

B to B

ADVERTISING AGE'S NEWSPAPER OF THE MARKETING REVOLUTION



PHOTO BY STEPHEN HILL

SMOKE WALLIN NAMED HIS *new eSkye hub for liquor wholesalers after his son, Skye Wallin.*

Entrepreneurial spirits

**SMOKE WALLIN MOVES FAST TO ESTABLISH LIQUOR E-HUB
BEFORE RETAILERS, SUPPLIERS FIGHT BACK**

BY SEAN CALLAHAN

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

Wallin is furiously assembling the players to build his new b-to-b marketplace, eSkye.com. The Indianapolis-based dot-com start-up has

announced in the past few weeks that it has signed up seven of the top 10 wine and spirits wholesalers in the country, including the largest, Southern Wine & Spirits.

It has also signed up 500 retailers to the system after just a month of operation. And eSkye.com is doing it with Smoke but apparently not with mirrors.

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

"Smoke is my given name. I've got some American Indian blood," Wallin explains. "I'm also half Scottish, and my son is named for the Isle of Skye."

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

"It's a race," 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."

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

So far, 36 of the about 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., The Wirtz Corp. and Peerless Importers Inc. Wholesalers are offered equity stakes in eSkye.com.

The wholesalers' role

Wallin has the advantage of approaching 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 is intimately acquainted with the baroque structure of the alcoholic beverage industry.

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.

A standard dot-com strategy is to disintermediate over the Web, but the law does not permit that in the alcoholic beverage industry. Coming from within the industry, Wallin understood that the 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, analyst with AMR Research, Boston, Mass.

Costs and benefits

eSkye.com is designed to offer benefits to each tier.

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 have five or six distributors to call, you have a particular point of entry," Mitchell says.

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

The competition

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

Another difference is that Ahnert and Bromley come from a retail background. "Greg and I got frustrated with the buying process," 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."

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

Meanwhile, Wallin is doing what every self-respecting dot-com start-up is doing: He's raising venture capital money. "We're in the midst of raising quite a large financial round, which should close in the next week or so," he says. □