

Proponent Testimony

David Sutula, Brewmaster and Co-Founder, Royal Docks Brewing Company

HB 194

April 9, 2025

House Judiciary Committee

Chairman Thomas, Vice Chairman Mathews, Ranking Member Isaacsohn, and members of the House Judiciary Committee,

Thank you for the opportunity to testify today. My name is David Sutula, and I am the Brewmaster and Co-Founder of Royal Docks Brewing Company, based in Canton and Massillon, Ohio, with operations in Stark and Cuyahoga Counties. I have been a professional in Ohio's craft brewing industry since 1992, and over the past three decades, I have personally witnessed the challenges and opportunities that define our industry.

Since 2015, I have served as an executive officer at Royal Docks, overseeing day-to-day operations, including distribution. In this role, I have managed relationships with four distribution partners, each of which has underscored the urgent need for reform in Ohio's Alcoholic Beverages Franchise Law.

My Experience with Ohio's Distribution System

Over the course of 30+ years I have had the opportunity to work with many distribution partners representing a half dozen different breweries to various degrees of success. I have learned that while no story arc is the same, every brand that I have had the opportunity to represent in a relationship with a distributor was in some way handcuffed by the inability of the brand owner to hold the distributor accountable to agreements made between them. I could go on for hours with anecdotal stories, but what follows here is my experience with the brand I have spent the last ten years building.

Our first distributor was a start-up. Initially, the relationship was strong. The owner honoured our agreements and worked diligently to support our growth. However, as we expanded, his capabilities did not keep pace. He struggled to secure retail shelf space, which was often allocated to larger distributors. When it became clear he could no longer meet our needs, he relinquished our distribution rights to us immediately and without compensation. For whatever reason (I believe that he just didn't think the alternative was fair), he chose not to exercise his rights under franchise law to sell our rights back to us. Despite the shortcomings of the business relationship, he handled the wind-down fairly and respectfully. I'm sorry to report that this distributor was ultimately unable to sustain their business and closed a couple of years after they released us. I imagine that his fair approach in a climate structured to reward the aggressive leverage of legal posture had more than a little to do with his failure.

Our second distributor began with promise. This company pursued us for about a year before we asked for some help with one of our brands, engaged them to help and then found that asking for help with one brand automatically assigned ALL of our brands to them (according to them) by default according to franchise law. Although we became a supplier largely due to our own misunderstanding of the law, it can't be denied that most of our overall growth occurred during the first two years of this partnership. However, 25 months in, the distributor drastically reduced its sales team from 14 members to just two over three months, stalling our growth. Over the next 18 months, the relationship deteriorated. Our placements dwindled, and our efforts to supplement their team with our own "brand representatives" failed—they could only secure prospects, not close sales. The distributor rarely followed up on those prospects (which were actually sales in my mind), eroding our credibility and market footprint.

Then, without warning, our distribution rights were transferred to another firm. While on vacation with my family in South Carolina, I received a one-minute phone call informing me that, effective the very next day, we would be represented by a company I barely knew. This new distributor had only one representative covering five counties, including our home base of Stark County, which was visited just once every three weeks. The impact was devastating. Overnight, we were dead in the water.

The lone upside was that because that distributor had such a small footprint in our county, it was marginally easier for our brand reps to sell our products to accounts. However, the paucity of delivery windows so far from their warehouse limited even that. There were accounts that would have bought our beer but couldn't take delivery on the one day every week (or every two weeks for some accounts) that the distributor made deliveries in our area.

After nearly a year of struggle, we secured a fourth distributor. But this relationship was equally fraught. We were treated as a charity case, and our brand was routinely replaced by others offering larger incentives to the distributor's representatives. Despite opening new accounts, our distributor's sales team often undercut us by selling competing brands into those very accounts.

During this partnership, our distribution sales plummeted by 66%. At our peak in 2017, we sold 5,300 barrels of beer. By the time our last distributor dropped us, we were on track to sell only 2,000 barrels, including sales from our own pubs.

One year ago, Royal Docks was unilaterally dropped by our fourth distributor. They cited our inability to keep them supplied with product as the reason. Yet, during the two years they represented us, we bought back 17% of all the beer they ordered and only sold out of a product once—a product we pre-sold entirely through our own efforts. The stated reasoning was patently false. Any dearth of inventory was due strictly to their failure to order it. There was ALWAYS plenty of beer in our warehouse.

