

WHITE PAPER
Beer Wholesaler
Trends and Technology

The end consumer just sees a tap pulled, a glass filled, and a bartender serve a drink. Or maybe they walk into a local beer retailer and browse the many varieties available before picking up a favourite case of beer. While buying a draft or case of beer is easy, consumers never see the hard work and attention to detail that goes on behind the scenes to get those beers delivered to the right establishment at the right moment. It takes the coordination and intense labour of the over 98,000 people employed by beer distributors so the end consumer can enjoy their beverage.

Managing all the different aspects of a beer supply chain has become a daunting task. Long gone are the days of consistency, when a relatively small number of brewers were brewing a relatively small number of beers, and beer distributors would know exactly what to expect from week to week. Now, with new trends emerging in this heavily regulated and highly competitive industry, beer wholesalers must continue to innovate and invest to grow their profits and margins.

According to the National Beer Wholesalers of America's Innovation & Technology Committee, as technology has recently improved, there has been a noticeable increase in the use of newer technological tools among its members. This new crop of tools is improving productivity for beer distributors across the supply chain in areas such as forecasting, delivery, warehouse, and credit and collections. Experts agree, in order to streamline operations and reduce costs, beer wholesalers need to invest in the right technologies.

With new suppliers popping up and consumer tastes evolving, distributors must have the right tools in place to handle the shifting landscape. Staying on top of the current wave of trends, knowing how these trends will impact the beer distribution industry, and understanding how technology can help turn these trends into opportunities, is paramount to continued success. Learn the trends shaping the beer industry and how new tools and technology can prepare you for the future.

Changing Regulations and Compliance Issues

Every beer distributor knows it must continually monitor both industry and supplier regulations. At any given moment new regulations and updated compliance guidelines are being considered, voted on, and put into action. This year is no exception. With multiple issues being discussed and implemented this calendar year, beer wholesalers need to stay abreast of critical changes impacting the industry. Staying ahead of changing developments can help your organisation adapt and adjust to keep your business moving forward.

One of the larger regulatory issues companies must prepare for in the upcoming year is the US Food and Drug Association's (FDA) Food Safety and Modernization Act. This act was passed into law to increase the FDA's preventative standards for food, compared to the reactive approach used in the past. Since alcohol is included in the FDA's definition of food, and the act applies to any establishment (including warehouses) that manufacture, process, pack, or hold food, it is important for beer distributors to understand how their business can be affected while this act is slowly being implemented in 2012.

With the new act, beer distributors must now have full insight into when their products arrive and when they ship out. They must also be aware of where each product was shipped from and where each product is being sent. Due to the new regulations, wholesalers will need absolute, on-demand insight into all product SKUs at all times, throughout the entire supply chain. Distributors must also be able to report on the original shelf date and original purchase price of products. Additionally, there must be an internal stop on inventory, to prevent product that is beyond the desired shelf life from being sold for consumption. These changes will generate an immense amount of data that distributors will have to access and manage to keep in line with the new regulatory landscape.

This large amount of information will be hard to control without the right technology in place. First and foremost, having real-time, automated inventory capabilities will give companies an immediate competitive advantage when dealing with the Food Safety and Modernization Act. Using software that seamlessly integrates warehouse and inventory functionality into a distributor's financial and reporting interface will allow distributors to easily track, trace and report product movement and location. Also, wholesalers should look to minimise inventory discrepancies with a warehouse management tool that offers flexible and accurate inventory counting options. Automating lot and batch tracking will also help distributors trace their inventory backwards and forwards for a detailed view into their products. Without these technological tools in place it will be difficult for distributors to keep up with the new regulatory demands.

For 2012, legislators will be looking into repealing the last-in, first-out (LIFO) accounting method as an accepted standard. While this method has been the norm across multiple industries, a new proposal is under consideration to disallow its use. The repeal of LIFO would create a huge tax increase for the federal government since it could shift years of previously untaxed income into taxable income. Unfortunately, the government would be getting this income boon at the expense of businesses that use the LIFO method, which includes many beer distributors.

