

Verno's BEER BRIEF

THE WHOLESALE INDUSTRY'S LEADING
BEST PRACTICES PUBLICATION



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COVID-19 WHAT WHOLESALERS CAN EXPECT & HOW TO ADJUST BUSINESS ACCORDINGLY

We are all entering unprecedented times with the spread of COVID-19 throughout the world. There are many unknowns, with each day presenting a new set of obstacles and challenges.

The closest comparisons may be the uncertainty during the days and weeks following 9/11, the short- and long-term impact throughout the Southeast markets as they recovered from a natural disaster like Hurricane Katrina, or the employee and operational challenges a wholesaler faces when going through a union strike. COVID-19 will likely incorporate the challenges from all three of these comparisons along with several others that we can't predict.

Over the past few days, we have received countless phone calls, emails and texts from clients and subscribers from all across the country regarding the challenges COVID-19 presents. As a result, we put together this Brief to provide input and help wholesalers navigate through the upcoming season.

COVID-19 AND THE FUTURE FOR BEER WHOLESALERS

We believe wholesalers will experience three distinct phases of the COVID-19 impact. We have divided up our thoughts and recommendations accordingly.

PHASE 1

IMMEDIATE
ADJUSTMENT

PHASE 2

INTERIM PERIOD

PHASE 3

NEW NORMAL



WHAT TO EXPECT IN EACH PHASE

PHASE 1 - IMMEDIATE ADJUSTMENT PERIOD

EST. TIME FRAME: March & April 2020

MAJOR MARKET ADJUSTMENTS

- On premise decrease - accounts close or limit service to take-out only
- Off premise increase - especially in grocery & large format accounts

WHOLESALE ADJUSTMENTS

- Employee adjustments
- Route adjustments
- Inventory ordering adjustments
- Discontinuing of certain activities (special events, draft, etc.)

PHASE 2 - INTERIM PERIOD

EST. TIME FRAME: Several Months (until virus restrictions are lifted)

MAJOR MARKET ADJUSTMENTS

- Temporary market adjustments have settled in
 - Know which accounts will be open / closed / limited
 - Know how off premise accounts will be impacted

WHOLESALE ADJUSTMENTS

- Major wholesaler adjustments are in place
 - Employee reassignment / adjustments have been made
 - New temporary routes are in place
 - Certain functions / activities are suspended or significantly adjusted
- Start working on special projects with excess capacity (if any)



PHASE 3 - NEW NORMAL PERIOD

EST. TIME FRAME: Post-virus restrictions (indefinitely)

MAJOR MARKET ADJUSTMENTS

- Market will begin to get back to the way it was, but never fully be the same
 - On premise accounts will reopen (many accounts will stay closed)
 - Off premise volumes will normalize from current spikes
 - Consumers will have less discretionary income

WHOLESALE ADJUSTMENTS

- Wholesaler will adjust back to full-service capacity
 - Increase staffing
 - Start doing functions that were stopped (special events, draft line cleaning, etc.)

STRATEGIC ACTIONS AND QUESTIONS TO CONSIDER

PHASE 1 - IMMEDIATE ADJUSTMENT PERIOD

As the stark reality of the situation begins to unfold, it is becoming clear that major adjustments within the wholesalers and throughout the market will be taking place, effective immediately. As retail accounts begin shutting down and access to people becomes more and more limited, wholesalers will soon be facing incredible managerial challenges. The following section addresses some of the most pressing issues facing wholesalers during this immediate adjustment period.

***NOTE:** Having never been through anything like this before, unfortunately there is not a playbook on how to deal with each of the pending issues. As a result, this section is comprised of unanswered questions for management to discuss, short-term recommendations worth implementing, various options to consider for specific topics and general assumptions that will impact future operations.*



UPPER LEVEL MANAGEMENT DECISIONS/ACTIONS

- ✓ Clarify the company's position if an employee gets sick and has no or little sick pay/vacation pay
 - Do you pay them full pay anyway?
 - Do you pay them some portion of their current pay?
 - Do you not pay them above and beyond their remaining sick/vacation pay?
- ✓ Find out if a retailer's employee has tested positive for the virus
 - Drop the order, get paid and but do not stock
 - Refuse to deliver
 - Deliver as normal
- ✓ Stop customer pick-ups
- ✓ No supplier visits or ride-withs
- ✓ Stop use of temp employees
- ✓ Assume craft industry will be hurt badly
 - Some craft suppliers won't survive if the majority of business is on premise or if heavily reliant on their own tap rooms.
- ✓ Assume many on premise accounts won't reopen
 - Similar to the post hurricane impact in the southern states, when the end of the crisis is in sight, be ready with adjusted sales and delivery routes.
- ✓ Make sure water in your facility's washrooms is hot enough to allow hands to be thoroughly sanitized when washed

