

A SWEET INVESTMENT

In Michigan, beer distribution is family affair

Firms handed down through generations

By JENNIFER DIXON
FREE PRESS STAFF WRITER

To understand the business of distributing beer in Michigan, step inside a cavernous warehouse just east of Metro Airport.

This is the home of Central Distributors of Beer in Romulus. Cases of Budweiser and Michelob Ultra and Kirin Light are stacked on pallets, almost to the ceiling. Kegs are kept in a separate room, where the temperature is always set at frosty.

Central's drivers truck that beer to 1,700 customers in 38 communities, from Downriver through Plymouth to a sliver of Oakland County.

They have 44 routes — and the road all to themselves.

Because of state law, no other Anheuser-Busch distributors can serve bars and restaurants, groceries and party stores in Central's territory.

Central decides the price for that beer — and every retailer pays the same amount.

Central's markup varies. Sometimes, it charges retailers about \$5 a case more than it paid Anheuser-Busch. Sometimes, the markup is closer to \$4, according to Liquor Control Commission records obtained under the state Freedom of Information Act.

Jack Gorsuch founded the business in 1933 with two trucks and a 1,400 square-foot building in Detroit.



HUGH GRANNUM/Detroit Free Press

At Central Distributors of Beer, employees Brian Shufeldt of Taylor and Corey Kowalski of Brownstown Township fill orders late last month. The Romulus company delivered more than 5 million cases in 2004. The company says it is one of the largest Anheuser-Busch distributors in the country.

Today, his granddaughter, Karen Wilson, is the company's chief executive. Her son-in-law began taking over the day-to-day responsibilities in January.

Their building covers 191,726 square feet — big enough to hold 650,000 cases and 40,000 kegs. Central's drivers delivered more than 5 million cases in 2004, and the company says that makes it one of the largest Anheuser-Busch distributors in the country.

"We are very active in our communities, in supporting our charities," Wilson said. "We're a very good corporate citizen. We have a huge investment to keep this busi-

ness going. People are very much committed to seeing these businesses continue to stay in the family. Each generation feels that commitment."

Success stories

Other distributors tell similar stories of success.

Thomas Ryan used a borrowed truck to make his deliveries in Flint when he started Tom Ryan Distributing Co. in 1946. Today, his son J. Michael Ryan owns and runs the company, the sole Anheuser-Busch distributor in Genesee and Lapeer counties. Its 32 trucks deliver 4 million cases of beer and wine a year.

The business is spread across 200,000 square feet of warehouse, garage and office space.

Frank Petipren and his two sons, Stan and Fran, delivered beer in wooden cases from the backseat of the family car when he started Petipren Inc. in 1933 out of a six-car garage in Macomb County. Today, the Anheuser-Busch distributor delivers beer to more than 1,350 retailers in the county and Hamtramck. In 1998, the most recent year for which figures were available, the company had record sales of more than 4.8 million cases of beer. It has grown from one vehicle to 175, and the fourth generation of



"People are very much committed to seeing these businesses ... stay in the family," says Karen Wilson, Central Distributors' CEO.

the family is involved in the business.

Herman Cox founded his company, H. Cox & Son Inc., in 1933 in a small garage in Traverse City. Today, members of the fifth generation are working at H. Cox, which distributes wine, Anheuser-Busch beers and other lines in seven northwest Michigan counties.

In all, there are about 135 wholesalers in Michigan. That number, however, includes companies with multiple licenses because they are distributing in several locations, as well as small specialty operations.

A better count may be the membership in the Michigan Beer & Wine Wholesalers Association, with 75 family-owned companies that distribute more than 90 percent of the beer and wine sold in Michigan.

Some Lansing insiders call the association the Millionaires Club.

"A lot of these people, on paper, are millionaires," said the group's chief lobbyist, Pat Laughlin.

But no one outside the industry knows exactly how much the wholesalers are worth. Their companies are private and rarely sold on the open market.

Good works

Through their success, some have become philanthropists.

The late Alice Shotwell Gustafson and her husband, Robert Gus-

tafson, are among them. Until her death in March 2003, Shotwell Gustafson was the chief executive at Hubert Distributors, an Anheuser-Busch distributor in Pontiac. Her husband succeeded her.

