



# **Direct sales by alcohol beverage suppliers does not increase minors access to alcohol**

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## **ABSTRACT**

Certain segments of the market have claimed for decades that direct-to-consumer (DTC) shipments of alcohol increases the risk of minors accessing alcohol.<sup>1</sup>

New data, collected through direct-to-consumer transactions from 2020-2022, provides the opposite conclusion. In fact, the application of electronic age verification software used during the pre-purchase checkout of alcohol online represents the most reliable way for reducing the ills of minors access to alcohol. Properly employed pre-purchase age verification software has resulted in a 100% compliance rate. Furthermore, it provides precise data on whether minors are utilizing online platforms to attempt purchases of alcohol.

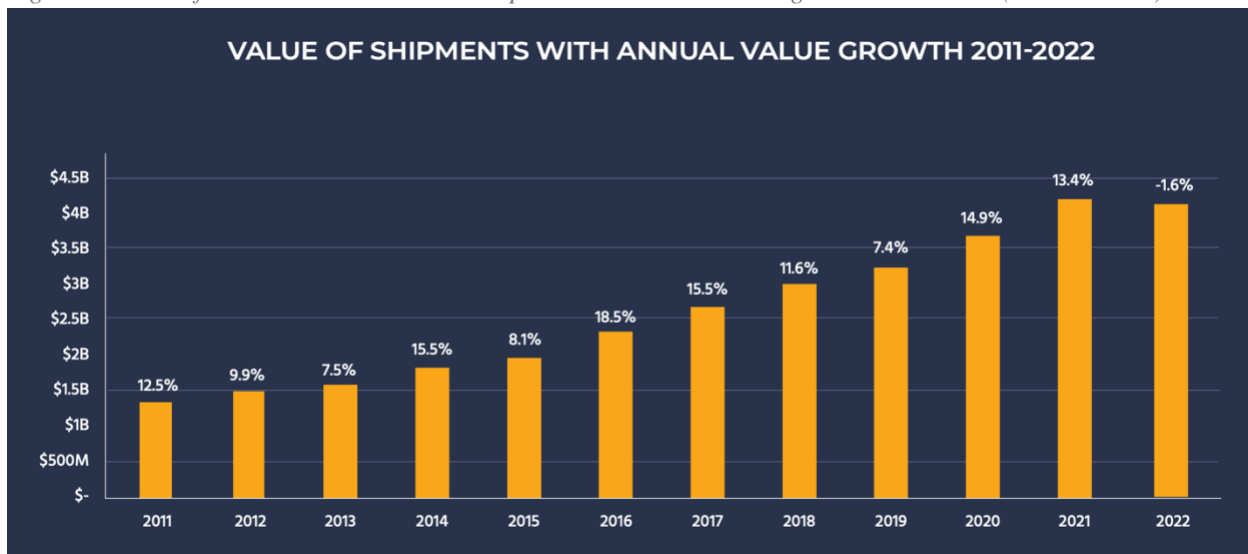
The findings in this paper point to direct-to-consumer sales as the safest way for alcohol to be sold and pre-purchase age verification software is a cost effective and reliable way to block and measure minors attempt to purchase alcohol online. Further, it demonstrates that minors are not attempting to use direct to consumer avenues in any significant number to secure alcohol.

Data analysed is from online transactions that lead to shipments by common carriers such as FedEx and UPS and not by local delivery services such as Drizly, Instacart, etc.

