



# MODERNIZING THE ALCOHOL SUPPLY CHAIN FOR THE 21ST CENTURY

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## THE IMPORTANCE OF LOGISTICS

**E**ven before the COVID-19 pandemic, “logistics” was becoming a popular buzzword. While logistics may sound like an esoteric topic that is only of interest to transportation policy experts, the reality is that logistics undergird the functioning of our modern economy.

To understand why, one needs to understand that logistics refers to the efficient, timely and secure movement of products from one location to another. Logistics are so important because they have come to represent a massive part of the economy: In 2018, businesses tallied [\\$1.64 trillion](#) in transportation and logistics costs, which accounts for over 8 percent of U.S. Gross Domestic Product.

During COVID-19, the importance of innovative logistical networks and efficient supply chains has only grown in importance. The pandemic has disrupted supply chains in nearly every industry, and alcohol shortages have been [reported](#) in numerous states as a result of supply shortages.

With outdated laws at the state and local level, the alcohol industry is laboring under [a 20th century logistics system](#) in a 21st century world.

## FROM CENTRALIZED WAREHOUSING TO TRANSSHIPPING

Commonplace supply chain innovations that have long been used in most industries—such as centralized warehousing and transshipping between retail outlets—are often [prohibited](#) for alcohol products.

The benefits of these innovations are best appreciated by considering how they work in other sectors. For instance, consumers are accustomed to their grocery store stocking dozens of different types of hand soap. A store will likely only have room on its retail shelves for a handful of bottles of each brand it carries. When a particular brand runs out—known as a “stockout”—the store naturally wants to re-stock the product as quickly as possible.

But oftentimes the product is produced in another state, or even another country, from where the store is located. Therefore, most grocery store companies maintain a nearby central warehouse or fulfillment center, which is able to store hundreds—or even thousands—of bottles of each soap brand.

Needless to say, re-stocking soap from a warehouse a few miles away is much more efficient than waiting on a cross-country, or cross-ocean, voyage for more soap.

Another tactic that can be employed is transshipping the soap from another retail outlet nearby. If a chain grocery store runs out of soap brand X at a particular store, but another store outlet it owns a few miles away has 10 bottles on hand, the most efficient way to re-stock may be to move a few bottles directly from one store to the other.

While centralized warehousing and transshipping are fairly straightforward logistical innovations, many states forbid them in the alcohol sector.

## ALCOHOL LOGISTICS FOR THE 21ST CENTURY

In the immediate aftermath of Prohibition, state governments adapted various means to regulate the sale of alcohol. Some states became what is known as “control states,” where the government itself oversees all wholesale and/or retail sales of alcohol in the state. Nearly every state also adopted some form of the three-tier system, which requires that alcohol producers, wholesalers and retailers be legally separate entities.

These legal structures continue to limit and restrain the ability of the stakeholders within the alcohol industry to modernize their supply chain management for the 21st century.

In control states like [Ohio](#), the state government owns and operates the only two warehouses for distilled spirits in the state. The limited capacity of these warehouses means that the number of spirit brands available to Ohio consumers is vastly restricted compared to other states. It also forecloses any form of private sector centralized warehousing.

Even in non-control states, however, centralized warehousing is often forbidden. As one example, [Texas law](#) states that alcohol retail stores cannot “own, possess, or store malt beverages for the purpose of resale except on the licensed [retail] premises.” It also [only permits](#) licensed alcohol wholesalers to deliver beer to retailers, which effectively forecloses the ability of retailers to operate their own centralized warehouses.

As noted, many retailers own several retail outlets within a certain region. For entities like grocery stores or electronics stores, this opens up the possibility of proactively responding to stockouts at one location by transshipping a product directly from one nearby retail outlet to another.

Once again, many states restrict this practice for alcohol. Illinois not only forbids [centralized warehousing](#), but it also [prohibits its retail outlets](#) from transferring alcohol between store locations. Oregon likewise [restricts](#) transshipping between retail outlets. Some states are even more confounding: Washington state [allows](#) up to 20 cases of wine to be transshipped annually between retail stores, but not any other type of alcohol.

The result of these restrictions is that in some locales, the only option for sending a product between retail stores is to send that product back to the alcohol wholesaler, who only then can turn around and deliver it to the other retail outlet. This inefficient structure is exacerbated by the fact that many alcohol wholesalers only make one or two deliveries a week, rather than responding immediately like a true transshipment process demands to be effective.

Laws that prohibit centralized warehousing and transshipping arbitrarily treat alcohol as a unique product compared to other consumer goods. Skeptics often [point](#) to “containment” concerns with alcohol, warning that unless the supply chain is regulated in a certain way it will result in alcohol ending up in the hands of minors or being dangerously misplaced.

What this overlooks is that the entire justification for modern logistical networks is to ensure the safe and secure transmission of products from one location to another. Importantly, products like pharmaceuticals and pesticides have been centrally warehoused and transshipped for years with little issue.

The experience of these other sectors provides ample evidence that alcohol can—and should—be allowed to update its logistical operations for the modern world.

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