What I Learned Over the Last 8 Years

To recap, we had one distributor that we outgrew and, to their credit, released our brand when that became apparent. Another distributor that shrank to the point of being unable to support our market

footprint and growth. They sold our brand rights to a third distributor that did not have the infrastructure to represent our brand in our strongest market. Our final distributor, which we courted and secured, viewed us as just too small of a fish for them to represent wholeheartedly. Each of these foibles could have—would have—been avoided or mitigated had we the ability to negotiate a binding contract.

To be blunt, I have come to believe there is no path to success for a brewery of our size and ambitions under Ohio's current beer distribution franchise laws. So, rather than seek another relationship in which we would have no leverage or reasonable expectation of success, we have chosen to go it alone; we are now re-building a self-distribution branch of our business.

This path is not without challenges. We must spin up a new business, hire staff, buy vehicles, lease warehouse space, secure additional licenses, and implement new systems. Certain retail outlets, dependent on big distributors, are reluctant to allocate shelf space to our self-distributed brand.

We will never have a product line large enough to compete with the volume-driven incentives of larger distributors and so will never be able to pay our reps at the top of the scale for that profession, but we're going to do our best to attract and retain passionate people who care as much about what we are trying to accomplish as they do about how much they are making. It's a rare entrepreneurial spirit we are seeking, but we think they're out there.

Yet, despite these hurdles, this is our only viable option under the current statutory framework. Early indications suggest we are back on a growth trajectory, but it's nowhere near where we could be if we had been able to negotiate strong contracts from the start and hold all parties accountable to those terms.

It will be a long road to success—or failure—but at least we can rest easy knowing our fate is in our own hands.

The Need for Reform

As I understand it, Ohio's Alcoholic Beverages Franchise Law was enacted in the 1970s to protect small, independent distributors from the dominance of large breweries. At the time, this was a necessary and noble effort. But the brewing industry has changed dramatically. Today, it is the hundreds of small breweries across Ohio—and the thousands nationwide—that are the mom-and-pop businesses struggling to survive in the grip of large, impersonal corporations.

Our small breweries face all the normal pressures that all businesses do; market forces, shifting consumer preferences, regulatory burdens, payroll, you name it. We're okay with that. That's what we signed up for.

However, the outdated statutory framework in which we exist tilts the playing field so heavily in favour of distributors that it represents the biggest obstacle to our collective success. What is maddening from my perspective is that not only are we wholly disallowed from managing the single largest threat to our livelihood, but also that another wholly independent company whose interests may or may not align with ours, whose own success is tied to ours in only the smallest, vaguest sense is, by law, entrusted with the management of the threat on our behalf.

The current franchise law has, in effect, placed control of production, distribution and even retail sale of Ohio craft beer in the hands of just a few large businesses. At the risk of sounding too flippant in front of this esteemed body, I have to say that the words that continually come to my mind when I consider this monopolistic reality are that it's completely bonkers.

Thankfully, the remedy is simple. We finally have a good bill in front of us. House Bill 194 does not provide special treatment for small brewers or a wholesale shift in the balance of power. It's a plain language bill that restores fairness and common sense—the ability to negotiate binding contracts like 99.9% of other Ohio businesses.

Conclusion

In closing, I urge you to support HB 194. This bill is not about regulating alcohol manufacture or protecting the public from the misuse or abuse of intoxicating substances. It's not about favoring breweries over distributors. It's really not about brewers, distributors or alcohol at all.

HB 194 is purely and simply about contract law. It's about allowing businesses like mine to enter into and be held accountable to the terms and tenets of a binding contract that is as favorable or unfavorable to each party as the negotiations that produced it. Just like nearly every other line of business.

HB 194 will create a more equitable and sustainable business environment for all parties involved. It will allow small businesses like Royal Docks Brewing Company to thrive, innovate, and contribute more robustly to Ohio's economy.

Thank you for your time and consideration. I am happy to answer any questions you may have.

Respectfully submitted,
David Sutula
Brewmaster and Co-Founder
Royal Docks Brewing Company
Massillon, Ohio