To prepare for this and other financial changes in the future, beer wholesalers should look for financial management systems that are flexible and rule based. This would allow companies to establish fiscal periods, accounts, currencies, and budgets aligned with the way they do business for maximum efficiency and management control. Flexibility in your financial management system will enable you to adapt to any future changes that your company would like to, or is required to, implement.

Compliance issues are another area where beer distributors must constantly ensure they are adhering to the correct protocol. With compliance mandates at the state and retailer levels, distributors have multiple arenas that require monitoring. Having an automated system that aids in conforming to state and retailer requirements including EDI, VIP, and depletion reporting enables companies to be confident that they are always in compliance. Having the technology to tap sophisticated credit management tools to automate Alcohol Beverage Control and Liquor Control Board Compliance requirements will streamline the process further.

The Rise of Craft Beers

While craft beer sales are still a relatively small piece of the overall pie, they are continuing to grow at a rapid pace. In fact, craft beer sales have experienced double-digit growth over the past four years, and grew by over 15 per cent for the first half of 2011. Even though craft beers still represent around five per cent of the overall market, forward looking distributors have made an effort to include crafts on their pallets.

While some distributors are focusing on the largest beer brands, other wholesalers are taking advantage of the increased interest in and market share of craft beers. Where the leading craft brands decide to distribute could cause a major shift in market share in the upcoming years. Distributors that include craft beers in their portfolios can take advantage of the higher margins of craft beers, as well as gain a first-mover advantage in the craft segment. Another reason to add craft brands to a wholesale portfolio is because they are prime acquisition targets for the major players, InBev and MillerCoors. Once craft brands are acquired they will have the resources of a major supplier behind them which will only strengthen their level of demand.

While adding craft beers into your network is a good bet to help you garner more market share and increase profit margins, distributors should add SKUs and brand names judiciously into their portfolios. It makes more sense to add a couple varieties of craft beers. Especially since the top six craft brands account for 60 – 90 per cent of the craft beer market, depending on the region. Sticking to just two varieties of the larger crafts enables companies to be more profitable and efficient in running their distribution network.

Increasing your product variety will add some complications to your supply chain operations. To this end, beer distributors should focus on technologies to simplify complex pricing matrixes and intricate promotional plans. These technologies allow companies to more easily manage different varieties of brands. As you add craft brands to your portfolio you will also increase your seasonal product offerings and number of bill-backs. Many new management systems can automate the process of managing bill-backs. These software applications allow you to review your bill-back history, provide suppliers with transaction level bill-back detail, automatically calculate bill-back amounts, generate bill-backs for samples, incentive programs, and depletions, plus much more. Finding an integrated system to handle these unique requirements will make the life of a distributor looking to expand into craft beers more streamlined and effective.

Further Consolidation

Ever since the 1970s the beer distribution industry has been in an acquisition frenzy. Beer distribution companies are prime acquisition targets for multiple reasons. First and foremost, they have steady cash flow streams which helps predict future value more accurately. Also, beer wholesalers generally have exclusive territories and strong legal protections at the state and federal levels. This is why many beer distributors find themselves either with opportunities to sell their company or with opportunities to buy other distributors. Once a wholesaler decides to sell they must begin to prepare and analyse complete up-to-date and accurate financial information for the sale. While years ago distributors were being sold based

on back of the napkin calculations, these days various in-depth valuation methods are being used. Having an integrated, real-time financial management system in place enables distributors to always have the latest data at their fingertips. Automatic bank reconciliations, financial reporting, and proactive credit and collections make managing financials and having up to the second information as easy as possible.

On the flip side, wholesalers considering an acquisition target must be prepared for how they will integrate the two distribution networks. Having the ability to dive into the data from both companies to make smart business decisions will be key to a successful acquisition. Using detailed margin analysis into customer, supplier, and brand-level profitability helps distributors know where to put extra operational emphasis. Having comprehensive insight into market penetration and opportunities through placement tools enables wholesalers to analyse their new acquisition's reach and determine areas for potential growth. Also, finding a financial management system with the capability of looking at performance by territory, sales rep, customer, and product means wholesalers can quickly figure out exactly what changes need to be made to their newly acquired company.

