BUSINESS MEETING OF THE

MICHIGAN LIQUOR CONTROL COMMISSION

Held: Wednesday, April 6, 2022
Lansing District Office
525 W Allegan
Lansing MI 48933

Present: Pat Gagliardi, Chair
Dennis Olshove, Commissioner

Absent: None

Staff: Kerry Krone, Business Manager
Donald McGehee, Chief of Alcohol and Gambling Enforcement Division
Pam Hamilton, Director of Finance Division
Julie Wendt, Director of Executive Services
David Marvin, State Manager, Executive Services Division
Jeannie Vogel, Public Information Officer
Anita Fawcett, Administrative Assistant

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The meeting was called to order by Chair Gagliardi at 10:33 a.m., noting a quorum was present.

Chair Gagliardi advised the meeting was scheduled to address the ongoing supply chain disruptions resulting in out-of-stock liquor products – a situation that is affecting liquor licensees and their businesses. He stated how COVID issues affected the US and global marketplace over the last two years. Chair Gagliardi stated the purpose of this meeting is to seek input to see what changes the Commission can make to improve the situation.

Commissioner Olshove stated it has been two years since we were last in this room and that COVID has affected the way business is done. He hears from his businesses that they just can't get the alcoholic beverages that their customers want and would like enlightenment on the issues. Commissioner Olshove knows the problem is more complicated than the public knows and we need to make improvements to our system.

Chair Gagliardi advised he would ask for each of the ADAs to speak on the supply chain issue. He stated they warehouse and distribute the product and the State collects income that goes to our schools and public institutions.

Brian Pizzuti from National Wine & Spirits, LLC d/b/a RNDC Michigan, thanked the Commission for having him. He stated since April 2020 when COVID struck, there have been issues with the supply chain. First it was a shortage of cans, now it is a shortage of glass and the materials to make it. Mr. Pizzuti advised if one element is missing that goes into bottling a product then all production is affected. He advised that large suppliers had 6 months of products on hand but demand from around the country grew so fast, that suppliers cannot get ahead of demand. Mr. Pizzuti stated that they have seen a hoarding effect of cognac, bourbon and tequila from some of the licensees that would normally keep one or two cases on hand, and now want to have 20 or 30 cases in stock. When retailers order more product than normal that shuts out other accounts from getting any of the product. He stated some products have caught up with demand and some of the products that come from Europe are arriving on a timelier basis. Mr. Pizzuti advised they only store and deliver the products in their warehouses, they do not own it. He stated the inventory is owned by the suppliers and they can ask for more product but don't always receive it. Some suppliers can give 60 to 90 days supply while other suppliers run leaner.

Commissioner Olshove asked about Hennessey as an example and the problems with getting this product to Michigan and wondered whether we are at the mercy of the world marketplace.

Mr. Pizzuti advised the demand for this product has grown overseas in Europe and China and that suppliers had raised the price to slow down the demand and that has not helped. Cognac has caught-up to a 6 months' supply, tequila has gotten better but depends on the age, and brands out of Europe have gotten better.

Commissioner Olshove had questions about the port issues and how the product gets to us. He wondered where Michigan falls in the pecking order to receive products.

Mr. Pizzuti advised that previously it took about 2 ½ months to received products and now it is taking six to eight months to receive products after they have been ordered. He stated there is a container shortage, and even after it is loaded on ships, the product sits in the harbor waiting to get unloaded due to dock worker shortage. The products must clear Customs and they are experiencing the same worker shortage as Michigan. Mr. Pizzuti stated when the product is ordered and put into containers is when the sorting is done. Once the container is on a ship, and unloaded to a truck, it will come directly to its location as the containers are not opened until the delivery is made.

Chair Gagliardi asked that ADA Imperial Beverage, Inc. speak on the supply chain problem.

