Analysis of the Impact of A1943/S2683 in New Jersey

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I. Summary

This report analyzes the likely impacts of passage of the New Jersey bill currently being considered by the Assembly and Senate, known as A1943/S2683 (the "Bill").[2] The Bill would expand the offering of direct-to-consumer ("DTC") shipping permits to wineries that produce more than 250,000 gallons of wine per year. New Jersey has allowed DTC shipping by wineries for the last nine years, but it has limited permits for those shipments to only wineries that produce less than 250,000 gallons of wine per year. Removing that restriction will benefit New Jersey by providing a significant, annual, new revenue stream to the state – **$3.0 to $4.4 million after two years, and up to $6.0 million in four years** – in the form of taxes and fees paid by DTC shippers who were previously excluded. Excluding larger wineries from the original DTC law has most likely already cost New Jersey near $30 million in lost revenue because the excluded wineries comprise a large portion of DTC wine shipping volume nationally. Taxes and fees from this segment were previously lost, and not shifted elsewhere, either because shipments ultimately bound for New Jersey consumption were sent to neighboring states (who collected the taxes and fees) or were simply lost sales.

Local New Jersey liquor stores should not be adversely impacted in any meaningful way by the Bill because, as is the case with the DTC shipping law that has been in effect for nine years, the market segment served by DTC wineries has marginal overlap with liquor store sales. Even in states allowing DTC shipping from wineries of all sizes, DTC sales constitute only two percent of off-premise wine sales by volume. Wine sales make up about thirty percent of total alcohol sales from New Jersey liquor stores, and the wine segment largely served by DTC shippers (domestic wines over $15 a bottle) are a minority component of these sales, as quantified further in this report. Non-DTC wine sales have grown at a steady rate nationally even as DTC shipping has become commonplace. Liquor stores have developed their own e-commerce and delivery capacities and have seen huge growth in these areas, particularly in the COVID environment during the last year, establishing themselves as a capable presence within the online market that DTC wineries pioneered. Expanded DTC wine shipping will continue to familiarize new consumers with the online purchase and delivery of alcohol, benefiting all participants, including local retailers. DTC wineries will also continue to develop consumers' interest in quality wines, which will benefit liquor stores online and in brick-and-mortar retail, since alcohol consumers, and their preferences, tend to utilize multiple platforms and sales channels.

New Jersey consumers will also benefit by finally being able to purchase DTC from all wineries that offer the service, in line with the offerings of neighboring states and nationally. This will both significantly expand the DTC channel in New Jersey and increase availability in the channel of more affordable offerings. The net result will be more DTC choices to New Jersey consumers at a lower average cost-per-bottle than is available to them today in the DTC

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[1] See page 13 for biographies.

[2] https://www.njleg.state.nj.us/2020/Bills/A2000/1943_I1.PDF.

channel. Expanding the DTC shipping channel will also provide consumers with more options for home delivery during the COVID pandemic and strengthen this important outlet for safe, at-home transactions if and when conditions require it in New Jersey in the future.

II. Background

A. United States Alcohol Industry

The alcohol industry has long played a significant role in the United States economy. The industry (including beer, wine and spirits) sustains more than 4 million jobs and generates almost $70 billion in annual tax revenue. While most alcohol is distributed via the three-tier system – in which manufacturers sell to wholesalers, who sell to retailers, who sell to consumers – some alcohol is sold by manufacturers directly to consumers pursuant to manufacturer DTC shipping permits. Wine is by far the most common alcoholic beverage sold via the DTC channel. Currently, wineries sell DTC in 45 states and DC, breweries sell DTC in 10 states and DC, and distilleries sell DTC in seven states and DC.

B. United States Wine Industry

The wine industry makes up an important segment of the alcohol industry and has grown significantly over the past fifteen years. This growth has been broad and diverse, and has expanded beyond traditional players and regions, driven by consumer demand for variety. The number of registered wineries has more than doubled, to 11,053 today, compared to 5,364 in 2004 and 8,185 in 2015. There is now at least one winery in every state; New Jersey has over 50.