## **INTRODUCTION**

During the Covid-19 pandemic most hospitality venues were closed, and foot traffic decreased dramatically.<sup>2</sup> For those in the alcohol industry that relied heavily on in-person transactions, especially those operating tasting rooms, this was disastrous. To counteract this reduction in sales, many businesses turned to e-commerce to stay afloat. The increased reliance on remote purchases and emphasis on electronic marketing resulted in e-commerce purchases surging in 2020, increasing 43%.<sup>3</sup> Within the direct-to-consumer market for wine, according to the latest report from Sovos Ship Compliant, the value of direct-to-consumer shipments increased 28.2% from 2019 to 2022.<sup>4</sup>

Figure 1: Value of direct-to-consumer wine shipments with annual value growth 2011 -2011 (Source Sovos)



With an observed increase in alcohol e-commerce transactions, the FTC advised in their 2022 paper titled *Competition in the Markets for Beer, Wine, and Spirits* that, “State officials need evaluate the direct-to-consumer distribution model, both in terms of the distribution opportunities it presents for small producers and the comparative risks it may present of making alcohol available to underage drinkers.”<sup>5</sup> This White Paper examines the “comparative risk”.

### HISTORICAL BACKGROUND

Electronic, pre-purchase age verification data is provided by Vinoshipper. Established in 2006, Vinoshipper is a cloud-based sales platform that enables micro to medium-sized beverage alcohol brands to sell and ship wine nationally (where allowed) while staying compliant with all state regulatory, shipping, and tax rules.

Vinoshipper shopping carts are embedded with the IDology age verification software. Established in 2003, IDology is a leader in digital identification and authentication. IDology’s ExpectID Age is an age verification software system that deters and prevents attempted purchases from minors in digital channels by confirming minimum age requirements. IDology is an approved age verification solution in several US states including Michigan, Maryland, South Dakota, Kansas, and Massachusetts.

Embedded age verification works behind the scenes to determine if a user’s age / identity is real. Buyers must enter data including their name, residence zip code, and year of birth. These inputs are then checked against billions of public data records from thousands of sources to confirm whether a buyer is of age or not.

Brick and mortar data used in this review is provided by the Substance Abuse and Mental Health Services Administration (SAMHSA) in their 2021 state reports titled “Underage Drinking Prevention and Enforcement”.<sup>6</sup>

## METHODOLOGY

The e-commerce transaction data analysed in this White Paper, is compiled from over 2,000 Vinoshipper client shopping carts (both retailers and direct selling producers) amounting to over 1.05m shipments. The clients and buyers are spread across 47 states. The data runs from Q1 2020 through Q4 2022. All transactions took place through the Vinoshipper platform, which is embedded with IDology age verification software. There was a total of 633,985 buyers registering across the three years of data under review.

During the checkout process one of four actions took place:

1. Of Age – The information submitted during the purchase was validated by IDology and their transaction was processed. This represents purchasers entering their home address as the ship to address.
2. Confirm Age – The information initially entered did not match IDology records (the ship to address may be a business, Access Point or other delivery address rather than home address) and the buyer was asked to submit additional data to validate their ID. The purchaser is given two additional attempts to enter correct data before the transaction is placed on hold.
3. Manual Validation – If during step 2 they could not be validated, they had to submit a government ID for electronic scanning within the IDology system.
4. Underage/ID Failure – If their information is marked as underage or the ID submitted does not pass validation the pending transaction is cancelled.

## RESULTS

From 2020 to 2022, e-commerce purchases through the Vinoshipper platform made with an embedded layer of age verification software resulted in a 100% compliance rate. The data showed that over the three years, 75.3% of those that passed, did so first time with the information provided, 24.6% of buyers required additional information and their age was confirmed, and 0.15% of potential buyers were categorized as minors and had their pending transaction cancelled and no payment was taken. Quarterly results from the three years can be seen graphically in Figure 2 and in absolute numbers in Table 1.

