Come Heller High Water

Beer importer Joe Heller is working to sell his Rhinebecker low-carb brand to a consolidated industry.

Joe Heller is one of the foot soldiers of the beer industry, starting off as a district manager for DriBeck Importers (now Beck's North America), then becoming a regional manager before moving on to Century Importers. After a number of years with Century, he worked for Warsteiner through the mid-1990s, before striking off on his own as HellerHighwater Inc. He is now importing Rhinebecker Extra, a German low-carb beer. The beer has proven a success in certain U.S. markets, although as Joe notes, access to market has become more challenging in a consolidated beer industry. Undeterred, Joe is working to build distribution for Rhinebecker in the U.S., while at the same time opening up several new markets outside the Continental U.S. Our interview follows:

Joe Heller with Rhinebecker consumers in one of his expansion markets.

MBA: Joe, you started in the industry more than 20 years ago, is that correct?

Joe Heller: Yes, my first beer industry job was with Beck's. I started as a district manager for DriBeck, working the Atlanta market. I was promoted to regional manager, working the Carolinas. Back then, and this was the early-1980s, there were still a lot of distributors compared to today. We were having phenomenal growth with Beck's. I was in North and South Carolina. DriBeck was doing limited TV in some major markets, but there was no direct mass media in my market. No TV, no radio, no billboards. My markets might have had some exposure to limited national magazine spots, but that was it. Despite any lack of support, the brand was doubling volume in my market over a period of two years. I would like to take credit for that, but the reality is it was the distributor network that did that. It was the distributorship sales people and the relationship between "us and them" that was primarily responsible for the stupendous growth of that brand.

Unfortunately, I find that the business is often less about people and relationships than it was twenty years ago. Now it appears to be only about money and numbers. Not that money and numbers weren't always important, but back then I think personality and hard work could be the catalyst which created the numbers and money.

After two years at Beck's I went to work for Bob Wilson at Century Importers. We sold the Carling O'Keefe brands--O'Keefe, Extra Old Stock, Glacier Bay, John Courage and Kronenbourg. I was representing Century's southern frontier at that time. I opened up the Carolinas, and then brought the brands to Georgia. Even with those small brands, we were able to show successes. We were able to build some good distribution with those products, and build some volume. Those brands even had built some momentum by the end of the 1980s, but when serious consolidation began in the early '90s, those kinds of brands were some of the first to get booted from the game.

After five years at Century, I went to work for Warsteiner in 1990. And Warsteiner was showing tremendous growth. During the early 1990s our team was able to really build that brand on its image, not solely on price.

Do you think today that people have to make sacrifices on price early on?

Yes, but I'm not sure that works. In certain markets, where consolidation has finalized itself, even when you come in with strong incentive programs, you're not as successful as you would have been 10 years ago. Even when you try to price promote to build distribution, you're not as successful. Not because the brand doesn't have merit, or the consumer doesn't want it, but because the distributor's attention is overwhelmed by its major suppliers. Where consolidation is complete so there is an A-B house and an "all other" house, in the "all other" house you not only have Miller and Coors competing against one another, but at least your top ten major imports as well. How does a small guy get any attention in that situation? It is virtually impossible unless there is very strong distributor management that can successfully manage their sales force to "sell the whole book," which is unfortunately fairly unusual today.

Domestic craft brewers and small importers seem to be in the same boat...

Yes. Consolidation has created a huge problem for all of us, even extending to some of the mid-sized and larger importers. There is a definite need in many markets today for additional methods of getting our products to market. If for instance, if every market allowed microbrewers to be their own distributors, and to carry other products, that would be one way of opening up a new channel of distribution. In Georgia as an example, let's say you have a small microbrewer, with a half dozen accounts a half-mile away. Rather than being able to deliver those accounts directly, he is forced to deliver his product to a distributor on the other side of the city. In turn, that distributor has to drive the product back across town.

A few markets do allow self-distribution...

But not that many, and in many they can self-distribute, but can't handle other brands. And in that case, self-distribution is of limited value. What retailer wants to deal with another supplier, who is only bringing him one product? So even in those states, self-distribution is almost pointless.

I covered 18 states for Warsteiner in the early 1990s. I will tell you that it was a lot easier to find distributors and to build distribution in '90 than it was by 1996.