Most wineries are small. Of the 11,053 wineries mentioned above, 10,870 (over 98%) produce less than 250,000 gallons (approximately 105,000 cases) of wine annually. Only 183 wineries produce (or are owned by wineries that produce) more than 250,000 gallons per year.[3] The larger wineries provide diversity to the industry, in terms of the number of distinct wine styles they offer, and the specialized marketing channels they utilize to reach consumers, that belies their small number.

C. DTC Wine Sales

The availability of DTC winery shipping has increased substantially over the past fifteen years. In January 2006, only 17 states allowed DTC winery shipping. Today, 45 states and DC allow DTC winery shipping in some form. The states bordering New Jersey – Connecticut, New York, Pennsylvania and Maryland (excluding only Delaware) – allow DTC winery shipping by all licensed U.S. wineries.

Despite the increased availability of DTC winery shipping, it remains a very small distribution channel compared to sales of wine overall. In 2020, DTC winery shipments accounted for only 2.1% of total U.S. off-premise wine sales by volume. ("Off-premise sales"

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[3] These 183 wineries can be grouped into 114 "parent" wineries, each of which produces more than 250,000 gallons a year. A smaller winery owned by a larger winery, for example, is included in the 183 number.

include all sales for consumption away from the premises where the transaction occurs, *e.g.*, at home – these include liquor store sales, supermarket sales, convenience store sales, DTC winery sales, etc.). DTC sales have increased incrementally over the years – in 2019 and 2018, DTC winery shipments constituted 1.9% by volume of off-premise wine sales, in 2017, 1.7%, in 2016, 1.5%, in 2014, 1.2% and in 2013, 1.1%. Excluding the small number of states (five) that currently prohibit DTC winery shipping does not materially change the calculus. In 2019, for example, DTC winery shipments represented 2.0% by volume of total off-premise wine sales in the 45 states and DC where they are permitted.

All off-premise wine sales have increased over the past ten years alongside the increase in DTC shipping. Between 2010 and 2019, total U.S. off-premise wine sales grew at a compound annual growth rate ("CAGR") of 1.94% by volume. DTC shipments were only a small fraction of that growth; excluding DTC shipments, the total off-premise market grew at a CAGR of 1.84% over that same period. In other words, non-DTC off-premise wine sales continued to grow at a steady rate even as the availability of DTC shipping became commonplace, demonstrating the simultaneous expansion of both the DTC and traditional off-premise retail channel for wine sales.

D. New Jersey

In the 45 states and DC where DTC winery shipping is currently allowed, different types of regulatory regimes supervise its implementation. Some states allow wineries to ship largely unrestricted – *e.g.*, California, Colorado, Florida, and Washington. Other states limit the volume of wine that can be shipped to any person or household – *e.g.*, Arizona (12 cases per person per year), Missouri (two cases per person per month), and Maryland (18 cases per household per year). And certain states prohibit DTC winery shipping to dry jurisdictions or counties – *e.g.*, New Hampshire, Vermont, and West Virginia.

Only two states – New Jersey and Ohio – restrict access to a DTC winery permit by winery size. A DTC winery permit is available in these two states only to wineries that produce less than 250,000 gallons (or approximately 105,000 cases) of wine annually (known as a "production cap"). Notably, Ohio is expected to pass legislation this legislative term that will lift its 250,000-gallon production cap, leaving New Jersey as the only state that prohibits large wineries from participating in the DTC market.

Although the 250,000-gallon production cap technically excludes only the largest two percent of wineries from legally shipping to New Jersey, in practice it dramatically reduces actual DTC winery shipments to New Jersey consumers (at least those taxed and regulated by New Jersey). Larger wineries comprise a large portion of the DTC market where DTC shipping is permitted, and their exclusion in New Jersey is apparent. While overall DTC winery sales generally constitute around two percent of total off-premise wine sales, in New Jersey they only constitute 0.8% of off-premise wine sales. And while New Jersey ranked sixth in overall wine consumption in 2019 among all U.S. states, it ranked only 17th in DTC shipment volume. Notably, New Jersey's production cap excludes not only large wineries but also smaller wineries owned by larger wineries. Of the 183 wineries excluded by the production cap, 114 produce more than 250,000 gallons a year themselves, while the other 69 are owned by wineries that produce more than 250,000 gallons a year. The end result is a DTC channel that is less than half the size of the national average.

