

**REPORT ON THE FUNDING OF  
THE VIRGINIA SPIRITS  
PROMOTION FUND**

Virginia Spirits Board  
December 15, 2020

# **REPORT ON THE FUNDING OF THE VIRGINIA SPIRITS PROMOTION FUND**

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## **Document Title**

Report on the Funding of the Virginia Spirits Board Promotion Fund

## **Author**

Virginia Spirits Board

## **Legislative Mandate**

Chapters 85 and 410 of the 2020 Acts of Assembly

## **Executive Summary**

The third enactment of Chapters 85 and 410 of the 2020 Acts of Assembly directs the Virginia Spirits Board (Board), with assistance from the Virginia Alcoholic Beverage Authority (VA ABC), to submit a report on or before October 1, 2020, to the Department of Agriculture and Consumer Services detailing how the Board plans to fund the Virginia Spirits Promotion Fund after July 1, 2021. Upon request, the Northam Administration granted the Board an extension on the report until January 1, 2021. This report outlines the proposed funding mechanism of the Virginia Spirits Promotion Fund.

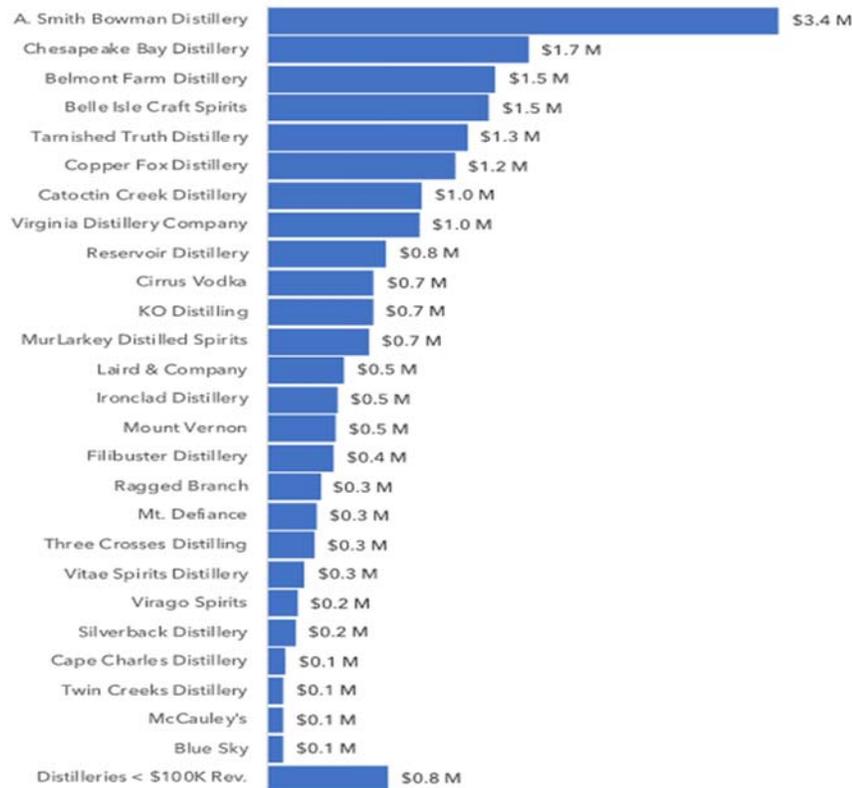
## BACKGROUND

The Virginia Spirits Board (Board) was established in a new Chapter 30.1 (Va. Code § 3.2-3007 et seq.) in Title 3.2 of the Code of Virginia pursuant to Chapters 85 and 410 of the 2020 Acts of Assembly. The Board was created to provide resources for the promotion of the Virginia spirits industry by a number of means approved by an administrative board appointed by the Governor. The purpose of the Board is to foster the development of the Virginia spirits industry by expanding spirits research, increasing education, and promoting the production of ingredients necessary for alcohol distillation and the production of spirits in the Commonwealth.

## INDUSTRY ANALYSIS

The chart below outlines Virginia spirits retail revenue by distillery through Virginia Alcoholic Beverage Authority (VA ABC) stores, licensees, and distillery stores. Because this data was provided by the Virginia Distillers Association (VDA), data from some distillery store sales are missing.

**ABC Retail Revenue by Distillery, TTM**



There are a total of 51 manufacturers selling Virginia-made spirits products in the Commonwealth. A. Smith Bowman is the largest group, representing 17 percent of the industry. The combined sales of the top six spirits manufacturers in Virginia represent over 50 percent of the industry's total retail revenue.

