

# GLOSSARY OF WINE DISTRIBUTION TERMS

## Pricing Terms:

**FOB (Freight on Board)** – Technically a shipping term, used to indicate who is responsible for paying transportation charges. The FOB price indicates the price of the wine to the distributor at the pickup location, all further costs (aka “laid in costs -transport, state excise tax, and warehousing) will be assumed by the distributor. Typically, though distributors will base their price on the wine with laid in costs. The FOB point is also the location where ownership of the merchandise transfers from seller to buyer. For example;

$\$30/\text{FOB}$  or  $\$360/\text{case} + \sim\$7/\text{case}$  handling + taxes =  $\$367/\text{case}$  X 33% margin =  $\$550.50/\text{case}$   
( $\$45.87/\text{bottle}$ ) X retailer margin of 33% =  $\$825.75/12 = \$68.81$

**PO (Purchase Order)** – A order that is submitted by the distributor to a winery for a formal purchase of product. The order outlines the item, quantity and price, along with all details of the pickup. Wineries are expected to respond to the receipt of a PO with the confirmation of BOL and details of when the order will be ready for pickup as well as issuing the distributor an invoice for the order.

**BTG (By The Glass)** – Acronym used for the “by the glass” segment of an on-premise accounts wine program. In some markets, wineries and distributors can offer BTG pricing to restaurants to incentive volume sales that come with a high frequency placement. Typically BTG pricing is a substantial discount from a wine’s normal wholesale price (i.e. A \$25 wholesale wine might be priced at \$15 wholesale if a restaurant agrees to pour it BTG (by the glass) with the goal of increasing the exposure and overall sales volume of the wine. In some cases, if the volume is high enough and BTG placements are made, distributors can be motivated to work on a slightly lower Gross Margin to keep the placement active. Many BTG programs are either supported on the winery side with SPAs or DAs, essentially the distributor sends a bill to the winery at the end of each month showing them how much wine they sold to restaurants for BTG programs and how much the winery needs to either pay or issue a “Credit Memo” to offset the lower wholesale price.

**Mix n’ Match** – A pricing term used in markets that allow for quantity discounts. Used in scenarios where a different SKUs can be ordered in combination to reach a specified quantity needed to trigger a “quantity discount” (i.e. A retailer orders 2 cases of a winery Pinot Noir and 1 case of their chardonnay to get the 3 cs discount pricing offered on each wine).

**DA (Depletion Allowance):** A term used to describe an allowance in a specific dollar \$ amount per case that a winery will reimburse the distributor on the agreed upon terms of a specific sale. For example, a  $\$210/12$  pk FOB wine that sells for  $\$24$  wholesale has a  $\$60$  DA per case

that allows the distributor to offer a “special” wholesale price of \$19.00 or specific sales channels (i.e. BTG) or quantity purchases (i.e. 5 case order) by approved accounts. At the end of the month a “Depletion Report” is sent from the distributor to the winery with a list of all sales at this allowed upon price of \$19.00 and the winery is “billed back” the \$60/case to bring the actual FOB to \$150/12 pk. In general, distributors are willing to work on a lower Gross Margin percentage because of the winery’s pricing support.

**SPA (Special Purchasing Allowance)** – This is a “special” price set by a winery that is below the normal “Frontline” FOB price, typically used to incentivize larger orders (i.e. A wine that normally sells for \$210/12pk FOB might have an SPA of \$180/12pk if distributors order 28 cases at a time), allowing the distributor to either increase their Gross Margin (profit percentage) or offer the wine at a lower wholesale price to increase volume of sales.