IMMEDIATE ACTIONS WITH EMPLOYEES

- ✓ Reduce employee work hours
 - Ex. all merchandisers go on 30 hour workweeks and supplement the merchandiser manpower with on premise employees who also work reduced hours.
 - Consider four day, 32 hour work for all employees. The company still delivers five days but each employee has a four day work schedule with different people have different days of the week off. If they choose, employees can use their vacation or personal time off for the fifth day.
- ✓ Furlough non-essential employees
 - Without pay, or
 - Half pay



- ✓ Offer freed up manpower to grocery and large format (consult legal advisory on best way to do this)
 - Short-term basis
 - Possible scenarios
 - Retail customer pays 100% of employee cost
 - Retailer and wholesaler share the cost of the employee
 - Wholesaler offers available manpower at no cost to help stores stock all departments
- ✓ Social Distancing:
 - Have all sales and merchandising personnel start from home and go directly to their accounts and not come into the office
 - Provide all employees with free work gloves
 - Allow some employees to work from home:
 - Brand management
 - Chain management
 - Purchasing/inventory ordering
 - Space management planning
 - Use communication technology for meetings rather than in person meeting:
 - Skype
 - Zoom
 - Go-to-Meetings
 - Conference calls

USE OF FREED UP MANPOWER

- ✓ Use freed up manpower to do the following:
 - Due to volume increases and swings up and down, increase frequency of pull ups to avoid out-of-stocks
 - More retail floor space should be available, sell more displays and have freed up manpower build and refresh displays
 - Increase reset effort.
- ✓ Use freed up manpower to assist on or lead resets.
 - Utilize space-planning expertise
 - If personnel not in the space management department have space management planning expertise, move them to space planning so that space planning can keep up with increased number of resets being sold.



✓ Special projects:

- If the wholesaler has freed up manpower and decides to not adjust its staff or number of hours, use the freed up hours to do special projects. There is a starter list of special projects later in this Brief under “Phase 2: Interim Period”.

EFFICIENCY IDEAS

✓ Offer large format and large independents after hours or night delivery:

- To avoid/reduce backroom receiving congestion
- For your workers to do their job with the least amount of people around

✓ Use freed up manpower (on premise, draft line cleaning, special events personnel) to double up on merchandising manpower and have merchandisers work in teams:

- Get in and out of store faster
- Better able to handle increase volume and man hours required to complete work in stores
- Use freed up manpower as helpers on trucks with higher than normal loads

INVENTORY IDEAS

✓ Reduce how many new packages you add

✓ Reduce and/or stop orders of on premise specific SKUs

✓ Be more aggressive with reducing slow moving SKUs

✓ Sell current draft and on premise specific package inventory to wholesalers in neighboring states where on premise has not been ordered to stop on premise customer consumption

✓ Fire-sell on premise specific SKUs to larger off premise accounts. They can retail full case sales

✓ Use freed up manpower to repack on premise specific packages into off premise package (24 loose into 4 six packs)

OUT-OF-CODE IDEAS

✓ Begin negotiating with suppliers for out-of-code support. Check legalities first. This may require all wholesalers in a state or region that carry the same supplier's products to band together and go to suppliers for support.

✓ Have plans in place for when on premise reopens or before:

- How to pick up out-of-code
- Where in warehouse to store out-of-code
- How to destroy out-of-code



PROFIT IDEAS

- ✓ Push high margin products
- ✓ Discount less
- ✓ Reduce quantity retailers can bridge buy between discount periods
- ✓ Increase merchandising pull up frequency to reduce stock outs at least until high demand subsides

PHASE 2 - INTERIM PERIOD

Within the next few weeks, once the immediate adjustments made by the wholesaler and market are in place, it is likely that we will be entering an interim state that could last a few weeks up to several months. By this time, we will have a better understanding of the impact on account openings / closing / limitations & volume trends in the market, employee adjustments will have been made, and short-term route adjustments will be in place.

A common saying we use is “never waste a good crisis”. During this interim period, if anyone within the wholesaler has excess time available, management should take advantage of the capacity and use this rare opportunity to complete some special projects that would normally not be prioritized over the typical day-to-day work requirements.

Management can also use this opportunity to eliminate of legacy behaviors and implement some new structure and discipline to the company and to the market. This is the perfect opportunity to hit the reset button and to get away from the “this is the way we have always done it” mentality and start redesigning functions and processes throughout the operation.

