

www.andrewpeller.com / 2012 revenue: \$280 million / HQ: Grimsby, Ontario / Employees: 1,200 / Specialty: Wine producer / Tom Sauder, director of supply chain management: "The regional wine is made from grapes grown locally and the supply chain is quite a bit different."

Five-Year Plan

Wine producer Andrew Peller is pioneering a system that could very well be an industry first. *By Jamie Morgan*

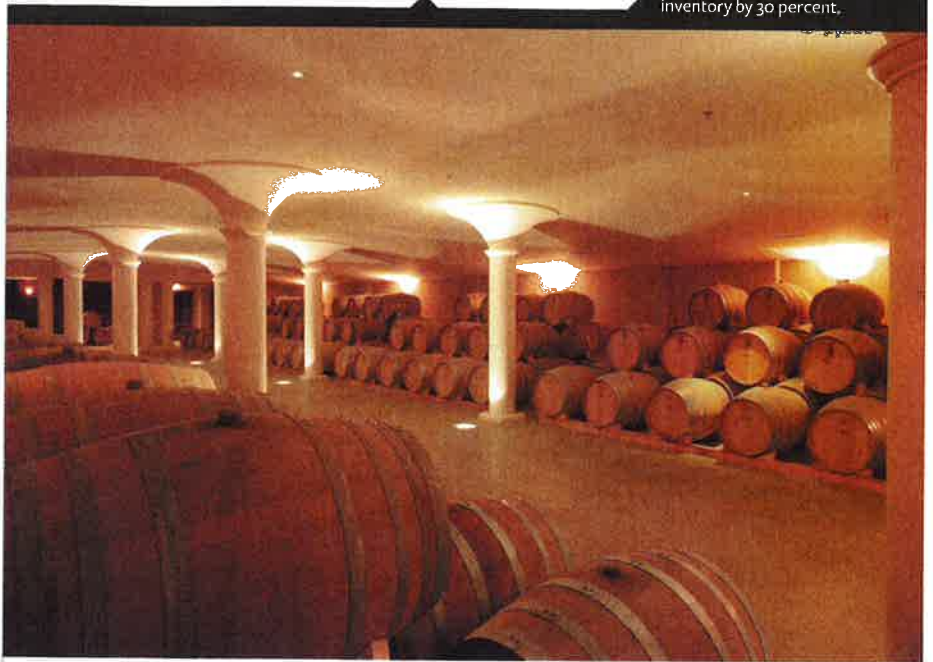
Andrew Peller has found that improved sales and market planning helped the business manage shortages and reduced inventory by 30 percent.

All wines are not created equal, and the supply chain process to get the separate classes to market could not be more disparate. In most wine-selling regions, there are two main categories: imported wine and regional wine. While bottling imported wine dictates a traditional supply chain operation where an efficient process creates accurate forecasting and reduced inventory, the director of supply chain management at Andrew Peller explains that regional wine creates a greater challenge.

"There are two very different parts to this business," Tom Sauder says. "The imported product is sourced in bulk from across the world and blended to create distinct taste profiles and marketed for sale. It operates like a regular consumer product that starts with sales forecasting, plans production, purchases materials and produces what we need.

"The other part is more complicated and it's a more premium product," Sauder continues. "The regional wine is made from grapes grown locally and the supply chain is quite a bit different because you can only secure product once a year at harvest. And it's a very long supply chain that you have to plan way ahead of time. If you plant in 2009, you will harvest grapes now and every year after and that supply can retail in 2017 and beyond."

You can imagine the frustration that comes with a system like this – predicting five to 10 years from now what the market will want and how much of it, or perhaps realizing that you made the wrong guess a decade



ago for what the market demands today. Andrew Peller gets about 20 percent of its grape supply from its own vineyards. The rest is contracted from Canadian growers in the Niagara Peninsula and British Columbia's Okanagan Valley. Getting a perfect read on a product that you can only purchase once but which will be sold years down the road is impossible – but that doesn't mean you can't try. A year-and-a-half ago, Andrew Peller set down a road that to its knowledge no other wine producer has ventured.

PIONEERING A NEW PROCESS

Andrew Peller has made a significant investment in working with integrated business planning consulting firm Oliver Wight and Oracle software integrator Inspirage to develop a process and software to

create a more efficient forecasting and planning model. In the past, Sauder explains that the company would just absorb the risk associated with any shortages or surpluses of grape supply it experienced. Now, it is being much more proactive in its planning.

"We get together every month and we're estimating forecasts and supply on a regular basis," Sauder says. "We are being proactive in monitoring and predicting harvest quantities, as well as trends in the marketplace. We plan way more often than we used to."

The project has seen some early successes. Better sales and market planning leads to a better production forecast. It's helped the company to manage shortages and excesses of domestic supply and it's also reduced inventory by 30 percent.

Improved management of its procurement and production planning allows Andrew Peller to make the best decisions for its overall business.



The promising results have given the company momentum to continue with its pioneering efforts. Sauder says this is the start of a multi-year project to “refine and polish” its supply chain and tackle more challenges.

“One of the biggest challenges of this industry is what to do if sales increase or you have an unexpected order,” Sauder says. “In an average supply chain, the worse that happens is you expedite supply or delay the order and ship it later. Most computers know what to do with that process. What they can’t deal with is a system where once the grapes are harvested, it’s over – there is no more supply.”

On the flip side, once a supply has been contracted, you can’t turn product away come harvest season even if it’s more than you might need. Once it’s there, Andrew Peller has to sell it, creating a push system.

“When the grapes come in next month for products we’ll be selling years from now, the market may not want it but we have to create it and we have to sell it because there’s nothing else to do with it,” he says. “It’s a unique challenge and that’s what gives us the incentive to really manage our procurement and production planning better, to become more integrated with sales and marketing, and to make the best decisions for the business.”

LOOKING AHEAD

As Andrew Peller continues on this journey, Sauder says there are more supply chain issues unique to the wine business he would like to confront. For instance, there’s the storage system that has a fixed amount of tanks but a fluctuating supply. Andrew Peller’s largest plant has a capacity of 5 million gallons spread across 200 tanks of varying sizes.

Currently, the supply is allocated manually. If Andrew Peller expects a grower to send 5,000 gallons of product, it will allocate it to a 5,000-gallon tank. But what happens when Mother Nature blesses the harvester with 6,000 instead? It’s a conundrum that plagues the industry and someday, Andrew Peller wants to put the pieces together. But today, it has its hands full with its current project.

“Based on what our consultants are telling us, we are the only winery on the planet that is putting sales and operations planning together for our regional wine using Oracle value-chain planning applications to provide information for decision-making,” Sauder says. “So I guess we are unique. In this industry, you can’t take field trips to a winery in Australia or America to see how they dealt with this because they haven’t.”