Figure 2: Quarterly age verification results. (Source Vinoshipper and IDology)

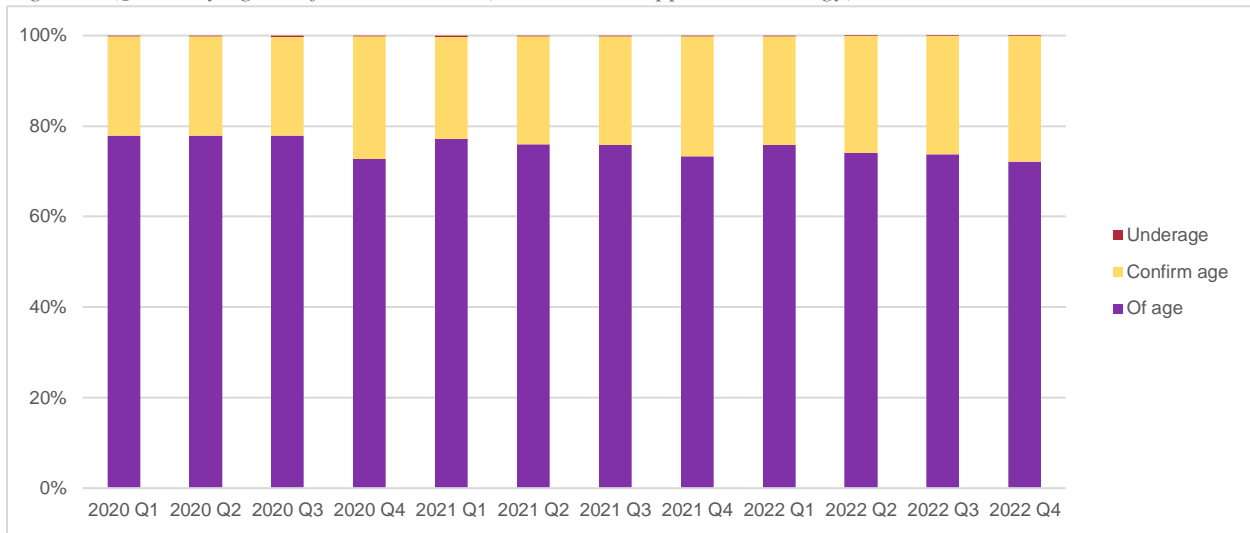


Table 1: Quarterly age verification results, shown as absolutes (Source Vinoshipper and IDology)

	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	Totals
<b>Of age</b>	23,187	81,247	45,888	82,372	36,239	31,996	27,799	50,007	21,828	19,861	21,151	35,813	<b>477,388</b>
<b>Confirm age</b>	6,525	22,978	12,826	30,727	10,616	10,012	8,774	18,051	6,897	6,942	7,481	13,825	<b>155,654</b>
<b>Underage</b>	32	119	155	118	118	85	68	122	49	18	24	35	<b>943</b>
<b>Total</b>	29,744	104,344	58,869	113,217	46,973	42,093	36,641	68,180	28,774	26,821	28,656	49,673	<b>633,985</b>

Table 2: Quarterly age verification results, shown as percent of quarterly buyers. (Source Vinoshipper and IDology)

	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	Totals
<b>Of age</b>	77.96%	77.86%	77.95%	72.76%	77.15%	76.01%	75.87%	73.35%	75.86%	74.05%	73.81%	72.10%	<b>75.3%</b>
<b>Confirm age</b>	21.94%	22.02%	21.79%	27.14%	22.60%	23.79%	23.95%	26.48%	23.97%	25.88%	26.11%	27.83%	<b>24.6%</b>
<b>Underage</b>	0.11%	0.11%	0.26%	0.10%	0.25%	0.20%	0.19%	0.18%	0.17%	0.07%	0.08%	0.07%	<b>0.15%</b>

During the 3-year span, of the 633,985 registered buyers, only 0.15% or 943 of the buyers were attempted purchases by minors. Less than one minor a day attempted to make a DTC purchase across the network of 2,000+ Vinoshipper shopping carts.