The following is a starter list of Special Project options to consider tackling during the Interim Period with any excess capacity available throughout the company.

SALES & DELIVERY GO-TO-MARKET

- ✓ Redesign sales model
 - Explore alternative sales models
 - Move more accounts to inside sales on a permanent basis - not just during the interim period
- ✓ Online ordering
 - Dedicate someone to spearheading the online ordering platform
 - Use this as the reason to convert customers to online ordering platform
- ✓ Develop a new service policy & delivery minimum and plan a reroute for the Fall
 - Rerouting will be necessary coming out of this phase due to the amount of accounts that will be closing for good



- Now that mid-low volume customers will be used to reduced frequencies, use this opportunity to implement a new service policy and delivery minimum starting in the Fall
- Build the base routes around the large format accounts and solid independent accounts

HUMAN RESOURCES & IT

✓ Performance reviews

- Conduct performance reviews throughout the company
- Start doing 360 reviews of supervisors & managers

✓ Employee engagement

- Use this time to solicit employee feedback
- Conduct internal employee surveys
- Conduct revised employee focus groups

✓ Training

- Cross train employees in other departments / functions
- For example - Sales reps with drivers
- Management & supervisor training
 - Increased RAS functionality
 - Excel & data management
 - Managing people

✓ Information Technology

- Update IT software & hardware
- Inventory current hardware and develop aging and replacement plans

✓ Clean up your account master

- Update account information
- Update and standardize SKU & supplier codes

✓ Automatic reporting

- Review all the reports that are automatically generated and distributed
- Clean up list of reports
 - Eliminate old reports that are not being used or are one off report that can be replaced with other reports, add new reports, consolidate duplicate reports, update distribution lists, etc.



WAREHOUSE / OPS

- ✓ Warehouse tasks
 - Clean up 100% of breakage backlog
 - Restripe the warehouse
 - Ensure all pallet & pick locations are properly labeled
- ✓ POS / Sign shop
 - Clean out POS room
 - Develop guidelines for POS / signage spending and allocation
 - Reduce the number of signs you are willing to print
- ✓ Fleet management
 - Document a full inventory of all company fleet and equipment
 - Develop a fleet aging & replacement plan
- ✓ Inventory counting
 - Do a full inventory count
- ✓ Train more employees to get CDL

SUPPLIER MANAGEMENT

- ✓ SKU & Supplier rationalization
 - Analyze every supplier and their SKUs
 - Aggressively delete under-performing SKUs and suppliers so you can focus on the products that drive the business
- ✓ Develop a supplier priority plan for the ramp-up period once the market moves back to the new normal state
- ✓ Develop supplier management guidelines that can be carried into the new normal state
 - Reduced frequency of supplier meetings
 - Reduced supplier ride-withs

PHASE 3 - NEW NORMAL PERIOD

Eventually, this virus will run its course and things will begin returning back to normal. People will be able to gather together again, accounts will reopen, and wholesalers will need to ramp back up towards full capacity. No one knows for sure when this will happen or how long it will take to get back to normal.



In all likelihood, we will never return fully back to normal as it was before all of this started. Many accounts that closed will not reopen, many small craft suppliers will no longer be in business, and consumers will have less discretionary spending. That is why we are calling this phase the new normal period.

The longer the restrictions are in place, the greater the net impact will be on the back end. Having gone through this, when the dust settles, wholesalers will look and operate different than they did beforehand.

The savvy wholesaler will take the positives that do come out of the next several months and incorporate them into their new normal state in the future. Examples of this include:

- ✓ Don't start servicing all your small accounts at higher frequencies
- ✓ Keep small on premise accounts on inside sales
- ✓ Don't bring in excessive numbers of new SKUs
- ✓ Keep doing performance reviews and soliciting employee feedback
- ✓ Don't overspend on POS in low potential accounts
- ✓ Don't reengage unproductive special events
- ✓ Don't start aggressively using discounting pricing strategies
- ✓ Reduce merchandising in large format accounts from the peak service levels you provided during the initial boom

CONCLUSION

At the end of the day, no one knows what is in store for anyone in the coming days, weeks or months. Each wholesaler will need to assess the threats that COVID-19 presents to their specific company and market and adjust accordingly. Our hope is that this Brief will help assist you and your team during this unique challenge.

Stay safe. Flatten the curve.



