

**Matthew J. Funchion**  
**House Liquor Committee**  
**Testimony 08/29/13**

Thank you Chairmen Taylor, Chairman Costa and committee members. My name is Matthew Funchion. I am the president and owner of Penn Beer Distributors, Inc. We are located on Domino Lane in Philadelphia, Pennsylvania. We employ 125 people, 70% of whom are teamsters, represented by teamsters Local 830. All are family sustaining jobs with health & welfare and retirement benefit packages that are the envy of most industries. We are all very proud of our employees and of the wage and benefit coverage that we provide.

Penn Beer Distributors represents over 20 brewing suppliers, and we partner with several in-state Pennsylvania craft brewers (Victory, Troegs, Boxcar, Susquehanna Brewing and Prism). As well as others from around the country and the globe, we market, sell and deliver beer to over 2300 retail licensees within our service area.

As you know, as beer wholesale distributors or importing distributors, we are referred to as the "middle tier" of the three tier delivery system. The first tier of the three-tier system are brewers, distillers and vintners (suppliers). We then fill in the second tier, and the third tier is represented by the many different retail trade channels, in Pennsylvania, including beer distributors, restaurants, taverns, delis, supermarkets and entertainment venues.

Importantly, we are all true, legitimate and law abiding Pennsylvania businesses, employing Pennsylvanians, some are multi- generational, and some first generation like me...we are all family run businesses. Collectively, we employ over 5,000 Pennsylvanians.

The three-tier system was developed immediately following the repeal of prohibition. And its intent was to legally and responsibly manage the sale and distribution of alcohol from suppliers (brewers, distillers, vintners) through wholesaler distributors...to retailers...and ultimately to the end consumer. Since the repeal of prohibition, the three-tier system has been proven effective...and a highly successful method of alcohol sale, distribution and management. Over the years since prohibition, and due to the many responsibilities that we have in our businesses and communities, we have clearly been defined as the "service, responsibility" and "community dedicated" component of this very successful system. The three-tier system is very balanced, very fair, very effective and has been highly successful since its inception.

We store products in climate controlled, clean and safe warehouse operations with very strict stock rotation procedures. This careful management of product flow and storage ensures optimum quality product and packaging to the end consumer, of our three-tier system. We develop independent...fair...and responsible pricing strategies for all brands and packages which meet the service and delivery needs of each retail trade channel, and we then execute delivery of our many fine products to all of our Philadelphia licensed accounts.

As beer wholesale distributors, we are also responsible for the collection of state sales tax on beer sales and remission of payment of that sales tax to the Commonwealth on a monthly basis. Due to the limited number of entry points into the marketplace through importing distributors, it is very beneficial to the Pennsylvania Department of Revenue with tax collection and audit review.

Having explained who we are as beer wholesale distributors, I'd like to take a few minutes to express my opinion regarding the proposal of the Pennsylvania Brewers Association.

Quite frankly, I don't know exactly why my business partners are going down the road of trying to fix something that is not broken, and I think that there are more important issues for the legislature to address that more directly impact the citizens of the Commonwealth.

Yes, some change is needed to modernize the three-tier system, and I think that common sense and reasonable minds will prevail, and we are working with the Pennsylvania brewers in that regard.

As mentioned earlier, in my business we partner with legitimate in-state Pennsylvania brewers, some larger than others. Through brand building efforts and significant financial investment (manpower, merchandising, promotion, sampling, displays, etc.), we have grown these in-state brands to very strong levels in the total beer segment, not just craft. In fact, we can all proudly celebrate the fact that Pennsylvania is ranked 3<sup>rd</sup> in the nation for craft beers!

In my business, we have had and continue to have very successful and mutually respectful business relationships with all of our suppliers. We establish mutually agreed upon goals and objectives, we execute together and we make adjustments to plan when necessary. Importantly, brewers and wholesale distributors have prospered in the Pennsylvania three-tier system...we have all been successful in a very difficult economic environment!

My immediate and personal response to the proposal of the Pennsylvania brewers would be as follows:

- If Victory Brewing Company or Troeg's Brewing Company arbitrarily decide to self-distribute, or terminate without cause, you will materially and significantly impact my ability to continue doing business as a going concern. You will take my business out of the craft beer segment.
- If you require "renegotiation" of terms every five years, you will diminish the trust that we have built together over the past several years. This trust has been paramount to our mutual success in building brands together.
- If you require 10% of proceeds of sale of distribution rights, are you prepared to share the same with us if you sell to another entity?

- Your proposals significantly erode the very successful three tier system...why?
- As your wholesale distributor partner, what have we done wrong?

I ask these very important questions because your proposals present serious challenges to my ability to sustain my current business model and my ability to continue aggressive investment behind your brands from which we have all prospered.

Ladies and gentlemen, we are all enjoying success, while the consumers enjoy the price, variety, and access in the beer market in Pennsylvania.

Existing laws provide for Pennsylvania brewers to self distribute, and each of my supplier partners have chosen to go to market with my company as a business partner. Again, we are collectively enjoying success and prosperity in a difficult economic environment!

Existing laws also enable Pennsylvania brewers to terminate for "cause" or "non performance".

To summarize, Pennsylvania laws supporting "three tier system" of alcohol management are working very well for brewers, wholesale distributors, retailers and consumers throughout the Commonwealth.

Thank you for your time and consideration.