There are 25 distilleries with revenue under \$100,000; those combined represent four percent of total retail revenue.

**RETURN ON INVESTMENT ANALYSIS**

The Board needs to demonstrate a positive return on investment (ROI) for the industry. The analysis below outlines the minimum growth hurdle necessary to provide a positive ROI.

ROI Analysis - Minimum	
<b>Total Assessment</b>	<b>\$164,772</b>
<b>Gross Profit Growth Hurdle</b>	<b>\$164,772</b>
Est. Profit Margin / FOB	40.0%
<b>FOB Growth Hurdle</b>	<b>\$411,931</b>
Est. Retail Margin / FOB	48.0%
<b>Retail Growth Hurdle</b>	<b>\$858,189</b>
Retail Revenue - TTM	\$20,330,336
<b>Retail Growth % Hurdle</b>	<b>4.2%</b>

Total incremental gross profit to distillers needs to be higher than the assessment volume. Applying a gross profit margin of 40 percent means that freight on board (FOB) (i.e., supplier revenue) needs to increase by \$412,000. With an average total retail markup of 48 percent, retail revenue needs to increase by \$858,000. Based on the trailing 12 months retail revenue for the industry of \$20.3 million, the Board will need to demonstrate 4.2 percent or more growth through its activities. That growth will result in a net neutral ROI.

The Board will be prepared to exceed the retail growth hurdle with staged, industry-wide initiatives that include all Virginia distilleries through programming to activate direct and indirect sales of Virginia spirits. Examples include an e-commerce portal for direct-to-consumer sales via industry websites, retail

partnerships with VA ABC, a broader Virginia Spirits Trail footprint, and formal brand marketing and public relations plans.

A minimum retail revenue growth rate of 10.0 percent will be implemented for all Board initiatives. Per the chart below, achieving that growth will provide an ROI of 36.9 percent.

ROI Analysis - Goal	
Retail Growth % Goal	10.0%
Retail Growth Goal	\$2,033,034
Est. Retail Margin / FOB	48.0%
FOB Growth Goal	\$975,856
Est. Profit Margin / FOB	40.0%
Gross Profit Growth Goal	\$390,342
Assessment Investment	\$164,772
Growth Profit Growth	\$390,342
Investment Return \$	\$225,570
Investment Return %	36.9%

## FUNDING PROPOSAL

The Board proposes the implementation of an industry assessment ranging from five cents to one dollar (\$0.05 - \$1.00) based on the retail price per liter of Virginia spirits sold, which will be collected by VA ABC, pulling from supplier FOB.

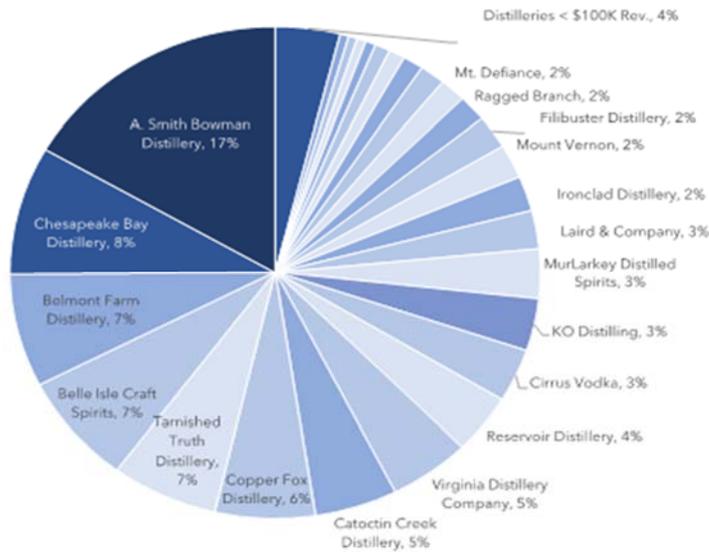
Per Liter		
Retail Price		Assessment
<	\$19.99	\$ 0.05
\$20.00 -	\$29.99	\$ 0.15
\$30.00 -	\$39.99	\$ 0.25
\$40.00 -	\$49.99	\$ 0.35
\$50.00 -	\$59.99	\$ 0.45
\$60.00 -	\$69.99	\$ 0.55
\$70.00 -	\$79.99	\$ 0.65
\$80.00 -	\$89.99	\$ 0.75
\$90.00 -	\$99.99	\$ 0.85
\$100.00 +		\$ 1.00

