



Editorial Director
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G3 Enterprises Caters to the Logistics Needs of Wine, Spirits Industry

A discussion with Bob Lubeck, CEO of G3 Enterprises, a California company specializing in logistics services to the wine and spirits industry.

In 1983 the company that is now G3 Enterprises began operations as a small trucking and inter-modal operation based in Modesto, Calif. Since then, through organic growth and acquisition, G3 has grown into a global distribution company, providing logistics, warehousing and packaging services to wineries and other companies. Today, G3 is the largest grape hauler and one of the largest bulk wine transport companies in the U.S. The company recently implemented a regional logistics network using third-party partners for E & J Gallo Winery. In this conversation, Lubeck explains how that network operates.

Q: I know that G3 handles a majority of the shipments from E & J Gallo Winery in Modesto. Do you have a corporate relationship to Gallo?

Lubeck: No, there is no corporate relationship. Although G3 is owned by the Gallo family, we are a completely separate legal entity and we operate as a stand-alone transportation and manufacturing company. We sell packaging and labeling products and provide logistics services not only to Gallo but to other companies in the wine and spirits industry as well.

G3 started in 1983 as a small trucking and inter-modal company so we recently celebrated our 25th anniversary. Today, we are the largest grape hauler and one of the largest bulk wine transport companies in the U. S.

Q: Tell us about the logistics services you provide the Gallo winery.

Lubeck: First of all, you need to understand that whenever alcoholic beverages are involved, there is a three-tier system. This goes back to when Prohibition was repealed and state and federal governments wanted to make sure they got their taxes. Under this type of system, a manufacturer of alcoholic beverages has to sell to a distributor, which sells to a retailer. These three independent businesses cannot be interlocked, so a manufacturer

can't own a distributor and a distributor can't own a retailer. So there are three parties involved in every alcoholic beverage transaction.

Today, Gallo does business through roughly 500 distributors throughout the U.S. and these distributors sell to retailers like grocery and chain stores. Now what Gallo has chosen to do—and this is their option, they aren't required to do it this way—is to sell their products FOB [freight on board] Modesto, which means that the transportation responsibility for moving product from Modesto belongs to the buyer—in this case one of Gallo's distributors. That is where G3 comes in. We sell our 3PL service to distributors, not to Gallo. We have to go out and convince distributors to buy from us, because they are free to use other providers. To get their business, we need to give them a better price and/or a better program.

Q: How do you differentiate your service?

Lubeck: We try to provide a service to these distributors that they can't get anywhere else and that also accomplishes Gallo's goals in terms of service. When we set up this program for distributors, one of Gallo's goals was to shorten the order cycle time for its distributors without increasing their costs. Even though Gallo isn't paying the transportation bill, it is concerned about the cost of wine when it ultimately gets on a shelf. So we sat down with Gallo and developed a program. We essentially recognized that the only way we were going to shorten the cycle time, improve service quality and reduce the supply chain carbon footprint was to consolidate business into regional facilities and forward deploy inventory. With a network of regional facilities, we would be able to fulfill orders to any of our customers—Gallo's distributors—within 24 hours. That is the plan we are operating today.

Q: What was the picture before?

Lubeck: Before, everything was shipped from Modesto to these 500 distributors and cycle times were anywhere from seven to 21 days, depending



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on where that customer was located and the mode of transportation selected.

Under this scenario, Gallo was not able to achieve its goal. So we were able to come in and provide them with a much shorter order cycle time, which hopefully will increase their sales and improve the quality of products on the shelf, which helps them grow their business. At the same time, we are helping the distributors, who are our direct customers, by providing them with a cost competitive, efficient service. Because remember, even though we consider this network to be a huge strategic advantage, distributors don't have to use it. They can still buy directly from Modesto if they want. We think the proof of our service is that 99 percent of distributors do choose to use the G3 network. They recognize that it is an advantage to them.

Q: How does the network operate? Do you partner with other providers for regional warehousing services?

Lubeck: Yes. In the Northeast, for example, we use Kane is Able in Scranton, Pa. We have a pretty rigorous selection process. We selected Kane and our other partners based on their reputations and their responses to our requests for proposals.

Gallo lets G3 know what it will ship each day and we arrange with BNSF, our primary rail carrier, for boxcar transportation all the way through to, in this case, Kane's warehouse in Scranton. The wine is shipped in cases and the boxcars are insulated, which allows us to maintain a fairly consistent temperature whether the weather is hot or cold. These are not reefer cars, but we have done a lot of tests and they are very effective in controlling the temperature, which is important in terms of ensuring product quality.

In addition, wine is a very heavy product, so shipping by rail is the most cost effective mode and it also has a low carbon footprint.

It takes probably 10 to 12 days for the wine to move from Modesto to Scranton. We hold roughly 30 to 40 days of inventory in each regional facility representing a full range of Gallo products. Basically, we have moved the warehouse from Modesto to Scranton and other regional centers, so distributors can order knowing they will receive the product in three days time. Let's say a distributor in New York City places an order with Gallo in

Modesto for 1,000 cases of Carlo Rossi burgundy. With its inventory visibility system, Gallo can see that there are 1,000 cases in Scranton so it accepts and processes the order. The next day Kane is Able receives a transmission directing it to ship the 1,000 cases to the distributor in New York. It pulls the product, arranges transportation and the third day the order is delivered.

Product that is shipped to regional centers is not pre-consigned to a customer. Gallo still has title to the goods but this program allows them to forward deploy inventory so they can move it to their customers faster.

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Q: Are all regional warehouses outsourced in the same way as Kane is Able?

Lubeck: No, G3 owns and operates the facility in Chicago and we contract out the trucking from there. This is the one exception to our model. Actually, working this facility enables G3 to better understand the operators we partner with in other regions and to see the things they are up against. Owning the facility in Chicago works well for us, but we really like the flexibility of working with third-parties in other markets because we can scale up and down depending on seasonal changes. We don't experience big swings in demand, but we may need to go up or down an additional 2,000 square feet or so.

We do all of the work behind the scenes but it is really all about getting orders delivered to the customer when they want them and in ideal condition and that is what we stress with all of our third-parties. Kane and our other partners do a great job for us.

Q: I know Kane is Able specializes in logistics for food and beverage companies.

Is that true of all of your partners?

Lubeck: Yes, because we do have some unique handling requirements and we really emphasize transportation from the warehouse to the customer, so we look for companies, like Kane, that have their own in-house transportation companies. We see that as a big advantage, rather than contracting the last mile transportation out to another third-party that might not have the same level of commitment.

Q: How do you manage things like promotions or new product introductions?

Lubeck: Our system of regional warehouses is very effective at launching new products because it allows us to get products to our customers very efficiently and very fast. We can forward deploy the inventory and get it to stores across the U.S. literally on the same day if that is what Gallo wants to do. That's something they could not do when they were shipping everything from Modesto. So, for example, if Gallo were planning a Jan. 1 introduction of a new product, we could deploy that inventory in November and December and have it sitting there until Gallo releases orders to its distributors.

Q: How would you summarize the benefits of your network to Gallo's distributors?

Lubeck: The major advantage is shorter lead-times, which we believe allows our distributors to sell more products. The second advantage is quality because wine is a perishable commodity and temperature has a big impact on quality and our use of insulated railcars enables us to get product to the distributor in excellent condition. Lastly, is that we keep it very simple for the customer. Instead of getting separate invoices for rail transportation and for handling and storage, we provide a single freight bill for every delivery. We will manage everything that happens behind the scenes, but the customer gets a single bill and he knows when he places an order with Gallo exactly when his product will be delivered and what it will cost from a transportation perspective. ○

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