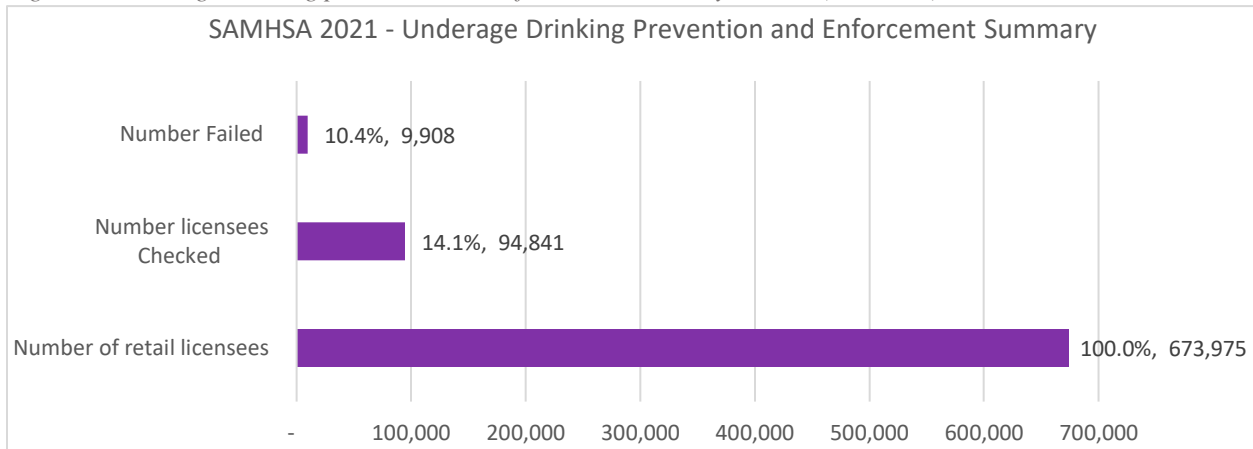
Comparatively, using a conglomeration of 2021 SAMHSA state reports, traditional on and off trade retailers in the United States averaged an 89.6% compliance rate.

State agencies submit to SAMHSA the number of retail licensees in state, the number of licensees checked for compliance by state agencies, and the number of licensees that failed state compliance

checks. The compliance rate is derived from the number of licensees that passed state compliance checks relative to the number of licensees checked for compliance.

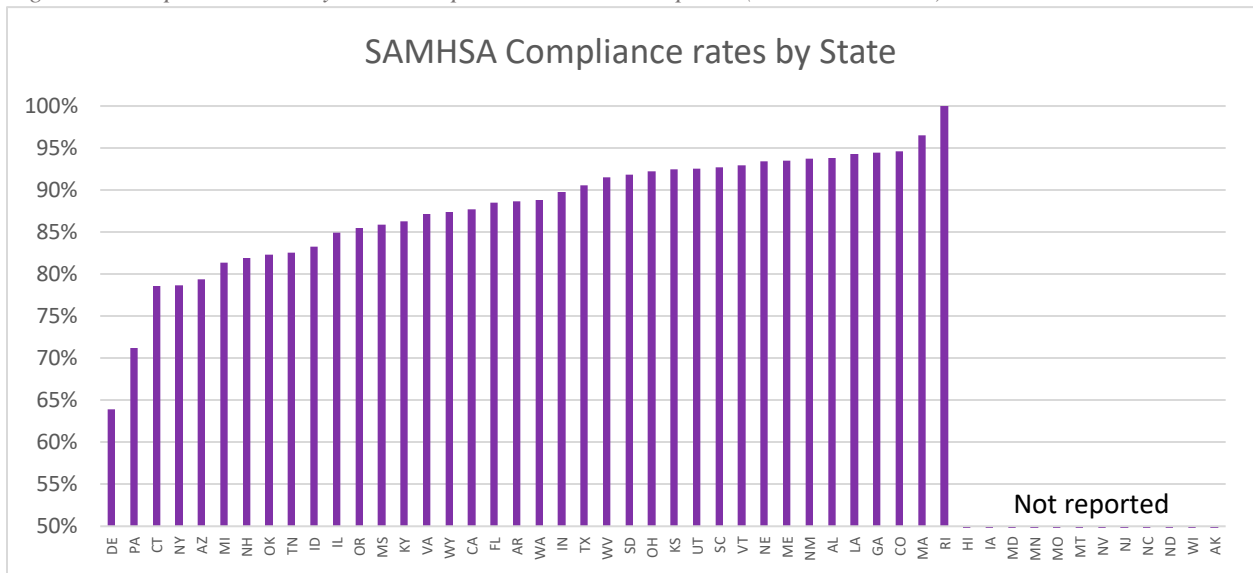
In the data reported to SAMHSA, States reported checking 14.1%, or 94,841, of the 673,975 reported retail establishments throughout the United States.

