

Tapping Internet for wine, liquor

By: Sean Callahan May 14, 2000

J. Smoke Wallin is bringing an entrepreneurial spirit to one of the most structured and regulated of industries: alcoholic beverages.

Mr. Wallin is assembling the players to build his new business-to-business (b-to-b) marketplace, eSkye.com. The Indianapolis-based dot.com startup announced recently that it has signed up seven of the top 10 wine and spirits wholesalers in the country, including the largest, Miami-based Southern Wine & Spirits, and Chicago's Wirtz Corp.

It also has signed 500 retailers to the system after just a month of operation.

Mr. Wallin is the founder of the company, which he named after his son, Skye.

Mr. Wallin's brainchild, like any dot.com startup, faces a bevy of obstacles. There's resistance from an entrenched industry; competition from other dot.coms, such as New York-based b-to-b marketplace BevAccess.com, and the potential for large retailers and suppliers to form their own competing marketplace.

"It's a race," Mr. Wallin says. "If I can build my network fast enough, it'll be me. If we stumble, there will be other players, like suppliers, to take our place."

Mr. Wallin began testing eSkye.com last September in the Midwest before officially launching in February. The site is fully operational for retailers in Illinois, Indiana and Michigan, with plans for much larger coverage.

Steve Chernoff, purchasing manager for Chicago-based Lettuce Entertain You Enterprises Inc., which operates restaurants such as Shaw's Crab House, Wildfire and Everest, participated in the testing.

"It's the ease of ordering, especially when you work at a group of restaurants like ours," he says. "Having the ability to bring up that site at the restaurant level, rather than paging a salesperson or waiting for them to come by, can be very attractive."

So far, 36 of the estimated 550 liquor and wine wholesalers in the country plan to participate in the site. Along with Southern Wine & Spirits, key wholesalers include National Distributing Co. and Peerless Importers Inc. Wholesalers are offered equity stakes in eSkye.com.

Mr. Wallin approaches the industry as an insider. His family owns National Wine & Spirits Corp., one of the 10 largest wholesalers in the country and, of course, an eSkye participant. He's well-acquainted with the baroque structure of the alcoholic beverage industry.

Controlling the flow

After Prohibition ended in 1933 with the 21st Amendment, wholesalers or distributors were created in nearly every state to control the flow of alcohol and to collect taxes. Today, there are about 550 liquor and wine distributors and about 3,000 beer distributors in the country, according to industry estimates.

Many distributors hold virtual monopolies in their territory. For instance, in a region served by two distributors, there will be little overlap in product lines, with one wholesaler carrying, say, Jack Daniels brands and the other

carrying Seagram brands.

A standard dot.com strategy is to disintermediate, or eliminate the middleman, over the Web, but the law does not permit that in the alcoholic beverage industry. Coming from within the industry, Mr. Wallin understood that wholesalers had to play a central role in any e-marketplace.

"It's almost like a distributor co-op rather than a disintermediation play," says Pierre Mitchell, an analyst with Boston-based AMR Research.

For the 550,000 retailers in the country, from liquor stores to supermarkets, use of the site is free. For additional software, they'll pay a monthly application service provider fee. To place an order, a retailer needs only a Web browser. The various parts of the order are then electronically forwarded to the appropriate distributor.

"Long term, it has the potential to simplify the ordering process for retail outlets and hospitality outlets, so that rather than five or six distributors to call, you have a particular point of entry," Mr. Mitchell says.

Marketing value

Wholesalers pay 40 cents for each order, but get the advantage of reduced paperwork. And because sales are processed online, sales people can sell instead of merely take orders.

For suppliers, Mr. Wallin intends for eSkye.com to offer marketing value. He sees it as an advertising medium and currently has a Chivas Regal banner advertisement, among others, on the site. He also plans to collect sales data from small retailers so suppliers can better determine where their products are performing well.

Additionally, Mr. Wallin believes better communication between wholesalers and retailers afforded by eSkye.com will reduce the waste of point-of-purchase displays, many of which are never used.

"There is over \$4 billion spent on marketing (alcoholic beverages) in the U.S. alone, and only \$1 billion of that is on advertising," he says. "The other \$3 billion is spent on sales materials for stores, and a lot of that is wasted."

BevAccess.com was founded in 1997, and co-CEOs Greg Ahnert and Derek Bromley started testing their site this past summer. It offers similar features to eSkye.com, but BevAccess.com isn't linked electronically with all its wholesaler customers. The company recently announced the hiring of a former technology chief at Merrill Lynch & Co. to upgrade its system.

Another difference is that Messrs. Ahnert and Bromley come from a retail background. "Greg and I got frustrated with the buying process," Mr. Bromley says. "We were spending all our time on administration. You could deal with five to 50 wholesalers in a given week to place orders just to keep the shelves stocked."

The strategy Messrs. Bromley and Ahnert have followed is to focus on getting retailers on board.

BevAccess.com has agreed to merge its operations with Beverage Media Group Ltd., which publishes pricing books for the industry, reaching about 140,000 retail subscribers. Beverage Media has electronic links to many wholesalers across the country and has done some e-commerce for the past two years.

Currently, BevAccess has operations only in New York, New Jersey and Connecticut. Mr. Bromley expects to "be in every major market by the end of the year."

And while Bev-Access.com and eSkye.com appear to be in for head-to-head competition in the online alcoholic beverage market, the possibility looms that a consortium of retailers or suppliers could attempt to seize control of online sales and launch its own e-marketplace.

Tom Pirko, president of Santa Barbara, Calif.-based industry consultancy Bevmark LLC, says his money is on the retailers.

"He who controls the data wins," he says, "and the (large) retailers ultimately control it."

But factor in Joe's Bar or Tony's Liquors and it's a different story, Mr. Wallin argues. "There is too much fragmentation across markets for them to get their act together in time," he says.

In the meantime, Mr. Wallin is doing what every self-respecting dot.com startup is doing: raising venture capital money.

"We're in the midst of raising quite a large financial round," he says.

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