

DTC Shipping: Myth vs Fact

Myth: DTC works with the current three-tier system.

Fact: DTC is not three-tier compliant. By operating outside of the three-tier system, DTC shipments bypass local wholesalers and retailers leading to a higher risk of minors obtaining alcohol, missed state tax revenue, and a disrupted chain of custody leaving opportunity for counterfeit product to make its way into the market.

Myth: Craft brands cannot grow their business without DTC.

Fact: A craft brand cannot survive by only shipping its product. Wholesalers help craft producers to access local, regional, and national retailers and help retailers of all sizes provide a wider variety of products at competitive prices. Accessing such a wide variety of retailers would be cost prohibitive for craft producers on their own. Many wholesalers have dedicated craft sales teams to cater to craft producers' specific needs. Shipping spirits is only legal in 5 states and D.C. so craft distillers can only use DTC to access a fraction of the U.S. population—not nearly enough of a market share to grow a brand.

Myth: Minors are unlikely to use DTC shipping to obtain alcohol.

Fact: DTC increases the risk of underage access. Common carriers transporting alcohol shipments are shown to be less likely to perform ID checks than a local retailer. In a study published in the Journal of Pediatrics and Adolescent Medicine, only 12 percent of online alcohol orders placed by underage purchasers were rejected at the point of

order as a result of an age verification processes. Without local ties to the community, out-of-state shippers feel less responsibility for selling alcohol to a minor and have less liability than a locally licensed retailer.

Myth: DTC is the only alcohol e-commerce option for consumer convenience.

Fact: Local, licensed delivery is the most convenient and safest e-commerce alcohol model. While DTC takes at least a few days, under a local delivery model, alcohol orders are delivered within hours from locally licensed retailers via their employees or a licensed third party who are trained/experienced in age verification to ensure deliveries are made to consumers 21 years of age or older, while still maintaining compliance within the three-tier system.

Myth: DTC shipments are a significant source of additional revenue for state governments.

Fact: DTC cost states revenue and negatively impacts state budgets. DTC alcohol shipping opens the door to widespread tax evasion because illegal shippers do not self-report their illegal shipments to the state and remit taxes. States have had to allocate significant resources to act against illegal shipments and, at the same time, lose millions in unpaid excise taxes. For example, Illinois estimated \$20 million per year in tax loss while Virginia ABC estimated a loss of more than \$60,000 in unpaid excise taxes in a 4-month period in 2018. By remitting state excises taxes, wholesalers play a crucial role in ensuring that state and local governments receive tax revenue from alcohol. The added efficiency of collecting tax revenue – going towards public programs, law enforcement, and education – is a valuable part of the alcohol

distribution model that DTC fails to provide.

Myth: Counterfeit alcohol is not a concern with DTC shipping.

Fact: DTC opens the door to counterfeit or adulterated products entering the stream of commerce. When it comes to the online marketplace where DTC orders are placed, the U.S. Government Accountability Office has found that 43% of items purchased from online retailers were counterfeit. Though alcohol was not included in this study, purchasing alcohol products online increase the likelihood that consumers will be sold counterfeit and adulterated products or become victim of a scam. The almost century old three-tier system has protected U.S. consumers from counterfeit products because they are strictly tracked throughout the U.S. supply chain. However, DTC shipment lack transparency and are hidden from effective oversight which increases the difficulty for regulators to ensure safe and legitimate products are entering their borders.