Shotwell Gustafson was one of Oakland University's most generous contributors.

She financed the renovations of an indoor equestrian arena into a 22,000-square-foot banquet and exhibit hall named the Shotwell Gustafson Pavilion.

Because of the couple's many contributions over the years, they are listed as members of the Meadow Brook Society, open only to those who give \$500,000 or more to the university.

The Gustafsons are also benefactors to St. Joseph Mercy/Oakland; the hospital in Pontiac has a wing housing an emergency center named in his honor and an ambulatory surgical center named for her.

And in November, Robert Gustafson gave a Sabreliner 60 corporate jet to his alma mater, Western Michigan University.

Wilson of Central Distributors donated \$2 million to the Cleveland Clinic Brain Tumor Institute last year. And Fabiano Brothers Inc., a beer, wine and liquor distributor in Mt. Pleasant, has contributed more than \$1 million to Central Michigan University.

Mike Lashbrook, president of the wholesalers association, said the group's members work hard at being business leaders in their communities and are important employers in the state. He added that he would not "apologize for the fact that they are successful businesspeople."

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THREE-TIER SYSTEM

State law is at root of wholesale power

Distributors bank on territory, price rules

By JENNIFER DIXON
FREE PRESS STAFF WRITER

It's called the three-tier system. But to the Michigan Beer & Wine Wholesalers Association, it's the gospel. The system dictates how alcohol is sold in Michigan.

The Legislature created the framework with Public Act 8 of 1933, the year Prohibition was repealed.

The act established the Liquor Control Commission and a three-tier system for the production, distribution and sale of alcohol. The tiers consist of manufacturers (such as brewers and wineries), distributors (also known as wholesalers) and retailers, such as groceries, party stores and bars. A person or business in one tier cannot own an interest in another.

The result, with a few exceptions, is this: Beer or wine makers must sell to licensed distributors, who in turn sell to licensed retailers. Essentially, the wholesalers' role as middlemen was written into law.

In the case of spirits, the state buys from distilleries and hires private firms to distribute the products.

The Michigan Beer & Wine Wholesalers Association, which represents 75 family-owned distributors, describes its members as the vital link in the equation. The group says the state benefits from the system because wholesalers help assure the collection of all taxes due from brewers and wineries.

Wholesalers must inform the liquor commission of all the beer and wine they buy for resale. Beer and wine makers also must report all shipments to wholesalers. The various records allow the commission to verify that excise, or commodity, taxes are paid, the wholesalers say. The taxes amount to about \$50 million a year.

Critics, though, say the wholesalers mainly are interested in protecting their monopoly. The trade group's members control the distribution of 98 percent of the beer sold in Michigan and more than 90 percent of the wine. The rest is either distributed by small, specialty wholesalers or sold directly to consumers by in-state wineries and small brewers.

Harry Schuhmacher, editor of Beer Business Daily, a daily newsletter for industry executives, said every state has a system for regulating alcohol sales and distribu-

tion. Like Michigan, most states have exclusive territories and franchise rules for beer distributors. State laws, however, vary in how strongly they protect wholesalers' interests.

Exclusive turf

Michigan gives beer wholesalers competition-free turfs, protected by law. Their customers must buy only from them.

In 1976, the year Michigan voters approved refundable deposits on bottles and cans, the Legislature required beer makers to grant each wholesaler an exclusive territory — typically a county or several counties.

Likewise, distributors have the right to sell their brands in their territories. No competitor can sell the same brands.

Retailers have no choice but to buy from local wholesalers. They can't shop around for a distributor.

"A retailer can complain to us, but there's nothing we can do about it," said Rick Perkins, director of enforcement for the Liquor Control Commission. "We don't have the authority to say, 'Go to another wholesaler.'"

Unlike beer suppliers, wine suppliers are allowed to use more than one distributor in a territory, a system known as dualing. But Perkins said large wineries tend to give wholesalers exclusive territories.

The wholesalers say territories are good for consumers because merchants are assured of being able to buy all brands carried by their wholesalers, regardless of their size or location.

