

**Senate Law & Justice Committee and House Liquor Control Committee
Joint Hearing on Supply Chain Disruptions & Product Shortages
September 29, 2021**

**Testifying on behalf of the Pennsylvania Liquor Control Board
Chairman Tim Holden
Mike Negra, Board Member
Mary Isenhour, Board Member
Michael Demko, Executive Director
Deborah Rivera, Chief Merchandising Officer**

Good morning Chairmen Regan, Brewster, Metzgar, Deasy and members of the Senate Law & Justice and House Liquor Control Committees, thank you for this opportunity to update the committees on recent supply chain disruptions and product shortages being experienced across the country and the beverage alcohol industry, as well as many other industries.

On Friday, September 17, the Pennsylvania Liquor Control Board (PLCB) instituted a new two-bottle purchase limit on 43 items. The two-bottle limit applies to retail and licensee purchases in stores, through FineWineAndGoodSpirits.com and at licensee service centers. The purchase limit is two-bottles, per customer, per day and applies to the list of products accompanying our written remarks submitted to the committees. It is important to note that many of the 43 items on the list are the same product in various bottle sizes.

Supplies of these products have been constrained for several months. For some products on the list, the PLCB will not receive additional inventory this calendar year, while there is significant uncertainty about future shipments from suppliers on other items.

For example, the PLCB's allocation for one product was more than 12,000 cases, or 42 percent, less than the forecasted demand. Forecasted demand, which is based on a variety of factors including sales history and marketplace conditions, is the amount of product we expect to sell. Under normal circumstances, there would be very little deviation between the forecasted demand and the allocation received.

The reasons for supply shortages vary by item, according to what our suppliers tell us. Some manufacturers have not been able to obtain the necessary raw materials to manufacture their products, while others can't obtain sufficient supplies to bottle the items, and still others are facing transportation challenges due lack of containers and

drivers. These issues are not unique to Pennsylvania or the beverage alcohol industry. Global supply chain challenges, production difficulties, fluctuations in demand and labor shortages have impacted businesses across a diverse range of industries.

When the PLCB realized it won't have enough inventory to support statewide demand for these products, it proactively decided to institute the bottle limits as preventative measures to fairly distribute product and minimize out-of-stock situations, which will vary by location. Reducing the number of Fine Wine & Good Spirits stores that carry these products would have geographically disadvantaged certain customers.

While the current supply challenges are not unique to Pennsylvania and are impacting markets across the U.S., the PLCB has experienced product shortfalls before, and we regularly impose bottle limits on products for which we know demand will exceed supply in order to distribute the product as fairly as possible. That's to say, simply, this is not the first time bottle limits have been imposed, and in fact there are hundreds of items subject to bottle limits each year. In-store product signage designates the products to which the bottle limits apply, while language on FineWineAndGoodSpirits.com reflects the same on a product-by-product basis.

Communication between the PLCB and our suppliers regarding these supply issues has been frequent and ongoing. Our supplier partners are navigating a disrupted global supply chain that results in significant uncertainty about future product availability. In some situations, we have been able to collaboratively work with suppliers to obtain additional inventory, which prevented additional items from being subject to the two-bottle limit. In other cases, suppliers have been generally supportive of purchase limits to provide opportunities for more customers to purchase products impacted by severe supply constraints.

While the current two-bottle purchase limits apply to a small number of specific bourbons, champagnes, cognacs, tequilas and whiskies, there remains a wide selection of alternative products in these categories for customers to purchase from Fine Wine & Good Spirits. The PLCB's Wholesale Operations team is prepared to assist licensees in identifying alternative products to serve their patrons. For perspective, at any given time the PLCB stocks more than 7,500 products at its stores, e-commerce fulfillment center and licensee service centers, while tens of thousands more Special Order products are available for order.

The current supply chain uncertainty – anticipated to last well into 2022 – makes it difficult to project how long purchase limits will be in place. As products become more widely available, the PLCB will rescind the purchase limits, evaluating each item’s availability based on inventory levels and supplier commitments for future shipments.

The PLCB is dedicated to providing a broad range of quality products for our retail customers and licensees. We remain committed to working closely with our suppliers to obtain additional inventory to meet customer demand as additional inventory becomes available.

Thank you for this opportunity to address the committees about these ongoing supply chain and product storage challenges. We would be pleased to answer any questions from members of the committees.