Joe Cekola stated that Mr. Pizzuti had covered most of the bases regarding the ongoing supply issues but had a few more points. He stated that the agave tequila takes seven years for the plant to grow and three more years of aging and you can't rush time. Mr. Cekola advised they have asked their suppliers for more than 60 days inventory and also have unloading issues from the ships to the docks like RNDC.

Larry Cekola added that barley and grain used in beer manufacturing is imported from Ukraine and there may be issues in the summer for production. He spoke on the three day first come, first serve ordering system that, for example, if Meijer's orders on a Monday and gets their delivery on Wednesday, that product may not be there later in the week for other business orders.

Commissioner Olshove asked what constraints do you have for ordering products and trying to get inventory in place for the Holidays?

Larry Cekola advised they have sufficient warehouse space and are getting extra inventory whenever they can to be prepared for the Holidays.

Joe Cekola stated it is hard to guess what will be required nine months out but have a team that looks at their history of ordering and makes projections of what will be needed.

Chair Gagliardi advised we have to make changes to level the playing field so the independent retailers can have access to same product as the big box stores.

Lou Grech-Cumbo (via phone) from General Wine & Liquor Company, Inc., d/b/a G.W.& L. Delivery, stated the economy was running at 100% before the COVID shutdown and the supply chain issue is very complicated. He stated if you are running production full blast, then shut down and try to start back up, you can't always get the materials you need, you lose drivers, fuel prices go up and everything is a mess. Mr. Grech-Cumbo advised that they have a problem with seasonal items from other parts of the world and the worker shortage. He advised they will be opening their contracts early to see what can be done to keep the drivers they have and alleviate the worker shortage. Mr. Grech-Cumbo stated the suppliers allocate what inventory they get, and the first order by the licensee is the first delivered.

Chair Gagliardi advised labor shortages and other transportation delays are worsened by the spiking gas prices. We want to be fair and asked Mr. Grech-Cumbo how he would allocate products.

Mr. Grech-Cumbo stated they are fair to everybody, and first order by the licensee gets first delivery. He advised the public may think they have the inventory, maybe post something to website show what product was received.

Mr. Pizzuti says RNDC can't solve the problem because of the rules in Michigan and that other states allocate to retail stores based on the share of sales. He advised until we are through the shortage, the goods will not flow freely. Mr. Pizzuti stated the Commission's system does not allow to limit the amount of product a business can order, that other states do a lottery system but that would be tedious to administer and does not always work well.

Larry Cekola talked about beer products be allocated, set a maximum number of cases, look at how much in sales numbers with the product going to the best sellers. He suggested the allocations could be done by brands or suppliers. He indicated that existing brands have sales history, but new brands would not.

Ms. Krone advised we are currently in the process of bidding on a new system that would upgrade what our current one can do. She stated our ability to limit or flag products could be quite difficult and can take a while to complete. Ms. Krone stated we are working with the ADAs and brokers to make a fair and equitable system for the whole state.

Chair Gagliardi stated we are constrained by our old software as to what we can do but are getting caught up and will continue to work with our partners to improve.

Scott Ellis, President of the MLBA, is not here to complain, they know there are problems. He stated the on-premises businesses are struggling to survive, they can 't afford to keep a large inventory like off-premises businesses, and then are stuck trying to order the product they want. Mr. Ellis stated if the on-premises businesses could buy from the off-premises store and get the discount that would help. He stated their members continue to have a severe problem with the product being ordered but when the truck delivers it, the licensees are not receiving all the products ordered.

Conrad Haremza, Regional Director of Proximo Spirits and President of Michigan Spirits Association stated the MSA has 46 members and handle 74% of the liquor sold in Michigan. He said they are not immune to the problem and it's not just a Michigan problem, but in all states. Mr. Haremza advised that Tom Perrick is on the phone and would like to speak.