2020 further demonstrated the negative impact of the production cap on the DTC wine sales channel in New Jersey. The COVID pandemic caused a substantial increase in DTC wine shipments; nationally those sales rose by 27%. Shipments in states neighboring New Jersey saw comparable or even greater gains – up by 33% in New York, 67% in Maryland, and 100% in Pennsylvania (though the latter was influenced by closure of Pennsylvania state liquor stores for part of 2020). New Jersey, by comparison, saw DTC shipments rise only 3.5%, and saw its ranking in DTC shipment volume fall to 21st in the nation. In other words, as the rest of the country and region saw a substantial increase in the use of the DTC channel during the pandemic, New Jersey did not because the production cap, in practice, limited New Jersey DTC shipping even when the pandemic strongly influenced consumer use of DTC wherever it was fully available.

E. COVID

The onset of COVID in March 2020 significantly changed the wine retail landscape in at least two respects: (1) it shifted sales from "on-premise" (sales for consumption on the premises – *e.g.*, at a bar, restaurant, or tasting room) to off-premise; and (2) it increased demand for online shopping and home delivery. This shift benefitted off-premise wine retailers in both their in-store and particularly their online sales. From March 2020 to December 2020, e-commerce wine sales *within the three-tier system* (manufacturer → wholesaler → retailer → consumer) increased nationally by 257%. This increase is largely attributable to sales by local retailers, who sell online and offer home delivery through either proprietary, or third-party platforms like Drizly and Minibar. Increases in e-commerce sales were even higher for spirits (+446%) and beer (+291%). While a portion of this dramatic increase in e-commerce sales resulted from consumers shifting their in-store purchases to online purchases, a large percentage of this increase in retail sales was attributable to the unavailability of on-premise options for much of the year. In other words, 2020 was a good year for off-premise liquor retailers from a sales perspective, and they also benefited from consumers becoming comfortable with retailer e-commerce and home delivery options, gains that are likely to continue after the COVID crisis abates.

Winery DTC shipments saw a 27% increase in volume nationally, as mentioned above, but given the overall expansion of the off-premise market, DTC's total share of off-premise wine sales nationally increased only marginally, from 1.9% to 2.1% by volume. This volume increase was largely the result of wineries shifting to DTC winery sales when their tasting rooms were shuttered, and upgrading their digital platforms to meet the changing marketplace during the crisis. It remains to be seen whether DTC winery shipments will retain this larger market share post-COVID when in-person shopping, and on-premise tastings can safely return. Notably, neighboring states experienced increases in DTC share similar to the national average, while New Jersey's share remained flat, at 0.8%, with a contributing factor being the production cap restriction.

The increased demand for online shopping and home delivery during the pandemic highlights the importance of these services as public health measures, both now and potentially in the future. DTC wineries have long led the way in creating these services and familiarizing the public with their use, and they continue to serve in this capacity, pioneering a market channel that was largely non-existent fifteen years ago. Such services allow consumers to get the products they want without leaving their homes during a public health emergency while still contributing to the local economy via excise and sales tax payments.

III. Analysis

We have analyzed the New Jersey wine retail market as whole, as well as the likely impact of adoption of the Bill on that market, and have determined that the Bill will have a positive impact on New Jersey. Eliminating the production cap will meaningfully increase tax and licensing revenue, and will increase consumer choice at a broader price range by including, in the New Jersey DTC channel, the wineries that make up a large portion of DTC shipping sales by volume in most states. We further expect that it will not meaningfully harm and may, in some ways, benefit local businesses by increasing demand for quality wines and by continuing to expand consumers' familiarity and comfort with the e-commerce market channel, a newer channel that has shown explosive growth for off-premise retailers, particularly in the last year.