Warsteiner built its volume after 1996 quite well, but I think this was done primarily with price promotions, especially focused on the 12-pack. Frankly, I'm not sure this kind of never-ending price promotion is good for anyone. It cuts everyone's margins and can permanently tarnish a brand's image. The consumer does O.K., but I don't think the long-term health of the brand is served.

In 1997, I started HellerHighwater, importing Veltins. At that point, the realization of what was happening in the industry really hit home, and it was a shock to me.

It proved very difficult to build distribution. Veltins is a viable brand, the fourth largest brand in Germany, and was very well supported by the brewery. Plenty of good P.O.S. available. But in many markets, we couldn't get a distributor, or even get an appointment to see one.

This used to be a gentleman's business.

Joe Heller at the Rhinebecker Extra New York State launch event, in September 2003.

You put a phone call into a distributor these days, and quite often you won't even get a response. Back in the days when this was still a people business, I think the small guys were treated like they were important to the distributor —because in many cases we were.

With Rhinebecker, we saw huge potential. I live a low-carb lifestyle now. I went on Atkins in 2001, and lost about 60 pounds. I thought this brand would be welcomed with open arms as the first imported low-carb in the country. I thought that it would be particularly welcomed by distributors who didn't have Michelob Ultra. In my view, Rhinebecker has a built-in profit incentive at every level of the distribution chain. First, the distributor makes more money per case selling an import versus a domestic. The same incentive applies to the retailer, who would rather sell an import than a domestic for the profitability per bottle. And finally, even the server has the same financial incentive, since his check average, and therefore his tip, will be larger by selling an import low carbohydrate beer instead of a domestic one. Surprisingly, this turned out not to be the reality. Not because this brand doesn't have huge potential, or because the profit incentive theory is flawed, but rather because it's not coming from a huge or existing supplier.

Consolidated distributors just didn't want to deal with another supplier. That's what we found in almost every case where we've run into these issues. A perfect example of this is in Florida, where essentially there is a monopoly if you are a smaller supplier. In virtually every market there are only two beer distributors left. However, the A-B distributor is not going to take anything that isn't made or owned by A-B. Therefore, the remaining wholesaler realizes that if he decides not to bring a new product in, there is little or no chance that product will develop or survive in that market since there is no other distributor for the brand to go to.

I think distributors in Florida thought this product had merit. But I was told on several occasions that if the low-carb category continued to grow, most likely one of their major suppliers would come out with a low-carb import. Thus, bringing my brand on would only cause them a problem with that already-existing supplier when they finally launched their own low-carb brand.

There are markets in the U.S. where wholesalers have given Rhinebecker a shot, and have worked to build the brand. In those markets we are doing quite well. Recently, we have ventured into markets outside the continental U.S., and I've been astonished how much more open these markets are. It reminds me of how it was when I started in the business in the early 1980s. That's the way it used to be here—still a people business. Still a place where the small guy can succeed.

What is your primary goal with this brand?

I am trying to take my small brand and turn it into a big brand. I came into this industry at the end of an era, when it was still possible for an individual or a small company to build a brand within the distribution system that existed. My first beer industry job was with Walter Driskill at DriBeck Importers. This is a guy who started after his 50th birthday with one container of Beck's Beer in New York City. By the time I went to work for him twenty years later, he had built that one container into a company selling over 11 million cases a year. I don't think this is possible anymore. And I think that's a sad day for our industry.

Why is that no longer possible, in your view?

Obviously, the number of distributors has declined, though consolidation, and the suppliers themselves, supplying this smaller number of distributors, have grown larger through acquisition and consolidation of brands.

Look at Germany, in contrast. There it is a free market. Even today, with only 80 million people, there are over 1000 breweries, the largest of which has about a 5% share. Those 1000 breweries are producing 5000 brands.

Compare that to the U.S., with a population of 280 million, and once you get past the top four breweries, you've covered over 75% of the volume. For goodness sake, we have one brewery with over 50% market share.

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New Beer

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Some might describe the German market as fragmented, and see it evolving like ours in the coming years...

That's what will happen, yes. But it will take much longer than it did here. Breweries, even the small ones, have a much better hold on their local markets, because it truly is a level playing field there.

In the U.S., I would argue, smaller players are restricted in important ways. I'm not talking here about the franchise laws, although these laws certainly have been a primary factor in the massive consolidation that has occurred in the past decade. For example, though, in some states, a large supplier or brewery can legally install a $4000 per month billboard along the side of a major highway, but in that same state the law prohibits me from placing an eight-foot banner outside an account where it can be seen by the public. It's these types of regulations that inhibit the growth and threaten the survival of smaller companies, while in essence are actually providing a degree of protection to the big companies.

