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Cheers! Managing the Spirited Supply Chain

By Merrill Douglas

Quick shifts in demand, the fragile nature of many products, and a kaleidoscope of government regulations complicate the alcoholic beverage supply chain.

The market for wine, beer, and spirits is both a global and a regional one. The category includes products that cross the seas to reach consumers, as well as craft products that are popular where they're made, but possibly unknown even 200 miles away.

"We sell products from all over the world, and each one has a different supply chain," says Ward Chaplin, senior director of supply chain at Southern Wine and Spirits of America, a leading U.S. distributor with operations in 35 markets.

To add to the complexity, the industry encompasses beverages marketed for mass consumption, and top-shelf spirits and fine wines that sell for hundreds of dollars per bottle.

In the United States, the law divides the supply chain for alcoholic beverages into three tiers. The first consists of producers: wineries, breweries, distilleries, multinational brand owners, and importers that represent products within the country.

The second tier consists of wholesale distributors, which must establish separate operations in each state where they sell. The third tier are retailers, including liquor stores, grocery and convenience stores, and restaurants, pubs, and other establishments that serve alcohol for on-premise consumption.

Balancing supply and Demand

As products flow through those tiers in the United States, or through different networks abroad, one challenge that vendors and suppliers face is how to stay ahead of fluctuating consumer demand.

"No one wants to be overstocked," says Geoffrey Giovanetti, managing director of the Wine and Spirits Shippers Association in Reston, Va. Keeping too much inventory—particularly high-priced spirits and wines—ties up capital, and beer has a finite shelf life.

But a too-lean inventory may cause problems, as well. "If a product suddenly becomes popular, you risk not being able to provide it," Giovanetti says.

Demand can indeed soar. The U.S. market for wines from Argentina, for example, has grown tremendously in recent years, and competition among producers has intensified, says Mara Gonzalez, director of purchasing at Vino Del Sol, a Corinth, Miss.-based importer of Argentinean wines.

As new wines hit the market, it's important to keep a careful eye on supply and demand. "Otherwise, it can come as a big surprise when a product's sales take off," Gonzalez says.

Because an order placed with an Argentinean winery typically takes 60 days for delivery to the United States, bringing the right products to market exactly when they're needed is a formidable challenge.

The Art of Craft

Demand for novel products also makes the beer market interesting. When a new craft beer hits the scene, consumers line up to try it, says Kevin Brady, president and CEO at Satellite Logistics Group, a Houston-based logistics company that serves the beer industry.

To keep up, distributors continually add new products to their inventories. "That market growth has created an explosion in the volume of stock-keeping units (SKUs) distributors have to service, manage, order, and rotate at retailers," Brady says.

Craft breweries that capture the interest of consumers outside their own backyards face the obstacles that come with rapid growth.

"As they saturate their local markets, craft breweries examine how to expand regionally or cross-country," says Brady. "Then they have to consider other nodes in their distribution network, and possibly expand carrier capacity to serve more remote markets.“

Trend Tracking

Pop culture and the whims of fashion may pressure suppliers of spirits, as well. When a celebrity touts the latest flavored vodka, for example, those bottles may start flying off the shelves.

"We've been in situations where the producer hasn't been able to keep up with demand," says Giovanetti. Then, just as quickly, the public starts chasing the next fad.

In the metro New York market, demand for specific drinks may change from year to year as the city draws tourists from different regions.

"In 2011, South American travel to New York doubled," says Jon Donnelly, director of purchasing at Empire Merchants in Brooklyn, N.Y. The company distributes in the five boroughs, Long Island, and Westchester. "That could be a factor in the growth of pisco—a brandy from Peru and Chile that became popular here in 2011.“

The economy also creates market churn, as consumers with more or less money to spend adjust their drinking patterns. The changes have been particularly dramatic in the current economic cycle. There have been shifts in at-home consumption and visits to restaurants and bars, as well as in consumption of beer, wine, and spirits.

While supporting both steady and changing demand, shippers of alcoholic beverages must be careful to safeguard the product en route. Spirits can withstand just about any sort of weather, but beer and wine are more particular.

Temperature Control

"Beer freezes easily because it doesn't have a very high alcohol content," says Horst Mueller, global director, drinks logistics at global third-party logistics (3PL) company Kuehne + Nagel. "And wine is a very sensitive product.“

Because many higher-end wines are made in small quantities, a spoiled shipment may be impossible to replace.

Heat also poses a problem. Giovanetti, whose organization manages international shipments for its members, recalls the time a carrier transporting containers of wine from the Port of Long Beach, Calif., to Phoenix sent the trucks across the desert in the heat of the day instead of moving them at night.

"They arrived in terrible shape," he says.

Along with temperature-controlled containers and warehouses, Kuehne + Nagel uses a thermal container liner to protect sensitive beverages. "It's a six-sided aluminum bag with insulation between its walls," says Chaplin, whose firm uses Kuehne + Nagel's ocean freight forwarding services. "We put the bag inside a container—it fits like a glove—then put the pallets in and zip it closed."

Because it's expensive to use temperature controlled containers for long ocean voyages, shippers moving wine or beer to northern markets in winter often use geography to their advantage.

"We bring cargo into warm-weather ports, then transload it into heated trailers," says Giovanetti. "Any Customs delays occur in the milder climate. Then we take the products right to the door under temperature control."