A. State Revenue Impact

The Bill makes DTC permits available to wineries that produce over 250,000 gallons of wine per year. Under the Bill, these larger wineries are subject to the same fees, taxes and shipping limitations as wineries currently permitted to ship DTC. The annual fee for a DTC license is $938. Wineries granted this license are limited to shipping twelve 9-liter cases of wine to any New Jersey resident (21 or older) per year, for personal consumption and not for resale. These wineries – like all other distributors of alcohol in New Jersey – are required to pay New Jersey sales taxes (6.625%) and excise taxes ($0.875 per gallon) and register the label for each product they intend to sell in the state at $23 per registration annually.

Increased DTC winery shipping has been consistently shown to increase state tax and licensing revenue. A 2012 report from the Comptroller of Maryland showed that the legalization of DTC winery shipping in Maryland increased the total wine market in the state by almost 4% – three-tier sales increased by 3.61% from the prior year and DTC winery shipments added an additional 0.35%, resulting in a 3.96% increase overall. The total tax and licensing revenue generated by DTC winery sales alone (not including the 3.61% increase in three-tier wine sales) totaled $693,624 in the first year. Similarly, a 2017 report prepared by the Eagleton Institute of Politics at Rutgers University estimated that allowing larger wineries to ship DTC in New Jersey – the precise issue addressed by the Bill – would generate approximately $4 million in tax and licensing revenue for New Jersey annually.

Our independent analysis, outlined below, demonstrates that New Jersey can expect to generate **between $3.0 million and $4.4 million** annually through passage of the Bill within the next two years, with upside beyond as both the wine market and the DTC shipment channel grow. This revenue is comprised of license fees, label registration fees, and sales and excise taxes.

License Fees. Of the 183 wineries currently precluded from obtaining a New Jersey DTC winery license, we estimate, conservatively, that 100 will obtain DTC permits. Based on a \$938 annual license fee, those 100 wineries will generate an additional \$93,800 per year in licensing revenue for New Jersey. If all 183 wineries obtain a license, the additional revenue will be \$171,654.

Label Registration Fees. Wineries shipping DTC to New Jersey must register all labels they intend to ship to the state each year at \$23 a label. Assuming that each of the 100 newly-licensed wineries ships 20 different wines to the state – also a conservative estimate – label registration fees will generate another \$46,000 in revenue for New Jersey annually. Notably, certain wineries, like Naked Wines, have approximately 300 labels in their portfolio. If even 50 of the 100 newly-licensed wineries have similar portfolios, New Jersey could generate up to \$345,000 annually.

Taxes. To calculate the sales and excise taxes that will be generated by the passage of the Bill, we need to determine the potential increase in annual wine sales resulting from such passage. To do that, we compare New Jersey wines sales and DTC winery market share to wines sales and DTC winery market share in the rest of the country in 2019:

Market	**Total Cases[4], All Channels**	**Total Cases, Off-Premise**	**Total Cases, DTC**	**DTC Share of Off-Premise Sales**
All U.S. States	406,839,000	341,744,760	6,598,352	1.93%
All U.S. States that fully allow DTC Shipments[5]	395,115,000	331,896,600	6,584,263	1.98%
All U.S. States that Allow DTC Shipments, excluding Highly Restricted States[6]	355,042,000	298,235,280	6,307,392	2.11%
New Jersey	13,934,000	11,704,560	95,631	0.82%

If the Bill is adopted, we expect DTC winery shipments in New Jersey to represent a similar percentage of the off-premise market as DTC winery shipments in other states over time. Below, we've calculated a range – at one end, we have 1.7%, the percentage of the off-premise market occupied by DTC winery sales in states surrounding New Jersey that allow DTC winery shipments (*e.g.*, MD and VA) and, at the other end, we have 2.11%, the percentage of the off-

[4] 1 Case = 9 Liters.

[5] Excludes UT, MS, AL, DE and KY.