Mrinal Ghosh, assistant professor of marketing at the Stephen M. Ross School of Business at the University of Michigan, said exclusive territories have value.

One benefit is that manufacturers deal with only one distributor in each territory, giving them some control over the freshness of the beer. They can dictate storage temperatures in the wholesalers' warehouses and buyback policies for outdated beer on store shelves.

"Exclusivity helps you maintain that brand integrity," he said. "The distributor is responsible for the freshness of the beer."

Lifetime guarantees

Michigan's wholesalers have made it tough for brewers or wineries to fire them.

In 1984, the Legislature granted

HOW MICHIGAN'S PRICES STACK UP

So how does Michigan compare with neighboring states on beer and wine prices?

The Free Press compared prices of several well-known brands at Meijer stores in Michigan, Ohio, Indiana and Illinois and found that consumers paid more overall for beer in Michigan than in the other three states — up to \$4 more for a cart full of seven items.

Wine prices tended to be cheaper in Indiana and Illinois than in Michigan, but higher in Ohio.

For the survey, the newspaper subtracted each state's excise, or sin, taxes — so pretax prices were

compared.

Critics of Michigan's distribution system for beer and wine say an absence of competition at the wholesale level is to blame for higher prices.

"When you've got a protected market and protected monopolies, you've got the license to gouge," said state Rep. Leon Drolet, R-Clinton Township.

But Pat Laughlin, chief lobbyist for the Michigan Beer & Wine Wholesalers Association, said wholesalers aren't the reason for price differences. He said Michigan's bottle-deposit law is partly to blame and insisted excise taxes

also were at fault — even though the survey subtracted excise taxes.

He said there is competition in the state — between brands such as Miller and Budweiser. Beer makers are the ones who set prices, he said. Wholesalers and retailers simply add markups.

Michigan Liquor Control Commissioner Jim Storey said he thinks one reason prices are higher in Michigan is that retailers cannot sell alcohol below wholesale cost to entice shoppers into stores.

"I don't think anyone is dying of thirst in the state," he said.

	Royal Oak, Mich.	Toledo, Ohio	South Bend, Ind.	Bolingbrook, Ill.
BEER				
Miller Lite, 12 pack, 12-ounce cans	\$8.75	\$8.79	\$8.16	\$8.08
Miller Genuine Draft, 12 pack, 12-ounce bottles	9.06	8.79	8.26	8.08
Miller Genuine Draft, six pack, 12-ounce bottles	4.88	4.69	4.73	4.69
Heineken, six pack, 12-ounce bottles	7.88	7.69	7.43	7.49
Heineken, 12 pack, 12-ounce bottles	13.76	11.79	12.36	14.78
Bud Light, 12 pack, 12-ounce cans	8.66	7.79	8.16	7.88
Budweiser, 12 pack, 12-ounce cans	8.66	7.79	8.16	7.88
BEER SUBTOTAL	\$61.65	\$57.33	\$57.26	\$58.88
WINE				
Black Swan Chardonnay	\$6.09	\$6.93	\$5.90	\$7.15
Glen Ellen Cabernet	4.39	9.93	4.90	6.25
Kendall-Jackson Cabernet Sauvignon	13.89	17.93	16.90	15.35
Stone Cellars Merlot by Beringer	7.89	7.93	6.90	6.65
Sutter Home Cabernet Sauvignon	6.69	10.93	4.41	4.85
Vendange Cabernet Sauvignon	4.89	5.93	3.90	3.65
Turning Leaf Cabernet Sauvignon	8.69	7.93	5.90	6.85
Turning Leaf Merlot	8.69	7.93	5.90	6.85
Turning Leaf Chardonnay	8.69	7.93	5.90	6.85
WINE SUBTOTAL	\$69.91	\$83.37	\$60.61	\$64.45

Sources: Research by JENNIFER DIXON and VICTORIA TURK/Detroit Free Press

Detroit Free Press

them protection by approving franchise laws for beer and wine distributors.

Vintners and brewers cannot ask to see a wholesaler's books as a condition of renewing an agreement and cannot set a wholesaler's prices or force a wholesaler to contribute to any local or national advertising fund controlled by the manufacturer.