Figure 3: Underage drinking prevention and enforcement summary. Source (SAMHSA)



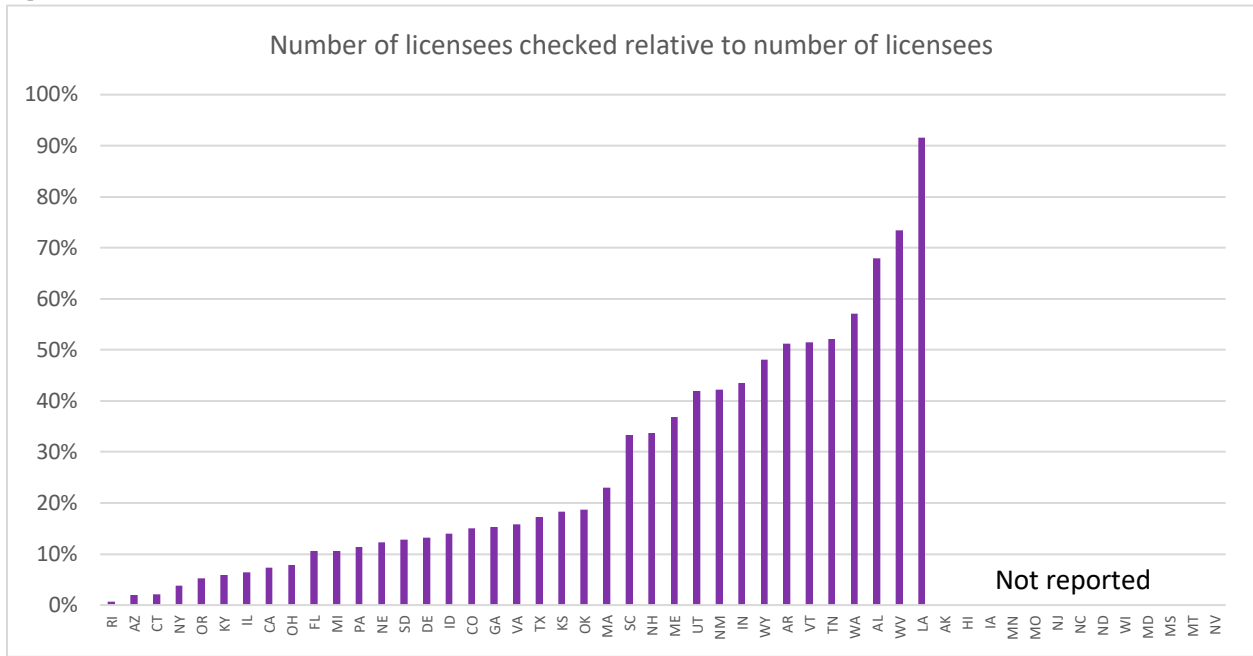
In the 2021 reports, the states varied in compliance rates. Delaware had the lowest compliance rate at 63.9% and Rhode Island had the highest compliance rate at 100%. There were twelve states that did not report any statistics.