	<p>2019</p> <ul style="list-style-type: none"> • MANAGING OUT-OF-CODE • IMPROVING EMPLOYEE RETENTION • SALES COMPENSATION WATCHOUTS • MANAGING SALES PFP • SKU RATIONALIZATION • KOI BENCHMARKS • THE GM JOB DESCRIPTION • THINGS TO STOP DOING • 2020 ANNUAL BUSINESS REVIEW 	<p>2018</p> <ul style="list-style-type: none"> • LENGTH OF THE WORKDAY • PROTECTING TS DRAFT • SALES REP CAPACITY • EMPLOYEE FEEDBACK • KEY ACCOUNT MANAGER'S ROLE • AUTHORITY LEVELS • THE SUPERVISOR POSITION • DELIVERY MINIMUMS • 2018 BEER BUSINESS REVIEW 	<p>2017</p> <ul style="list-style-type: none"> • PREPARING NEXT GENERATION • CAREER PATHS FOR NEXT GEN • POLICIES FOR MANAGING • SHARING FINANCIALS WITH EXECs • DELIVERY MANAGEMENT SELF- • SALES REP COMPENSATION • MERCHANDISER SAVINGS • DEVELOPING STRATEGY • 2017 ANNUAL KOI REVIEW
<p>2020</p> <ul style="list-style-type: none"> • MINIMIZING OFF-DAY DELIVERIES • SALES PRACTICES IMPROVE WSE • SUCCESS WITH LESS FROM SUPPLIERS 	<p>2016</p> <ul style="list-style-type: none"> • EXECUTIVE BONUS PROGRAMS • WAREHOUSE EFFICIENCY KILLERS • MANAGING RESETS • WHY INTERNAL PROJECTS FAIL • EMPLOYEE SURVEYS • MANAGING MERCH. FREQUENCY • JOB DESCRIPTIONS • SALES GO-TO-MARKET SELF-TEST • 2016 ANNUAL KOI REVIEW 	<p>2015</p> <ul style="list-style-type: none"> • RETAINING EMPLOYEES • ROUTING PROJECT CHECKLIST • SPANS OF CONTROL • THE NEW SALES SUPERVISOR • 4-DAY WORK WEEKS • DELIVERY ROUTE COST REDUCTION • MANAGING CRAFT ROI • SALES BEST PRACTICES • 2015 ANNUAL KOI REVIEW 	<p>2014</p> <ul style="list-style-type: none"> • HR'S STRATEGIC ROLE • SUPER MERCH. SALES MODELS • MIXING SOFT DRINKS & BEER • BEING SCALABLE • TOTAL SIGN SHOP COST • HOW WHOLESALERS MAKE MONEY • DISCOUNT/DRUG STORE STRATEGIES • VERNO'S 2015 BEER BUS SURVEY • 2014 ANNUAL KOI REVIEW
	<p>2012</p> <ul style="list-style-type: none"> • SALES ANALYST POSITION • SUPPLIER SERVICE POLICY • WAREHOUSE TURNAROUND • POS SERVICE GUIDELINES • SKU DELETIONS, PART 1 • SKU DELETIONS, PART 2 • SOCIAL MEDIA SURVEY • DON'T CALL ACCOUNT LIST • 2012 ANNUAL KOI REVIEW 	<p>2011</p> <ul style="list-style-type: none"> • THE NEW OPERATIONS EXECUTIVE • MERCHANDISING SCORECARDS • USING BREAK EVEN ANALYSIS • CAREER PATHS • SUSTAINABILITY • SUCCESSION PLANNING • MASTER BUSINESS STRATEGY • ORGANIZATION STRUCTURE • 2011 ANNUAL KOI REVIEW 	<p>2013</p> <ul style="list-style-type: none"> • 2013 BEER BUS. SURVEY/FORECAST • SERVICE POLICY STRATEGY • CYCLE COUNTING & INV. CONTROL • MANAGING INTERNAL PROJECTS • ACQUISITION READINESS • MANAGING COSTS • 2014 BEER BUS SURVEY/FORECAST • ACQUISITION INTEGRATION • 2013 ANNUAL KOI REVIEW
		<p>2010</p> <ul style="list-style-type: none"> • MANAGEMENT SCORECARDS • TEL-SELL REVISITED • BREAKEVEN COST PER STOP • PORTFOLIO STRATEGY • CRAFT BRAND MANAGEMENT • CRAFT SALES SPECIALIST • ANNUAL MANAGEMENT CHECKLIST • DEPARTMENT PLANS • 2010 ANNUAL KOI REVIEW 	<p>2009</p> <ul style="list-style-type: none"> • MINIMUM DELIVERY CHARGES • RECESSION MANAGEMENT • EXECUTIVE COMPENSATION • MANAGING RELIEF • MANAGING RESETS • SALES BEST PRACTICES • JOB DESCRIPTIONS • SALES PAY FOR PERFORMANCE • 2009 ANNUAL KOI REVIEW

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