Continued Growth of SKUs

In 2002, the average number of SKUs beer distributors carried was under 300. Today that number is approaching 600. The product mix for these SKUs is constantly being affected and changed by outside influences such as weather, economy, seasons, holidays, promotions, and more. The meteoric SKU growth and outside factors affect a wholesaler in aspects of their business ranging from the warehouse to loading lorries to forecasting. When distributors carried just a handful of major brands they had less reason to worry about the daily rigour of running an integrated supply chain. But, processes that once made sense for beer wholesalers are now outdated and inefficient.

As the number of SKUs grows, so too does the need to automate processes. To figure out the most efficient way of handling the newfound SKU growth, many distributors are turning to technology. Utilising a warehouse system with directed putaway capabilities will help to speed receiving and optimise warehouse space. Implementing software that maximises picking and packing efficiencies through integrated pre-pack and cartonisation rules will help ensure that warehouses continue to operate efficiently no matter how many SKUs they carry. Wholesalers can also implement a system that offers real-time *as of* inventory valuation. This feature helps beer distributors gain insight into inventory costs for improved management of product mixes.

Finding software that can automate your warehouse is the only way distributors can keep up with growing demand and an increase of SKUs.

New Retail Opportunities

More and more establishments are adding beer to their shelves or menus. New grocery stores, convenience stores, restaurants, and even fast food places such as Starbucks, Burger King and Sonic, are beginning to see the benefits of selling beer. The beer industry still has the largest share of revenue and volume within the alcohol beverage sector when compared to wine and liquor. In 2011, retail sales of beer in the US rose by 2 per cent (including three per cent from off-premise sales and one per cent from on-premise).

Over 547,000 establishments in the US currently retail beer. That is a great deal of stops for distributor lorries. With that number expected to grow every year for the foreseeable future, the life of a beer wholesaler is only going to get more complex.

Developing route delivery strategies for optimum performance and efficiency is something that every distributor must manage. Having route management tools that can automatically optimise route scheduling and fleet delivery can help improve fuel costs and driver efficiency as distributors continually add more stops. Automated tools that configure lorry loads in reverse stop order increase delivery efficiency and fuel usage too.

Staying organised on transportation logistics will also be important as companies distribute to more locations. Using a system that has planned bills of lading will help build efficient lorry loads based on the dimensional requirements of the products.

Improving Forecasting

Because of some of the aforementioned trends, including a greater number of SKUs and the greater influence of craft brands, beer wholesalers are beginning to refocus their attention on forecasting models. Distributors are seeing efficiency gains and cost savings from attaining more accurate forecasting predictions. Rather than using outmoded forms such as spreadsheets and employee best-guesses, companies are now moving towards integrated systems that use the latest technology to increase the accuracy of demand planning.

Wholesalers are moving towards better forecasting because they realise that demand planning directly affects their bottom line. Improved forecasting helps minimise stock-outs and maximise warehouse and delivery efficiency, product freshness, and customer service levels. These performance upgrades enable companies to enjoy a previously unforeseen profit windfall. It is also important that distributors use some best practices when forecasting. Wholesalers should avoid over-forecasting (adding on extra inventory to ensure that a stock out does not happen) because this leads to inventory holding costs and can also throw off the accuracy of future orders. Distributors should also ensure that forecasts are aligned according to the same timeline variables as those of their suppliers. Whether your suppliers are forecasting in weeks, months, or any other time period, distributors need to match forecasts and lead times so both parties are working from the same information.

Best-in-class distributors are implementing solutions that give their forecaster the means to quickly and easily create demand numbers. The more advanced tools will include robust forecasting algorithms and offer rule-based and time-phased buying tools by customer forecast, seasonality, sales history, trends and more. Using these technology focused systems enables wholesalers to minimise inventory holding costs and reduce the number of stock-outs.

Summary

The future looks bright for those distributors who embrace the latest trends and view them as opportunities rather than challenges. Even though these changes are causing beer distribution processes to be more and more complex, companies that learn to simplify operations through technology will be ahead of the game. Wholesalers who implement automated systems to help deal with compliance issues, a growing number and variety of SKUs, financial integration, forecasting, and more will be better situated for the future.

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