The law, in effect, also makes it nearly impossible for a brewer or winery to fire a wholesaler, unless a wholesaler commits fraud in its dealings with a supplier, fails to comply with its agreement with its supplier, sells outside designated territories or loses its state license.

It's rare for a wholesaler to lose its license. Perkins said the state has not revoked a wholesaler's license in his 27 years with the agency.

The franchise law also allows the owners of these businesses to pass ownership of the company to family members when they die or retire, and the brewers and wineries cannot stop those transfers. The family-owned businesses tend to be passed from one generation to the next.

Dennis Hybarger, vice presi-

dent of the wholesalers association, said the group sought the franchise laws because it wanted its distributors protected "from overnight terminations."

Ghosh, the U-M marketing professor, said of the wholesalers: "Unless and until you really do bad things, you're basically assured you are going to get the business in perpetuity."

Price protection

Michigan's beer and wine distributors are insulated from price wars and can't give volume discounts to large customers, such as Costco, Meijer or Farmer Jack.

Under state rules known as price postings, beer wholesalers must tell the Liquor Control Commission how much they charge retailers for every product. If a wholesaler lowers a product price, the company must tell the state and keep the price the same for at least 180 days.

Wine wholesalers must file a quarterly schedule of prices charged to their retailers and cannot change those prices without commission approval. Price changes on wine must remain for at least 14 days.

The practical effect of price postings is that wholesalers cannot be drawn into a price war, especially for beer, industry experts say.

The wholesalers say the price postings protect small merchants by allowing them to buy beer and wine for the same price as big national chains do. Volume discounts on wine and beer are not allowed.

Critics say the price rules are more about protecting the wholesalers' bottom line than creating a level playing field. And even though small retailers may be helped, the critics say, anticompetitive controls harm consumers.

"In every other facet of U.S. industry, quantity discounts are a fact of life," said John Taylor, associate professor of marketing and logistics at Grand Valley State University and a scholar with the Mackinac Center for Public Policy, a think tank in Midland.

"There's almost no sector of industry where we require that small buyers be allowed to buy at the same price as bigger buyers. There's no economic logic to that whatsoever."

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BUSINESS, PLEASURE

Taking an agenda along for the hunt

In late November 2002, four lawmakers piled their guns, camouflage jackets and a golden retriever named Maverick into a couple of SUVs for a trip to New York with Mike Lashbrook, president of the Michigan Beer & Wine Wholesalers Association.

The trip was an opportunity to mix business with pleasure. Lashbrook's companions were John Cherry Jr., then a Democrat in the state Senate and the lieutenant governor-elect; Rep. Randy Richardville, a Republican from Monroe who was poised to rise to floor leader; Rep. Charles LaSata, a St. Joseph Republican who had been elected to his third and final term, and Rep. Ray Basham, a Taylor Democrat who had just won a state Senate seat.

They drove along Lake Erie through a snowstorm and checked into a Holiday Inn in Waterloo, N.Y. Then for three days and two nights, Lashbrook squirmed them around the scenic Finger Lakes region.

They hunted ducks from a blind at the edge of a small pond as snow fell and gusts of wind lashed their faces. They went on a winery tour. They ate together. And they talked business.

Lashbrook discussed his concerns about a federal lawsuit filed by a handful of wine connoisseurs seeking the right to buy wines directly from out-of-state wineries, Richardville said. If the suit succeeded, consumers could bypass Michigan's wholesalers and retail outlets and buy directly from wineries in California and elsewhere.

"That could do damage to the wholesalers in Michigan," Richardville said.

The case landed before the U.S. Supreme Court, where the State of Michigan defended the laws at taxpayer expense. A decision is pending.

Basham said the trip was simply a hunting outing with friends.

Lashbrook said the legislators reimbursed him for their rooms. Disclosure statements show he spent \$82.35 on food and beverages for each lawmaker.

Richardville said the trip was low-key — and cold more than anything else. "It was not that that extravagant," he said. "It wasn't swanky."
By Jennifer Dixon



In Michigan, 2.35 gallons, or 11.90 bottles, of wine are consumed per adult per year.

Sources: Michigan Liquor Control Commission and Wayne State University