Some of these restrictions are pretty entrenched...there doesn't seem to be a quick fix...

There is no quick fix, I'm not sure there is a fix at all. Even if regulations were relaxed, I don't see the industry changing direction. Let's take Florida as an example again. As I said, in Florida, the consolidation of wholesalers has gone about as far as it can go. In most markets, it's down to two distributors--the Bud guy and the "everything else" distributor. But let's look at the previous step in the consolidation process, when there were still three distributors left. Let's suppose one of the suppliers, even a major importer, for example, wasn't happy with the new consolidated distributor. If you assume the Budweiser distributor is not going to take on the supplier in question, even if that supplier didn't want to participate in the consolidation, and since the law does not allow the supplier to self-distribute, he has no choice but to accept the consolidated distributor or leave the market all together. Obviously the latter is not a practical option.

This scenario causes even bigger problems for the smaller suppliers.

Regardless of the potential of a brand, it has become increasingly more important to the distributor who the supplier is rather than what the product is. The identity of a supplier weighs more on a distributor's decision to take a brand, than the merits of the brand itself.

Is this because these larger suppliers have greater resources, that, in the eyes of the distributor, will drive the sales of the brand?

If we are at the point where all the distributor is doing is delivering product, and not "selling" product or participating in the building of the brands he carries, then that is the case. But, I would hope that, even in current market conditions, most distributors would be willing to take a brand, and try to build it.

Walter Driskill built his brand with legwork, and a distributor network that got behind the brand and helped build it. Not only have the distributors consolidated, but the brands are consolidating into bigger suppliers. This of course has been driven to some degree by consolidation. The brands are being forced to consolidate so they can compete in these huge multi-SKU companies.

Regrettably, the loser will be the consumer. Smaller brands can't even get into the market. As time goes on, even medium-sized brands will start falling off the map. In markets where distributors have consolidated fully, where it is down to two distributors, the best way to increase profitability for these guys is to trim their SKUs. Fewer SKUs means larger case drops and easing of logistical complications that accompany numerous brands and trucks that are limited by size.

There is an incentive to trim the market even further. These brands are dropping away when they no longer represent a sufficient portion of market share.

When they are dropped, these brands are marginalized, and their potential to survive in the market is severely reduced. The question is, would that particular brand have been in that same situation had there been three, four or five distributors still in the market, rather than just two?

Do you see any potential for smaller specialty wholesalers to enter the market now?

There are markets where small distributors seem to be able to survive and even grow.

Aside from competitive pricing issues that stem from the costs associated with margin requirements for these smaller wholesalers, many of them are doing OK, but they are often covering a fairly wide geography. In my experience, the volume for the brands they represent is not as high as it should be, considering the volume a given market warrants based on population. In many cases when you put your brand in a small house, you find yourself only really scratching the surface of the market. On the other hand, with smaller distributors, where they do still exist, the smaller suppliers remain quite important to the survival of those distributors, so it is a mutually beneficial arrangement.

What does a smaller brand do? Should a brand be sold in a limited geography, in depth?

I guess the saying used to be, "you have to fish where the fish are." I think nowadays, that old saying has to be refined to "you have to fish where you can find a pole to fish with." Seriously though, in my experience, the mainstream beer distributor network can be extremely effective in the best-case scenarios. I've seen great successes in certain markets. But in many cases, it is difficult for a small brand to get attention from management and the sales force. Especially in consolidated markets. In those markets, smaller brands are overshadowed by the demands of a wholesaler's major suppliers.

There are certain niche markets, where because of local laws, smaller distributors can thrive. In some of those markets, I've seen small brands do very well with the "alternative" distributor.

But, I've reluctantly come to the conclusion that small brands, even very viable small brands, will have difficulty thriving and growing in the market today. In the long term, I think smaller brands must develop an association or partnership with a top 25 supplier if they will survive for the long term in today's beer industry.

So you don't think it's a meritocracy at all anymore?

I'm not sure the state of our industry allows for the "American Dream" to happen today. Rhinebecker is doing OK. We are growing every month. We are developing new markets inside and outside the US where the low carb phenomenon is beginning to catch on, and we're having some great successes.

We're forging ahead. It is a difficult market today, but we're determined to stay the course. Certainly, if hard work and determination still count for anything, we will be successful.

Thank you, Joe. ■