THE THREE TIER DISTRIBUTION SYSTEM

The United States of America, contrary to most developed countries, legally imposes a distribution system for spirits in which a manufacturer of spirits must distribute their products to the end consumer through a multi-layered distribution system. This platform is the so-called “Three-Tier System.”

Consequently, a foreign manufacturer of spirits must sell to a U.S. Importer, the U.S. Importer to a Wholesaler, the Wholesaler to a Retailer/Horeca; and the Retailer/Horeca to the actual end consumer.

By implication, the Three-Tier System establishes that a foreign manufacturer of spirits may not sell directly to a Wholesaler or Retailer in the United States; nor may a licensed Wholesaler sell directly to an end consumer.

The legal structure of the Three-Tier Distribution structure varies slightly from state to state: for example, in the State of California, an import company may also simultaneously function as a wholesale company, which applies to Five Star Wine & Spirits, as it is based in the State of California.

Importantly, the Three-Tier system also safeguards a Wholesaler in the U.S. indirectly against any parallel imports of spirits, which is a unique feature among developed countries, thus making the US a secure environment for brand building.

The historic rationale behind the Three-Tier System consists in assuring that all alcohol taxes are duly paid and collected by the government.

The official rationale today is based on the assumption that the Three-Tier System and the consequential existence of mega-wholesalers is still justified in the 21st century as it is the most cost-effective logistical platform to distribute spirits due to its economy of scale and high level of specialization in spirits logistics.

As the Three-Tier System is based on "percentage-on-value" and not "per-case" in terms of distribution costs to the supplier, this argument holds true for inexpensively priced, mass volume items, but not for luxury wines and spirits.

Traditionally, a U.S. Wholesaler carries out the functions of order taking, logistics, invoicing and accounts receivable collection.

The task of selling, however is customarily carried out by the spirit manufacturer’s or importer’s sales staff, which are known in the U.S. by the term "Broker", whose task consists in selling spirits on behalf of the Wholesaler at the expense of the manufacturer or the importer.

Thus the actual cost of distribution in the U.S. is traditionally the compounded percentage rate that is being paid to the importer plus wholesaler plus the broker.

Five Star Wine & Spirits mission is to provide to its luxury brands suppliers an integrated importer/wholesaler/broker service, explicitly focused on and specialized in the luxury spirits sub-market, at a lower aggregate cost than the sum of its individual service components.