[6] Excludes UT, MS, AL, DE, KY, AR, LA, IN, OH, RI and NJ.

premise market occupied by DTC winery sales in all states that allow DTC shipments, excluding restricted states.

New Jersey	Total Cases, All Channels	Total Cases, Off-Premise	Total Cases, DTC	DTC Share of Off-Premise Sales	Incremental DTC Winery Case Sales
2019	13,934,000	11,704,560	95,631	0.82%	–
Post-Bill (Projected Low End)	14,658,000	12,058,038	206,338	1.7%	102,365
Post-Bill (Projected High End)	14,658,000	12,058,038	255,016	2.1%	151,043

Assuming an average sale price of $36.83 a bottle for DTC shipment sales (the average national price), we expect New Jersey to see the following additional revenue post-passage of the Bill:

	License Fees (100 wineries)	Label Registration Fees (100 wines x 20 wines each)	Sales Tax (6.625%)	Excise Tax ($0.875 per gallon)	TOTAL[7]
Post-Bill (Projected Low End)	$93,800	$46,000	$2,997,232	$212,956	**$3,028,969**
Post-Bill (Projected High End)	$93,900	$46,000	$4,422,516	$314,2237	**$4,402,865**

When the above new sources of revenue (licensing, label registration and tax) are combined, along with allowing for the possibility that 10% of new DTC winery sales are taken from the existing off premise market, the result is an additional **$3.0 million to $4.4 million** for New Jersey within two years. Notably, this is an *annual* revenue stream that will likely increase over time, as the wine market overall grows, and the DTC shipment share of that market increases, even in small increments. Projecting further out, that range could expand up to **$6.0 million** by 2025 (this is based on overall market growth of 2% through 2025 and a DTC shipment share of 2.5%, which is not far from today's national share and close to where PA's share landed in 2019).

Importantly, this is *new* revenue – not revenue shifted from existing channels. Put another way, New Jersey is losing this revenue each year it does not allow larger wineries to sell DTC to New Jersey residents. Over the nine years New Jersey has allowed DTC shipping, while

[7] These totals assume a 10% shift from existing off-premise sales to the DTC winery shipping channel.

prohibiting larger wineries from participating, it has likely lost an amount near $30 million in revenue. It's possible that New Jersey is losing this revenue in part because New Jersey residents evade the state's production cap by having wine shipped to neighboring states where such DTC shipping is permissible – *e.g.,* to their office in New York or a relative's house in Pennsylvania.[8] The Bill will obviate the need for this practice and ensure that New Jersey reaps the tax benefits of DTC shipments to New Jersey residents, not neighboring states.

Finally, New Jersey can expect that this increase in revenue will come with only a limited increase of processing expenditures for the state. The state already has all of the implementation processes in place for DTC shipment licensing and tax collection and the number of new wineries eligible to participate will be a fraction of those currently eligible, while the revenues per participant should be significantly greater than currently licensed wineries, given that the newly eligible wineries should produce and ship larger amounts of wine per winery.

B. Impact on Local Businesses

i. New Jersey Liquor Stores

Passage of the Bill will not adversely impact local liquor stores in any meaningful way. We know this with some certainty because liquor stores have continued to grow, even as the number of states allowing DTC shipping without a production cap has grown exponentially. Since 2006, the number of liquor stores nationwide has increased by 12.4% (43,323 in December 2019 versus 38,528 in December 2006). During that same time period, the overall number of stores selling wine – *e.g.*, grocery stores, drugstores, convenience stores – has increased by 33.7% (192,562 in December 2019 versus 143,991 in December 2006). This while, as explained above, DTC shipping has grown from existing in only 17 states to 45 states plus DC, with only two states utilizing a production cap. In short, local off-premise alcohol retailers of all types have grown in number even as DTC wine shipping has become commonplace.