**FSA (Floor Stock Adjustment):** An accounting term that uses “free goods” or “samples to reconcile or offset an amount due from a winery to a distributor. Typically FSAs are used when a winery reduces the price of a wine currently in inventory with the distributor (that was purchased at the higher price) and in order to move all inventory to the new lower wholesale price, an FSA is agreed upon. An FSA uses the value of the wine at the new reduced price to offset the difference the distributor paid at the higher price point. An example is a winery lowers the FOB of a wine from \$150/12pk to \$120/12pk to target a new \$14.50 wholesale price, but the distributor still has 10 cases in inventory that are currently priced at \$18.00 wholesale, in order to move all 10 cases to the \$14.50 price, the winery and distributor agree on an FSA of 2 cases (worth \$300 FOB the exact difference of 10 cases \* \$30/case.

**Frontline Pricing:** A term used to represent the FOB price + Laid in costs + the distributor’s margin (typically between 28-33% GM), in many cases the frontline is defined to allow “price protecting” in line with the wineries Suggested Retail Price (SRP) and leaves room for creating quantity discounting with the support of DAs or SPAs.

**LTO (Limited Time Offer) :** Commonly used term to reference an offer (i.e. Special Price) from a winery within a limited timeframe. Limited Time Offers can be used in certain markets for special programs to key accounts, specifically restaurant groups or retail chain accounts. An example would be setting up an LTO during MAY for Oregon Wine Month for restaurants and retail shops to buy your wines at a special price.

### **Transportation, Ordering/Inventory Terms:**

**BOL (Bill of Lading):** A document used by warehouses/wineries/shippers when releasing/transferring possession of wine to a common carrier (transport company – i.e. US Wine Transport). The document details the shipment, contents, and contains routing information along with identifying the names/addresses of the consignor (shipper), and the consignee (where it’s being shipped - destination).

**Laid-ins:** All combined costs accrued from the moment of FOB pickup until the wines are inbounded at the distributor's warehouse. Typically, 'laid-ins' consist of transport costs, state excise taxes and can add .50 to \$2.00 to the cost of a bottle of wine to a distributor depending on the state and distance from FOB pickup point.

**OOS (Out of Stock)** – A term used in warehousing and inventory to identify when an item is completely unavailable.

**Shipments:** A term used to define orders “shipped” from the supplier to a distributor. Shipments can be used as an indicator of performance YOY to calculate sales \$\$ and cases “shipped” to a market as a means of measuring goals.

**JIT (Just in Time Inventory):** A supply chain strategy used to keep inventory costs lower by only ordering the minimum number of cases needed to fulfill orders that are received. Typically this is a strategy that can inhibit sales of your product because sales reps are worried about having an OOS scenario with an order of your product. (refer to Inventory Management).

### **Reporting Terms:**

**Depletion Report** – A sales report that can be generated by your distributor at any time, but typically sent at the end of each month that shows details of each sale (date/price/qty/account). Typically used to confirm details of any BILLBACKS a distributor will be expecting you to pay them from DAs (Depletion Allowances).

**PODS (Points of Distribution)** – Refers to a unique account (location) where your wine is being purchased/sold (this can be a restaurant, wine shop, grocery store, wine bar, etc). Many wineries look at PODS as indication of market penetration and aim increase their PODs year over year. The theory is that increasing your PODs will increase ability to sell more wine (more people selling your wines).

**OND** – Acronym for October – November – December, typically known as the business 3 months in volume and \$\$ sales for wholesale distribution to restaurants and wine retail.

### **Accounting Terms:**

**Credit Memo** – A document issued by the winery to a distributor that represents a “Credit” that can be applied to invoices due. In many cases Credit Memos are issued by wineries to a distributor to repay “Billbacks” that reflect the use of samples or DAs (Depletion Allowances).

**Invoicing** – The process of sending a document with an itemized list (SKU and quantity) of payments owed and the terms of the payment. Typically, a winery issues an invoice that matches the PO (purchase order) received from a distributor. In addition, distributors can issue BILLBACK invoices that account for samples, DAs (Depletion Allowances), Unsellable (spoiled/damaged) product.

