



## **Should A Beer Wholesaler be Optimistic?**

August 2002

The purpose of this article is to point out a few positives about our industry. In the past few months there seems to have been a lot of negative conversation about the future of the three-tier system in general and beer wholesalers specifically. Some of the experts are probably right about certain changes on the horizon. I am not sticking my head in the sand and hiding from reality. I realize there are serious issues to be dealt with.

However, for the next few pages I am going to discuss a few basic truths about our industry. While I completely understand there is another side to every coin I thought we might all need a little encouragement.

**Product** – Beer has been around since the early Egyptian days. The reason the Pilgrims stopped at Plymouth, Massachusetts is because they ran out of beer. The AMA recommends a couple of beers a day for enhanced health. Study after study verifies that used in moderation beer is good for you. Who can deny that after a long hard afternoon of working in the yard that a nice cold beer tastes magnificent. All of us can recall situations where the tensions were high and after a couple of beers a relaxed atmosphere appeared. What a great product.

**Marketing** – All anyone has to do is look beyond his or her critical attitude to see the real strength of the marketing ability of our industry. The tendency is to simply look at the T.V. commercial in front of us and complain. This is shortsighted. It ignores the fact that as an industry we do a great job of responsible marketing. Look at the success of Corona and its lifestyle campaign or the creativity of your local microbrewery. Think about the Clydesdales or the “Taste Great Less Filling” campaign. From a marketing perspective few industries even come close to the beverage business in terms of consumer reach or frequency. We do all forms of electronic media: T.V., radio, Internet, movies and even video games. We are everywhere in print: billboard, magazines, and newspapers. We do several unique forms of sampling. We have in-store signs and displays. Our interaction and influence with the consumer is incredible. We are clearly one of the top 10 best-marketed products of all times. We should all be impressed and grateful.

**The “Three Tier System”** – The benefits of the existing wholesale system are enormous. It is rapidly evolving to accommodate the realities of a changing world. Several years ago I wrote an article for Beverage World that made the point that the three-tier system would change by evolution or revolution. Thankfully we are evolving fast enough that a revolution is not necessary. We are adjusting to mega retailers and their significant demands. Suppliers are

pushing costs down to wholesalers and they are absorbing them. Consumers are saying they want to pay less while they trade up to higher priced beers. There is a lot of conversation about what retailers want, how suppliers will react, and how to get product to the consumer for less cost. But, do you really think Costco wants to handle the volume associated with beverages or the labor required to present it to the consumer? I don't think so. They may want credit, pull-up service 75 times a week and just in time delivery and that may be what they will eventually get. Do you think suppliers really want to collect bad checks, clean draft lines or be responsible for Saturday delivery. Not in this lifetime. Are consumers so conscious of price that they are willing to suffer the inconvenience of an out-of-stock package or a product with an off taste because of poor rotation? No! Retailers, suppliers and consumers are well served by the three-tier system. It may need some polishing up for a fast changing world but at the end of the day it works.

Technology – For years I have heard people refer to wholesalers as technological dinosaurs. Nothing could be further from the truth. Today's wholesalers have a world of information and capabilities not even dreamed of a decade ago.

Virtually all wholesalers have a direct, on-line link to their suppliers. Pricing, promotions, product ordering, printing invoices, messages from management, retail presentations, local and regional market information and even account-by-account data. All this and more is available to even the smallest and most rural wholesaler.

Our sales forces carry hand-held computers allowing these in-store personnel to capture an astonishing amount of information. This detail about the account is available instantly by touching a few buttons.

In the warehouse, we can scan product codes resulting in the ability to maintain a perpetual inventory without daily counts. Several larger wholesalers have already installed state of the art computerized and automated case picking systems that can build loads by account regardless of the number of SKU's involved. The warehouse can be manned by fewer personnel resulting in a more sophisticated workforce. Building loads by account allows wholesalers to use end loaders bringing bulk delivery efficiency to the equation. Wholesalers may not be computer geeks but they aren't dinosaurs either.

People – One of the most exciting and unique things about the wholesale system is the people who own and work these operations. With over 30 years experience I have known some characters. They are fun to be with. These people have tremendous influence at the local and state level. They are politically strong enough to positively impact availability and taxes. From a growth, leadership and direction standpoint the wholesale industry has been and is visionary. Wholesalers often get criticized as being unwilling to change, emotional, stuck in the past and arrogant. This is unfair. The vast majority of owners I have met have been incredible business people who were honest, kind, generous and thoughtful.