Tom Perrick (via phone) from the American Distilled Spirits Alliance stated the on-premises versus off-premises is a different consumer consumption, from happy hour to at home drinking. He said there are only 3 or 4 glass producers, everybody is competing for the same thing and that every level of production is experiencing delays with materials. Mr. Perrick advised that it is taking 8 – 12 weeks for ships to be unloaded and that containers are getting hard to get. He stated the railways are also experiencing

back-ups and they have to figure out how to get the products from the depot to the warehouse with the labor shortage of drives for the trucks to delivery. Mr. Perrick advised the labor issue is on all levels and that rushing to use new suppliers for materials can cause new problems with cheaper materials, glass breakage, etc.

Matt Sowash from Michigan Legislative Consultants stated the supply issues are not unique to Michigan, the whole country is dealing with it. He thanked the Commission for being flexible with the delisting, having the meetings and discussions on the issues.

Mr. Haremza echoed comments about the supply chain issues, problems with labor, glass caps and other materials. He stated to compound the shortages there has been a big growth of the spirit industry, that more supplies are needed. Once the products are in Michigan, we have to distribute products fairly to all retailers.

Representative Timothy Beson (via phone) advised he owns a business with just beer and wine sales. He advised we are missing the boat on getting product to the independents, that they don't get to pick the days they order and if they have a Friday delivery, products are not always available when the licensee orders so the system doesn't always work. He stated he is worried about keeping businesses afloat and we need to do a better job of brainstorming for solutions as soon as possible.

Chair Gagliardi thanked him for his time and comments and stated there are different delivery problems with beer and wine compared to liquor. He stated 25 years ago we privatized the system, closing the state stores having the ADAs warehouse and deliver the liquor inventory. Chair Gagliardi advised at the time we didn't know it would work as well as it has. He stated we would like to bring in some people to create a work group and be able to present ideas and recommendations to the legislature and what we can do internally. He stated we would like to keep the system going for the next 25 years and changes will have to be made.

Ms. Hamilton stated we had sent a survey to other control states who have their own state stores and only sell to off-premises businesses. She advised they sell products by a lottery system, 1 bottle per customer, first order get first delivery, sales history of customer, etc. Ms. Hamilton advised that Michigan operates differently from other states and recommends a weekly limit in conjunction with suppliers and ADAs.

Joe Gigliotti, RNDC Region President Control States, advised retailers, restaurants, ADAs, all face the same issue – no product. He stated this is a sales issue and the problem starts before the delivery.

Randy Barnhart, Southern Glazers broker, thanked the Commission for holding the meeting as this is a significant issue. He stated most of the topics have been covered

such as aluminum can shortage, trucking shortage, and advised that what used to take $2000 to ship across the ocean is now costing $25,000 to $30,000. Mr. Barnhart advised all states are dealing with the allocation problem and how to handle it. He thanked Ms. Hamilton for reaching out to other control states, it was a good first step.

Steve Burnette, owner and member of The Point at Cavanaugh Lake, LLC, advised retailers understand the supply chain issue but they need a better allocation of products to be fair. He stated it is very frustrating when a customer says Meijer's has certain products, but that a retailer can't get them. He stated he would support any decision that keeps the system fair for all retailers. Mr. Burnette stated in the years he has owned his business, no representative from RNDC or GLWS has ever called on him so he can't rely on them for help.

Commissioner Olshove stated he appreciated everyone coming forward as he feels not everybody thinks they can. He wonders if they feel they will be punished if the come forward with their problems. Commissioner Olshove would like to see more participation by the small retailers in the work group.

Chair Gagliardi stated that 25 years ago when this system was put into play, it was very controversial, and the retailers were against it. He advised moving forward we have to improve the existing system so it is fair to all retailers. Chair Gagliardi stated we have to work together to come up with some ideas to improve the system with safety in mind and present them to the Governor and Legislature. He advised the Commission would discuss our next steps at the public meeting and will get people together to make changes that work for everyone.

With no further business, moved by Commissioner Olshove, supported by Chair Gagliardi, that the business meeting be adjourned at 12:11 p.m., motion carried by unanimous vote.

Pat Gagliardi
Chair