**True Up:** Means to match or reconcile two or more balances with the help of an adjustment. In accounting, this adjustment journal entry is called true-up entry. The term is used by distributors and wineries to reconcile any **outstanding billbacks** (which may include samples, promotions, depletion allowances, etc) **vs Invoices** (Outstanding balance due to winery from a distributor for sale of goods).

**Bill Backs:** Accounting term used by distributors to reference an invoice document that is essentially “billed back” to the winery to record specific charges. A typical example would include “sample bottles” that were purchased by the distributor and used by reps/managers to sample with accounts/buyers (typically a winery and distributor share the cost 50/50 – i.e. a 50% billback). Another typical example would be a billback for DAs (Depletion Allowances). Billbacks are normally sent by a distributor’s accounts receivable to wineries at the end of every month. Wineries can then create “Credit Memos” to reconcile the billbacks by applying them to and outstanding invoices.

### **Account Types & Sales Channel Terms:**

**Off-Prem:** Off-Premise refers to accounts that are permitted to buy and sell wine in closed containers, but not allowed to serve or consume on the premise (i.e. Retail Wine Shops)

**On-Prem:** On-Premise refers to accounts that are permitted to buy and sell wine where customers can consume on that property (i.e. Wine Bars, Restaurants, etc)

**Dual Premise:** Accounts that have both permits to buy and sell wine for customers to either take home or consume on the licensed premise. (i.e. Wine Shop with a wine bar)

**Channel Pricing:** Pricing that is specific to a particular “sales channel”. For example, Restaurants or On-premise accounts are a sales channel and a Retailer or “off-premise” accounts are another sales channel. Some states prohibit setting different pricing for specific sales channels. Channel pricing is used when you want to set different wholesale prices for different types of accounts (i.e. Making your wines available at a lower price to restaurants).

**DTC (Direct-to-Consumer):** A transaction or sale from a winery directly to the consumer by forgoing the 3 tier system (distributor/retailer). Check compliance regulations and required permit to sell/ship out of state. i.e. Any transaction at your winery

## **Distributor Operational Terms:**

**Sample Policy:** Specified in an agreement between the supplier (winery) and distributor of what amount of financial responsibility each party will assume when samples of wine are pulled from inventory to help sell their wines. Policies can refer to % of inventory and/or % of product cost (after laid-ins which are paid for by the distributor). A typical sample policy would be that the winery and distributor would each pay 50% of the cost of the sample when sales reps or managers pull samples. Typically suppliers are expected to assume 100% Billback (supply pays 100% of the cost of their own wine) when samples are pulled when the supplier is in market working with sales reps.

**Brand Manager:** A role within many medium to large distributors that is responsible for managing relationships of suppliers (winery) and acts as an ambassador for the brands they manage. Essentially collaborating and communicating plans, expectations, updates, vintage rolls, pricing, inventory, etc between the wineries and sales managers and sales reps.

**Chain Accounts Manager:** A role within many medium to large distributors that is responsible for managing business relationships with larger accounts with multiple units (Chain Accounts). Typically their role is to collaborate with brand managers, suppliers (wineries) and sales reps to find opportunities for their wines and to facilitate placements and large deals with the chain accounts, including managing “RFPs”.

**Key Accounts Manager:** A role within a distributor that is responsible for managing the relationships of “Key Accounts” (the top restaurants, wine shops, and other accounts that are the most important clients and benefit from additional management contact from the distributor).

**On-Prem Sales Manager:** A role within a distributor that is responsible for managing the programs and relationships between wineries/brand managers, sales reps and top “on-premise” accounts (restaurants, wine bars, etc). A role intended to maximize a distributors ability to build business and sales with on-premise accounts by offering specialize focus on these account’s unique needs and the offerings within the distributors portfolio.

**Off-Prem Sales Manager:** A role within a distributor that is responsible for managing the programs and relationships between wineries/brand managers, sales reps and top “Off-premise” accounts (retail, grocery, wine shops, online sellers, etc)

## **Market Types:**

**Franchise State:** A *market* or *defined territory* in which you have a contractually binding agreement of representation with a wholesaler/distributor.

