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SB 511

Proponent

Rod Kreie, CPA

Mayor, City of Newton

Managing Member, Great Plains Biosciences Group, LLC

Chairman Thompson and Members of the Committee:

My name is Rod Kreie. I am the current mayor of Newton, Kansas. I have been the president of the Newton Area Chamber of Commerce, the current chair of the Harvey County Economic Development Council, the current Vice Chair of REAP (Wichita – Regional Economic Area Partnership), a Rotary Past District Governor and have been on, and still involved with several other volunteer committees trying to make the Newton region a better place to live, work and prosper.

I am an avid entrepreneur – have been involved in many startups and currently have, as partners in companies I am invested with - SpaceX and Starlink. I am also a retired CPA, former bank president and have worked with many entrepreneurs over the last 40+ years. If you want more – google me. I love life and very much enjoy the pursuit of success for everyone with an entrepreneurial spirit and the desire to succeed.

I also have been in an ownership group that started and operated a brewery in Wichita, Ks whose business plan included high volume craft beer distribution (hopefully) statewide. It wasn't my business plan – my investment group depended on research done by the founding members of Aero Plains Brewing – my group brought in the “last” money that triggered getting an SBA loan. Through this unsuccessful business experience, I have never seen a more one-sided business relationship, nor could I have even imagined that the relationship between beer distributors and distribution breweries could be what it currently is.

Even though I am not currently involved in a brewery, I am very interested in seeing SB511 pass and become law. Current Kansas law requires that all craft beer leaving a licensed premises go through a distributor before it can end up in a liquor store or a drinking establishment. I know this law is old and antiquated, likely a leftover law from the days of prohibition when there were no craft beer breweries – a law much to the long-time enjoyment of current distributors. I will not bore you with a list of specific “unfair” things that I have personally experienced when I was asked to take over as the managing partner of our brewery, but would prefer to highlight why entrepreneurship is not something distribution breweries are able to actively practice. Their survival depends entirely on their relationship with their distributor(s) (only 1 distributor allowed per territory), and they have zero leverage when dealing with a distributor in this legislated monopoly.

Here are just a few of the things **most entrepreneurs** get to do that breweries don't:

- Pick their own customers – no real requirement for your distributor to market or promote your product.

- Deliver their product directly to their customer.
- Fire their distributor if they are not satisfied with their performance.
- Form distribution partnerships with other companies if it makes economic sense. Then market their own beer at whatever rate of growth they feel they can sustain.
- Promise when their product will be delivered.
- Set their own price – a distributor doesn't have to sell your beer if they think it's priced too high.
- Grow their business at a rate faster than their "1" customer wants them to grow. If your distributor doesn't like you, they are likely to promote other beer over yours.
- Take their product to an event and sell it to the public. Breweries are required to sell it to the distributor then buy it back at a 30 – 40% markup just to "legally" sell it to "their" own customers at off premise events.
- Plan for distribution growth by using innovative marketing strategies. Remember, you only have "1" customer – and as if that isn't bad enough - they are also your competitor.
- Develop a strategy where you create strategic relationships with customers in a very tight local circle and give them exceptional service. Thus, lowering delivery costs.
- Negotiate directly with a customer to keep shelf space rather than hearing through a 3rd party distributor that you lost that shelf space. Then possibly never knowing why.
- Go head-to-head with the big boys and use entrepreneurial skills and exceptional service to take advantage of opportunity when it knocks – like when Budweiser went out of favor. But then again, why wouldn't a distributor try to fill shelf space with their own product (most distributors that craft breweries are required to use have their own major brands) before letting their craft beer competitor takeover their shelf space?

I could go on – but without the ability to control growth rates and customer relationships, and not having any leverage negotiating with your "1" customer (competitor) – there's no real chance for a small craft brewery to compete and grow in this very relatively young industry.

When I tell people that are not aware of the way craft beer is distributed in the state of Kansas how that system works, it's hard to convince them that it is true. No other business that I can think of is required to sell their product to a competitor. There is no mechanism to hold a distributor accountable for their performance. Craft breweries very possibly could (and would) still use their current distributors were they give the option of self-delivery – then, like other entrepreneurs, they could come to the table with something to bargain with and distributors would have to actually "compete" for their business-like companies do in any other industry – or lose the business. When you think about it – distributors are already stopping at all final-user locations anyway – a distributors only added cost is the trip between their own facility and the brewery to pick up beer – and to make more money off the product than the brewery, that could only happen because of this regulated monopoly.

Please let Breweries become entrepreneurs and control their own destiny – and support SB511.

With Respect,

Rod Kreie, CPA
 Mayor, City of Newton
 Managing Member, Great Plains Biosciences Group, LLC