This is likely the case both because consumers often prefer shopping in store or online from retailers and because liquor stores sell alcohol types other than wine (*e.g.*, beer and spirits), imported wine (which is not generally part of the DTC channel), and domestic wines at price tiers and in alternative packaging (*e.g.,* cans and boxes) that are a small portion of the DTC wine landscape. DTC remains a relatively niche market channel for wine and as a result liquor store sales remain robust, both in-store and online.

All this is equally true for liquor stores in New Jersey. New Jersey consumers often prefer the retail shopping experience, in store or online, just like consumers in other parts of the country. And wine sales constitute only 30% of dollar sales in New Jersey liquor stores, while beer and spirits sales make up the remaining 70%. Because beer and spirits cannot be sold DTC in New Jersey (although they can be sold online by local liquor stores as described below), these sales are not impacted by the Bill. Equally important, of the 30% of liquor store sale dollars that are attributable to wine, a large portion of those sales come from segments beyond the DTC channel's core business, such as:

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[8] While this loss is impossible to quantify, we've seen anecdotal evidence that these out-of-state shipments are commonplace.

- **Imported Wines.** Imported wines account for almost 40% of wine sales in New Jersey liquor stores.
- **Wines < $15/Bottle and Alternatively-Packaged Wines (Cans, Tetras, and Boxes).** These wines constitute approximately three-fourths of New Jersey liquor store table wine sales, but make up a relatively small portion of the DTC shipment market.

In addition, DTC wine sales make up only 2.1% of wine sales by volume, even in states with no production cap. In New Jersey, DTC currently makes up just under one percent of total sales volume under current law, without any significant impact on local liquor stores. It's likely that some of the anticipated benefit of the Bill will come from bringing sales that are happening already in neighboring states, within New Jersey's tax and licensing authority. Those are not sales shifted from local retailers.

While we do not expect the Bill to significantly impact New Jersey liquor stores, it has the potential to benefit them in certain ways. First, DTC wineries effectively promote the online e-commerce sales and marketing channel, a channel that has rapidly become very important for local retailers. Historically, DTC winery sales have led the way in growing this market segment, from 17 states in 2006, to 45 states and DC (including New Jersey) today. Many consumers first learn that they can order alcohol online, and have it shipped to their home, through DTC wineries. And the larger wineries constitute a disproportionate share of that market. Local online sales and delivery by retailers, a much more recent phenomena, has followed the path created by the wineries. Liquor stores in New Jersey are able to offer not only delivery of wine to homes, but also spirits and beer which DTC shippers cannot, and they can offer fast, same day delivery, which DTC cannot.

In a survey of high frequency wine drinkers (once a week or more), 85% of wine drinkers reported drinking beer, liquor, or both in addition to wine. If these valuable consumers, having discovered e-commerce for alcohol through the DTC winery channel, seek to purchase other alcohol over the internet for delivery, they will find they can only do so through local retailers. Moreover, many surveyed wine drinkers who reported shopping online did not limit their e-commerce to a single source – 48% purchased wine from some combination of DTC wineries, online retailers[9], and websites for local stores. This indicates that greater awareness regarding the availability of DTC wine shipping is likely to increase e-commerce sales for all, as consumers who want to purchase wine online may seek to purchase from a number of sources – be it the winery, an online retailer, or a local store with a website. Local liquor retailers, who saw a massive boom in e-commerce sales in 2020 in wine (+257%), beer (+291%), and spirits (+446%) during the COVID pandemic, will certainly retain some of those sales in the future, especially as consumers discover they can purchase alcohol online conveniently and safely. A robust online market, including DTC shipping in-line with national and regional scope, will continue to facilitate consumers comfort with, and understanding of, online channels that benefit local retailers most of all.

[9] Notably, online retailers without a New Jersey store are not legally permitted to ship directly to consumers in New Jersey.