**Connecticut:** You'll need to be traded to another distributor for a brand of (perceived) equal value or the new distributor would need to pay a full calendar year's worth of gross profit. One Price & Price Posting (1 case only)

**Georgia:** You'd need to be traded to another distributor for a brand of equal value or the new distributor would need to pay a full calendar year's worth of gross profit. Alternatively, you can pull your brand out of the state & not sell there for 4 years/re-enter with the distributor partner of your choosing.

**Idaho:** You'll likely need two distributors to cover the entire state; sometimes eastern Idaho is covered by your OR/WA distributor. Franchise agreements filed with the state.

**Maine:**

**Massachusetts:** Difficult to obtain an outright release, here, though trades between distributors happen often. You do have the option to "dual", here, and sign another distributor to sell your wine throughout the state on top of the distributor you have currently, though you've got to offer the same allocations and the same pricing to both per state law. (You can actually sign as many distributors as you'd like, though discouraged)

**Michigan:** There are procedural steps, here, with multiple notices, and periods with "right to cure". However, if you're willing to go through the steps (which will take months), you can likely get out of your agreement and change wholesalers with some sort of "good cause".

**New Mexico:**

**North Carolina:** Can switch distributors without penalty if you sell less than 2,000 9L cases in the state.

**Ohio:** Can leave your distributor here with "good cause", and while that's not an easily defined term, it can potentially be a "gray area" for wineries/supplier groups to move without penalty.

**Tennessee:** To move distributors, you'd need an outright release or there's a termination request process also involving "good cause" (& also "good faith") which in this case, is clearly defined on the Tennessee Department of Revenue website:

<https://www.tn.gov/content/dam/tn/revenue/documents/taxguides/brandterminationguide.pdf>

**Vermont:** Can move distributors with "good cause", though not defined, and you must give a 120-day notice/period to rectify/terminate the agreement which will then be reviewed, upon petition, by the Vermont superior court to see if "good cause" exists to cancel the franchise agreement. The only other way you could terminate your current distributor in Vermont would be if you can prove that a distributor did irreparable harm marketing your brand.

**Virginia:** Probably the most difficult state when it comes to moving distributors. You'll need an outright release, and where you sign your brand will likely be permanent.

### **One Price State:**

**State Controlled Market:** In Certain Markets, the Wholesaler acts as a *broker* to the State (or you sell directly to the state as the manufacturer) creating another "tier" to sell through.

### **Mississippi:**

**Maryland/Montgomery County:** Only state where regulatory authority is pushed to the county level. State/County-owned-stores for Wine/Beer/Liquor, only 4 grocery stores can sell wine/beer (grandfathered in prior to the law change in the 1980's).

**New Hampshire:** You can monthly Price Post through your distributor - State Controlled

**Pennsylvania:** This is a 4-Tier State, in which if you do have a distributor (which acts as a broker), you'll then need to sell your wine to the Pennsylvania Liquor Control Board (PLCB), who will list and sell your wine to On-Premise. The PLCB also acts as it's own retailer, and is the only retailer in the state with 615 stores.

- *You can also sell directly to the PLCB without a broker if you decide to go that route. The WVWA acts as a consolidation shipping point for Oregon wineries wanting to sell direct.*

**Utah:** 4-Tier State, Purchase Orders come directly from the state. Similar to PA, a broker can be helpful/is common to present your wines on your behalf to the state of UT to be listed, and accounts can purchase from that state list.

**Wyoming:** 4-Tier State, Purchase Orders go through the state. There are Listed Items and Special Order items, here, so your distributor (who, like PA, and UT acts as a broker) can present any item to be ordered in advance by any licensed account through the state of WY. Listed items are regularly stocked in the state warehouse (generally heavy retail/chain grocery items)

**NEED TO COMPLETE –**

Post Offs

Pulse Pricing

Price Posting

Customer Specific Pricing

Vintage Roll:

Supplier