Rules, Regs, and Security

Because many alcoholic beverages come from abroad, Customs and security regulations create a particular challenge for importers and distributors.

"Factors such as U.S. Customs and Border Protection's Importer Security Filing regulation, changes in drivers' hours of service, and weight restrictions per container—which vary locally—demand flexibility," says Chaplin.

In the past, for example, a shipper didn't file information with U.S. Customs until the inbound cargo was five days from the U.S. port.

"Now the government wants to know the container's contents before the box physically pulls into the secured containeryard at the port of origin," Chaplin says. "If shippers don't provide data on all the products' sizes, marks, label registrations, proofs, gallons, and alcohol content, they can't even make a reservation to put the goods on the boat."

The federal Customs-Trade Partnership Against Terrorism (C-TPAT) program demands continual attention because the government expects C-TPAT participants to improve their performance continually, says Gene Edwards, logistics manager at The Vintner Group, an Ashland, Va., distributor of fine wines and craft spirits.

Under the voluntary C-TPAT program, shippers adhere to a stringent set of security standards in exchange for undergoing fewer security screenings than non-participants.

"We've been C-TPAT-certified for a few years, and Customs has audited us twice," Edwards says. During those audits, the company must demonstrate that it is following all the security-related procedures it agreed to implement.

"They look at our documents and manuals, and watch employees work," he says. "Each year, they provide feedback on the elements and processes they'd like us to change."

Vino Del Sol has seen increased transit times because of security initiatives at ports. "At certain ports, every container may be inspected," Gonzalez says. That can add as much as four days to a container's stay in port.

Getting out of the Country

For imported wine, beer, and spirits, issues related to the country of origin can produce idiosyncratic kinks. For Vino Del Sol, one challenge arises from the fact that steamship lines have cut service from Argentina, consolidating much of the importer's South American activity in Chile. Argentina's ports are still an option for shipments to the East Coast. But because Vino Del Sol's only warehouse is in California, most of its volume—except for some direct-to-customer shipments—now ships from Chile.

"There's a huge mountain chain between Argentina and Chile," Gonzalez points out. And crossing the Andes in winter is no simple feat. "Sometimes three or four weeks go by when no trucks pass," he adds.

Carriers also offer fewer direct services than they used to, choosing instead to transfer containers at intermediate ports. Those transshipments are reasonably efficient.

"It's rare that a container is left for more than two or three days without getting on the next vessel," Gonzalez says. "But you increase the risk of missing a feeder vessel or exposing containers to the sun."

Each new wine-growing region that comes into vogue presents distinct logistics challenges. In New Zealand, for example, vineyards are located inconveniently far from major ports.

"Some suppliers have compensated by loading the wine into bulk tanks and sending them to bottling plants closer to the ports," Giovanetti says. "And, of course, there are small feeder vessels that serve the various ports. But it seems the more exotic the wine, the farther away it is from Auckland and the shipping area.“

As ocean carriers increase capacity in some lanes, many have cut back on other services, particularly from the North Atlantic and the Mediterranean to the United States.

"Over the past few years, more of our cargo has been pushed from one booking to the next," Donnelly says. The resulting delays make it challenging to maintain proper inventory levels.

Conditions in other industries also cause capacity problems. For example, when a major auto parts plant in northern California closed a few years ago, it spelled bad news for beverage distributors.

Trailers filled with parts for the plant used to pour into the area. Distributors took advantage of the empty trailers to ship wine from producers in the region. "We've lost all those empties," Donnelly notes.

With fewer empty trailers available, Empire has increased its use of railcars to move the equivalent of three to four trailers of wine on one conveyance.

Several years ago, importers shipping wine out of Chile found themselves fiercely competing for vessel space.

"Chile was exporting so much food that steamship lines were giving priority to refrigerated containers," Gonzalez says. "Shippers moving dry or insulated product were bumped repeatedly. The average delay was three weeks.“

Smart Solutions

Given the challenges they face, shippers of alcoholic beverages have to work particularly hard and smart. For Gonzalez, supply chain management includes carefully monitoring inventories held by her suppliers in Argentina, her own company, and all the distributors that make up her customer base.

Her most important tool in this effort is a business intelligence solution that provides a quick, two-dimensional picture of current inventory. "I need a vertical analysis —what's in Colorado, for example, by item," she says. "But I also need a horizontal analysis, looking at what is happening with each of my items across the board.“

At Empire Merchants, collaboration helps the company maintain the flexibility it needs to overcome logistics obstacles and stay abreast of ever-shifting customer demand. Donnelly works with internal sales managers to coordinate sales and operations planning.

In light of recent pressures, planners are looking at a longer horizon than in the past. "We might have once planned a three-month order cycle, but now we look as far out as four or five months.“

Empire also is coordinating more carefully with suppliers to keep abreast of upcoming events such as price changes.

Solid partnerships with service providers are also key. "Southern Wine's relationship with Kuehne + Nagel is a mutual process of continuous improvement," says Chaplin. "We are stronger together than individually.“

By sharing information—through Kuehne + Nagel's Web-enabled KN Login system and other means—the two companies eliminate uncertainties along every step of the supply chain.

"If any type of situation arises, Kuehne + Nagel has a contingency plan to make sure product is delivered on time," Chaplin adds.

Thanks to these and other best practices, the drinks keep flowing, and consumers can raise a glass in salute.