Per 750ml				Per 375ml			
Retail Price		Assessment		Retail Price		Assessment	
<	\$14.99	\$	0.038	<	\$7.50	\$	0.019
\$15.00 -	\$22.49	\$	0.113	\$7.50 -	\$11.25	\$	0.056
\$22.50 -	\$29.99	\$	0.188	\$11.25 -	\$15.00	\$	0.094
\$30.00 -	\$37.49	\$	0.263	\$15.00 -	\$18.75	\$	0.131
\$37.50 -	\$44.99	\$	0.338	\$18.75 -	\$22.50	\$	0.169
\$45.00 -	\$52.49	\$	0.413	\$22.50 -	\$26.25	\$	0.206
\$52.50 -	\$59.99	\$	0.488	\$26.25 -	\$30.00	\$	0.244
\$60.00 -	\$67.49	\$	0.563	\$30.00 -	\$33.75	\$	0.281
\$67.50 -	\$74.99	\$	0.638	\$33.75 -	\$37.50	\$	0.319
\$75.00 +		\$	0.750	\$37.50 +		\$	0.375

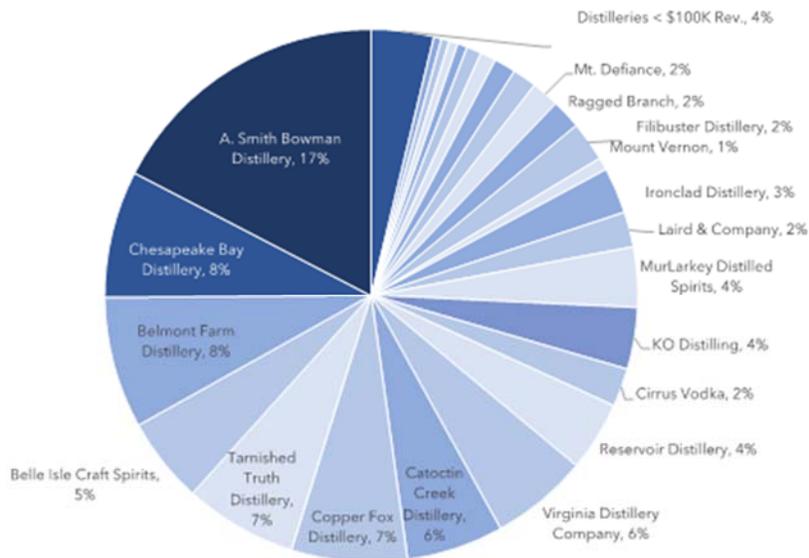
This approach allows suppliers the option to: (i) adjust their FOB prices to have consumers pay for the assessment or (ii) maintain FOB prices so that the supplier pays the assessment.

The charts below outline the distribution of retail revenue across all producers and the proposed assessment distribution.

## ABC Retail Revenue by Distillery, TTM



## Proposed Assessment by Distillery, Estimated



In nearly every case, retail revenue aligns with the proposed assessment structure. Small deviations exist among a handful of manufacturers who have: (i) products priced on the lower end within a given price tier or (ii) products that skew towards the higher price tiers.

In summary, the assessment is distributed fairly across industry constituents.

The assessment amount will not be subject to any incremental markup or excise tax in formulating the retail price.

The Board's current language provides for additional sources of income:

“To help defray the costs of its program, the Board may (i) publish materials with printed advertisements; (ii) sell printed materials; (iii) rent exhibit space at meetings or other events; (iv) charge entrance or participation fees; and (v) engage in other revenue-producing activities related to research, education, and promotion of the growing of ingredients necessary for alcohol distillation and the production of spirits in Virginia. The Board shall promptly deposit the proceeds of any revenue-producing activities into the Fund.”

This income would be in addition to the proposed assessment.

## **FUNDING PROPOSAL IMPLEMENTATION**

The Board and industry will work with legislators to introduce legislation that proposes the creation of the Virginia Spirits Board Assessment during the 2021 Session of the Virginia General Assembly. Should this legislation pass, its implementation will begin on July 1, 2021.

**Appendix A: Virginia Spirits Board Funding Proposal**

**Appendix B: Virginia Spirits Board Vision 2025**