweries are given a lot of attention from distributors when they are popular, but there is such a wide variety of beers that these big distributors are responsible for, it is easy for smaller breweries to get lost in the mix and forgotten about. For an added level of complication, it is often difficult to terminate a brewery/distributor agreement. Breweries sign contracts with distributors and are locked in for multiple years. When looking for a new distributor to work with, a brewery needs to be prepared to sign a contract that lasts anywhere from three to ten years.

It takes a lot of work from a lot of people to get beer from the supplier to the retailer. Once there, it is an unfortunate truth that many bar and restaurant managers choose their beer selection at random or based on the recommendation of their beer distributors. Distributors, like restaurants, might have a surplus of a certain kind of beer and will push those on retailers, or customers, in order to get rid of them. This can lead to retailers having slow-moving beers and unappealing tap lineups.

SteadyServ would like to give retailers real consumption data to tell which beers are the most popular, which beers are selling the quickest, and which beers are underperforming. The next time the distributor comes around, they can trust themselves and make validated, data-driven decisions to optimize their tap lineup and leave their customers satisfied.

An analogy for this is a parents relationship with their high school kid's grades. It used to be that parents had very limited access. The only time parents could be informed of their kid's grades were during midterms and finals, and even then it was at the discretion of the student. Now, there are apps that give parents constant access to their kid's grades. Alerts can come when a student turns in homework, takes quizzes, or receives test grades. If parents have information on how their kids are doing in school, they have the power to make an impact.

This idea is can be easily related back to SteadyServ's iKeg app. Once bar managers and owners are given the information on how each of the beers in their tap lineup are performing, they can make an impact on what beer offerings are available. SteadyServ gives retailers an extra bargaining chip, so they don't have to take a sales person at their word. It gives users real-time insight into their tap lineup by providing accurate keg levels and comprehensive reports. It also allows bar and restaurant owners to monitor their draft performance, improve inventory, and optimize their draft lineup with powerful visualizations and reports. SteadyServ gives users the data to eliminate guesswork and avoid surplus.

Retailers having the power to optimize their tap lineup will not only be beneficial to their customers but their distributors as well. If retailers have the data to determine which beers are selling the quickest and which beers are underperforming, they will stop buying beer that sells poorly. Distributors will see the pattern of which beers retailers are purchasing, and suppliers will notice which beers distributors are purchasing. Surplus and waste will be reduced at all three levels.

The three tier system of distribution may be tough to maneuver, but all parties could certainly benefit from knowing which beers are selling the quickest and which beers aren't selling, and how tap lineups are performing. This is something that the SteadyServ system can provide.