Second, online wineries provide an easy way for consumers to access information about wine, a historically intimidating pursuit. People with little or no knowledge of wine can learn about varietals, winemaking styles, regional differences, how to pair wine with food, and what experts think makes wine special. DTC wineries are at the forefront in wine education efforts – for example, through wine quizzes, tasting notes, and virtual interactions with winemakers. DTC wineries are focused on creating an educated, engaged customer base. Online experience is how today's internet savvy consumers learn about products, and alcohol is no different. Consumers take this knowledge, and their expectation for a quality product, with them when they leave the online world and enter the brick-and-mortar marketplace, or when they pair wine purchases with beer and spirits, which they can only do online through local liquor stores. In this way, the DTC winery channel serves the function within the broader market of developing interest in and understanding of wine, which then populates the marketplace as a whole, benefiting all participants.

ii. New Jersey Wineries

We also expect the bill to benefit New Jersey wine suppliers. New Jersey wineries are currently subject to the production cap, like all wineries nationwide. Lifting the cap provides those wineries with room to grow, and the ability to plan for potential growth without the concern of whether they will run up against the cap in the future. While some smaller New Jersey wineries might not be planning to exceed the cap on their own, they may want to partner with a larger winery, through, for example, a sale or merger, to take advantage of synergies of scale to expand DTC sales. While the production cap remains in effect, it is a barrier to such partnerships and thereby reduces the value of New Jersey wineries compared to wineries in states without a cap.[10]

C. Impact on New Jersey Consumers

The Bill will increase consumer choice. No matter how diversified a local liquor store's wine selection is, it can never accommodate all of the wines that are available on the market. In 2020 alone, for example, 106,000 individual wines sought TTB label approval. Even this is an underestimate of the wines available on the market, as the same label approval may be used across multiple years. The average liquor store sells about two thousand different wines in a 12-month period, and even Total Wine & More, arguably the largest liquor store, only sells about 8,000 different wines in a 12-month period. These selections are a fraction of the wines available in the U.S. at any given time.

DTC shipping can fill in the gaps for consumers, but if the biggest suppliers of DTC wines are excluded from the marketplace, the channel's effectiveness is greatly diminished. This is the case in New Jersey currently, where DTC shipment volume as a percentage of the market is less than half what it is nationwide. The result of this limited access to the larger wineries' products is higher average prices, as shown by the unusual price skew of New Jersey DTC shipments compared to the national average. The current average price of a bottle of DTC wine shipped to New Jersey is among the highest in the country at $45.51 (5th highest average of all

[10] Notably, the Garden State Wine Growers Association does not oppose the Bill.

states). This is because larger wineries dominate the more affordable price tiers among DTC shippers. Allowing larger wineries to ship their wines to New Jersey would reduce the average price, closer to the U.S. average price of $36.83, providing consumers with greater price choice.

Consumers will benefit from having additional players participating in the DTC winery market in ways that go beyond price as well. Many wines currently excluded from the DTC marketplace are available in no other way, making them inaccessible to New Jersey residents, except by shipping to locations in neighboring states. Excluded larger wineries also offer many of the educational services described above, but without the ability to purchase the wines being discussed online, the value of these services is negligible for New Jersey consumers. And some of the excluded wineries offer innovative pricing and purchasing options, like wine clubs and memberships, in which New Jersey consumers can't participate. Finally, as described above, consumers nationwide utilized DTC winery shipping in greatly expanded ways during the ongoing COVID pandemic, but not in New Jersey, where exclusion of larger wineries suppressed the large gains seen elsewhere to just three-and-a-half percent. DTC wineries simply did not provide consumers with the safe outlet for making purchases to the same degree that they did in neighboring states.

D. Impact on Health on Safety

New Jersey need not fear that DTC winery shipping will increase underage drinking, or otherwise impact the health or safety of the state. DTC winery shipping has been a fact of life in New Jersey for nine years. The Bill will add a relatively small number of new wineries to those who can apply for a permit to ship DTC. DTC winery shippers take underage drinking very seriously. For them, permission to ship DTC can constitute a significant amount, even all, of their revenue stream, and a state can deny that permission to any winery that violates its laws. For this reason, shippers typically verify a customer's age using age verification software, like LexisNexis or IDology, prior to check out, and they require their carriers (generally, UPS and FedEx) to check valid ID on delivery. The last fifteen years of experimentation nationally have not demonstrated any notable concern about the safety of wines delivered from DTC shippers, nor have any concerns been noted in the nine years New Jersey has offered DTC from smaller wineries. DTC shipping has proven to be secure and safe wherever it has been offered.