Figure 4: Compliance rates by state as reported in the 2021 reports. (Source SAMHSA)



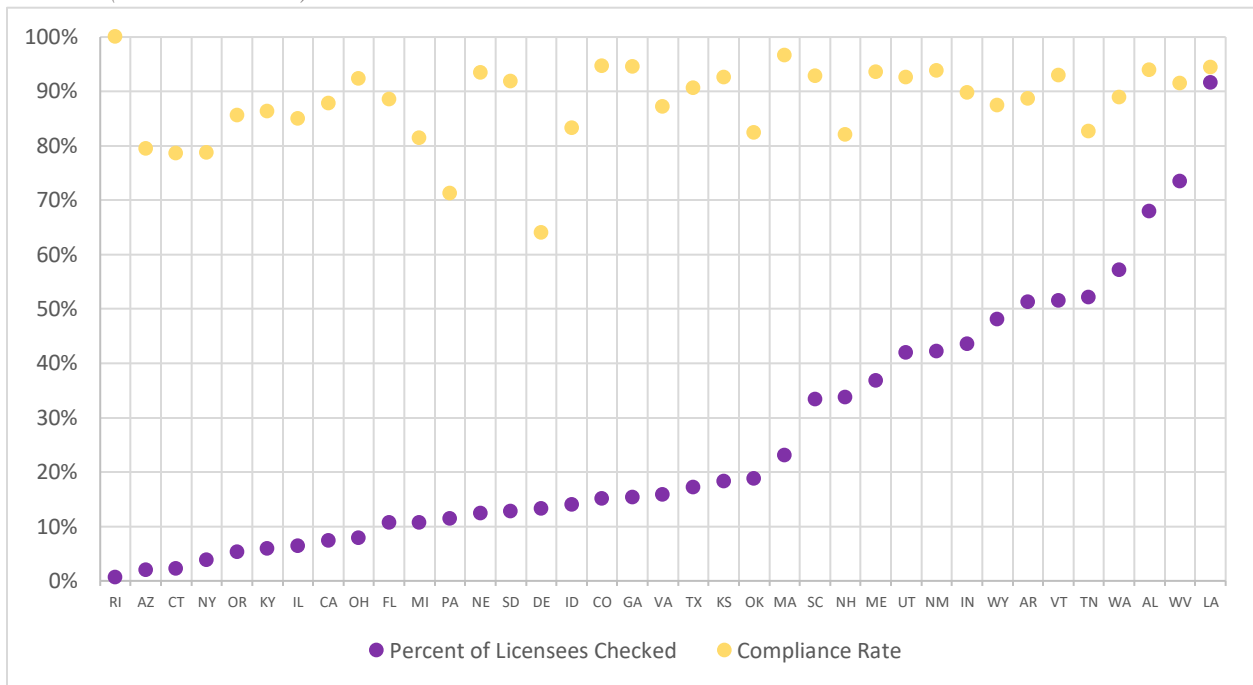
State agencies also ranged in their due diligence. Rhode Island checked just six out of 986 retailers in the state. Louisiana checked 7,273 of 7,940 licensees in the state.

Figure 5: Number of licenses checked relative to the number of licenses in the state as reported in the 2021 reports. (Source SAMHSA)



There is weak statistical correlation between the number of checks undertaken by the state and the compliance rate of the state, which is seen in Figure 6 below.

Figure 6: Correlation between the percent of licenses checked in the state to the compliance rate of the licenses in the state. (Source SAMHSA)



## **DISCUSSION**

From 2020 to 2022, the increase in direct to consumer sales did not increase the access of alcohol to minors. Embedded pre-purchase age verification software ensured a 100% compliance rate on alcohol purchases. The age verification software also allowed for increased insight into the number of minor purchase attempts.

According to the 2021 SAMHSA reports, traditional brick and mortar ranged from a 60% to a 100% compliance rate, with an average of 90%.

Traditional brick and mortar do not track the number of minor purchase attempts so there is no way of examining if retail practices are working in discouraging minors from attempting purchases from retail locations.

To address the added cost of embedded age verification, the cost is not prohibitive at roughly \$0.50 per verified buyer. Once a buyer is verified electronically that information is stored, and it does not cost anything for later verifications.

As evidenced by the data above, the safest way for alcohol to be purchased is online using a state approved embedded age verification software. Relative to the growth and size of the direct sales market, minors are attempting purchases in minute numbers and even when they do, they are blocked from transacting.

## SOURCES

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