I would be remiss if I didn't make a few comments about the people that load, sell, pull-up and deliver our great products. I started as a driver salesman a long time ago so they are always special to me. These people show up at 4:00 to count their load in cold rain. They are the ones who deal with retailers and suppliers and their attitude of superiority. Think how it must feel to know what will work for a new product and yet have a retailer put you in a corner of the shelf, a supplier criticize you for not having it at eye level when the very same suppliers national account person is the one who put it in the corner in the first place. We push all our mistakes to the people who work at store level. I have had the opportunity to speak at the NBWA, Suppliers National Conventions, State meetings and high-level Wall Street conferences but the greatest privilege I have is the opportunity to address an early morning sales meeting. These people earn our profound respect every single day. They are all underpaid.

Financial Stability – The old adage that the whole is only as strong as the sum of its parts really applies to our industry. Without a financially strong, viable wholesale network, the beverage product supply chain would suffer enormous problems. In fact the vast majority of suppliers could not get their products to the consumer were it not for the wholesalers and their willingness to invest in infrastructure.

While some wholesalers struggle with the ever-escalating costs of running a small business, the fact is that most wholesalers have created financially sound operations able to weather arising storms.

With the recent consolidations the industry has greatly helped create larger and more financially sound wholesalers. As we move methodically to mega wholesalers this financial strength will only get better.

Change and Adaptability – One of the most difficult things for people to do is to accept and embrace change rapidly enough. We are of the opinion that change is not the problem rather it is the rate of change that sometimes frustrates people.

Throughout the years I've heard wholesalers criticized for their inability to change fast enough to accommodate the supplier, retailer, or consumer. Consider this example:

In 1980 driver sales was the preferred and almost exclusive method of selling and delivery – now it's presale and bulk delivery. This change was difficult, costly and of course, necessary. Wholesalers accepted the necessity of change and the result speaks for itself. More brands, more packages and more choices for the consumer than could have ever been imagined.

How about these other changes:

- \* From cardex files to handheld computers
- \* From counting inventory once a day to computerized perpetual inventory.
- \* From selling taverns and liquor stores to working with Super markets, Wal-Mart and Costco.

What about wholesalers being able to adapt? Wholesalers do it every day. For Example:

- \* At 4:00am when 10 routes are scheduled and only 8 drivers show up;
- \* At 10:00 pm when your on-premise promotion does much better than expected and the bar runs out of the featured product. He gets 2 more kegs delivered before 11:00;
- \* When the supplier's sales rep you haven't seen in six months shows up and wants to spend the day talking about clear beer, or red beer, or FMB, or whatever the next big thing is. That's being able to adapt.

The wholesaler system has evolved at a reasonable and stable rate. Like anything else some people would like their issues handled right now. Usually they want these changes to occur at the wholesaler expense so if they are wrong it does not cost them anything. The world sometimes moves too quickly and wholesalers sometime move too slowly but the pace of change has worked.

Conclusion – We still have issues to deal with, and some aren't very pleasant; neo-prohibitionists, fickle consumers, demanding retailers, inconsistent suppliers, consolidations, legal threats to the three-tier system, etc. However, our industry, like any other industry always has and always will have things to deal with.

But the fact of the matter is our industry is healthy and the future holds exciting promise for those wholesalers willing to invest and embrace change. The products we represent are enjoyed by consumers, our marketing is top-notch, the three-tier system is conceptually solid, our technology is good, the people who represent this industry are terrific and our wholesalers are financially stable. The model works.

The future will require a faster rate of change for everyone concerned. Sharing non-revenue producing resources, retail marketing, bundling of services and mega-wholesalers will likely be the norm. Will we adjust fast enough? Probably not. However, we will adapt. We always have.

So the next time you hear or read something that portends doom and gloom or attempts to disparage our industry you might want to reflect on some of the positives. We owe this attitude to the people we serve. Yes, I am optimistic.

We at IBG are leaders in the evolutionary process of change. If we can be of service, please contact us. Good Luck and Good Selling!

Thank you for your time.