IV. Conclusions

Passage of the Bill will provide a permanent new revenue stream for New Jersey in the form of expanded taxes and fees, will not cause any meaningful harm to and may benefit local businesses by continuing to familiarize consumers with a relatively new market channel (online sales and local delivery of alcohol) that has seen explosive growth during the last year, and will benefit consumers by providing expanded offerings and price choice in a market channel that some have come to rely on for their health and safety, as well as for its convenience and educative value. While the impacts of the Bill on the broader alcohol retail industry in New Jersey will be modest, those impacts are all positive – more revenue, more consumer choice, expansion of a growing and potentially very valuable market channel for retail.

Data Sources
bw166: Wine total category sizing; growth rates; National and state level
Wines Vines Analytics: Number of Wineries in the United States
NielsenIQ TDLinx: Number of stores selling Wine
NielsenIQ Retail Measurement: Wine sales/trends off premise
NielsenIQ Online Measurement powered by Rakuten Intelligence
Sovos ShipCompliant and Wines Vines Analytics: DtC Shipment sales/trends
Wine Market Council: Consumer consumption and shopping habits, Changing World of Retail Wine Shopping 8-31-2018 and Online and Direct Purchasing Report 1-19-201
New Jersey Division of Alcoholic Beverage Control Website: Wineries licensed for DTC
https://www.njoag.gov/about/divisions-and-offices/division-of-alcoholic-beverage-control-home/
"Study On The Impact of Direct Wine Shipment," Peter Franchot, Comptroller of Maryland (December 2012)
"Revenue Estimate," Dr. Debbie Borie-Holtz and Dr. Ashley Koning, Eagleton Center for Public Interest Polling, Rutgers, The State University of New Jersey (April 2017)

Danny Brager
Owner/Operator Brager Beverage Alcohol Consulting

Danny Brager brings a wealth of experience in the Beverage Alcohol industry to his role as an independent consultant.

He is the former Senior Vice President of Nielsen's Beverage Alcohol Practice Area in the United States, where for close to 20 years he led teams that supported relationships with Nielsen's many Beer, Wine, and Spirits clients, as well as with key industry groups and the media. In that role, Danny succinctly provided data driven analysis and insights, focused on the U.S. retail environment and consumer/shopper – who they are, what they buy, and why – and what to expect looking ahead. Every year, he presents at large numbers of industry and individual company events. His informed opinions are respected by beverage alcohol producers, importers, distributors, retailers, and financiers

In September 2020, Danny introduced Brager Beverage Alcohol Consulting, offering analysis services to beverage alcohol companies seeking to translate market data into authoritative, fact-based insights in support of their brand and corporate goals. Brager will also continue to be a contributor and speaker at beverage alcohol events, as well as the media/press.

Danny has a Bachelor Honors Degree in Business Administration from the Shulich School of Business at York University in Toronto, Canada.

Dale Stratton
Owner Five Points Consulting LLC

Dale Stratton brings over 35 years of experience in the Beverage Alcohol Industry to his role as an independent consultant.

Dale retired from Constellation Brands in May of 2019 where he was the Vice President, Commercial Insights working across their Beer, Wine, and Spirits divisions. While at Constellation Brands he oversaw consumer and shopper insights, consumer affairs, business analytics, market research, category management initiatives and the wine sensory program. Dale's extensive work linking consumer and shopper insights and market analysis with business objectives and strategies enable him to translate insights into action.

Prior to joining Constellation Brands in 2006, Dale spent 22 years working at E&J Gallo where he began his career. During his tenure, he covered a wide range of responsibilities that included distributor management, account management, strategic insights and Lean Six Sigma.

Dale has a bachelor's degree in Journalism with a concentration in Public Relations from Colorado State University and an Executive MBA from Tuck School of Business at Dartmouth College.