



# Going to the Source

AN INDUSTRY PRACTICE LONG SHROUDED IN SECRECY GROWS  
IN RESPECTABILITY AS IT INCREASES IN VOLUME.

*Story by Tom Johnson*

**O**n a bright summer afternoon, inside a dark brick building on the grounds of a historic Kentucky distillery, whiskey is changing hands. In a second-story office invisible to the Bourbon Trail's steady stream of tourists, two fortysomething men sit on either side of a desk that appears to have been salvaged from a loading dock. Sun streams through unwashed windows, the beams cutting through the dusty air to make bent rectangles on the painted concrete floor. Whiskey bottles with peeling labels fill an ancient bookcase.

One of the men spreads checks across the desktop as if he were showing off pictures of his children. He's talking about the whiskey he's buying in a voice tinged with both excitement and worry. The checks are from investors who are putting money at risk starting a whiskey brand that has a name, a logo, a bottle shape, a label design, and a detailed marketing plan. All that is left for the new brand to become real is the whiskey itself, and that deficit is being cured right now. At the end of a monthlong process of tasting and testing blends, 70 barrels have been chosen and a price agreed to. This bourbon is nearly 4 years old and had originally been distilled for brands that are not retailing as well as projected. Once purchased, it will sit quietly in a warehouse until its fourth birthday, when it will match the age statement that is core to the new brand's value proposition.

This is whiskey sourcing at ground level: a producer with too much of something, and a buyer with too little. It is a mostly secret process. About 90 percent of similar transactions, according to one broker, are masked by diligently enforced nondisclosure agreements. The agreements are there mostly to protect the buyers from a public that believes sourced whiskey inevitably leads to an undistinguished product.

There is a homespun lore about bourbon, of good-old-boy artisans working with unique recipes jealously preserved since the days when distillers transported sacks of corn on the backs of mules. Marketplace authenticity springs from this heritage. The inevitable result is a long-standing consumer bias toward the homemade that has always been out of touch with how the business actually works.

"Sourcing is much more prevalent than the average consumer knows," said Tyler Harris, who buys and sells whiskey for White Dog Trading and Storage in Lexington, Kentucky. "It has always been part of the business. If one of the big producers had a need and another had an excess, they would just help each other out."

Perhaps as a reflection of the secrecy around the practice, there appears to be no hard data on how prevalent sourcing actually is. The Alcohol and Tobacco Tax and Trade Bureau (TTB), in its annual reports, provides statistics for nontaxable sales—which is to say, sales between licensed producers. The data is



noisy and includes transactions that aren't conventionally seen as "sourcing," but it indicates that something like 15 percent of the market may be whiskey branded and sold by someone other than its producer.

Joe Beatrice, the founder of Barrell Craft Spirits, who sources 100 percent of the whiskey he blends and sells and is at the forefront of big changes going on in whiskey sourcing, can only hazard a guess. He thinks the amount of sourced whiskey may be as high as 20 percent. The marketers at Indiana-based MGP, for decades the dominant producer and seller of sourced whiskey, have a much lower estimate—between 80,000 and 120,000 barrels a year, or 3 to 5 percent of the whiskey produced.

"Those numbers are very hard to estimate," said David Dykstra, MGP's vice president of Alcohol Sales and Marketing, "simply because there are not reported numbers by anyone."

In any case, it's millions of gallons of whiskey every year—and if no one has any real idea of how big the market is, they

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*"We experiment and taste on an ongoing basis," said Joe Beatrice (left), founder of Barrell Craft Spirits. "The net result of whatever we produce should work together."*



universally agree that it is growing, not only in volume, but also in diversity and respectability.

### 'All This New Capacity'

"Sourcing has become more acceptable," says Terry Thome, whose family has been in the spirits brokerage business for more than 40 years. "You look at the great chefs around the world: Very few of them grow their own food. They source their ingredients, and that's what I see in the sourcing of bourbon."

Twenty-five years ago, Terry said, J.B. Thome & Company dealt with maybe 20 different suppliers. Today Terry has about 600 in what he quaintly refers to as his Rolodex.

"Five or six years ago, everyone was buying MGP," he says. "There weren't a lot of craft distillers out there. Now you have all this new capacity. There's probably around 2,000 active distilled spirits producers. A good percentage are doing some sourcing."

That is freeing brands to try different things, said Simon Burch, the CEO of Green River Spirits, which distills 90,000 barrels of whiskey a year for what they call the "private label" market.

"It's healthy for the category," Burch said. "Consumers are actively seeking new whiskeys and new and different discovery

brands. [Sourcing] enables blenders and distillers to innovate and be creative."

COVID-19 increased both supply and demand for sourced spirits. On the one hand, people are staying home and drinking and are on the hunt for new and interesting brands. On the other hand, small distillers whose business model depended on crowded tasting rooms and large events have found themselves in sometimes desperate need of cash. The result is literally hundreds of potential sellers of mostly young, sometimes too distinct whiskey.

"Most buyers want something with a common mash bill," says Thome, "and some craft distillers started out their brand and decided to do some crazy 50-percent corn, 49-percent wheat mash bill that is not in demand. Their costs are generally higher, and most people aren't willing to pay that, unless they can put some spin on it like it came from a copper pot still. That intrigues some people, but most people—not so much."

"A warehouse is an investment portfolio," said Liz Rhoades, a consultant who helps distilleries optimize their production processes. "Let's say you laid down a bunch of stock because things were picking up, but then the demand isn't there. All of a sudden you're sitting on stocks, and you have to offload those."



*“When we do the blends we see how one or two percent in that barrel make a difference,” said Andy Nelson, co-founder and head distiller of Nelson’s Green Brier Distillery. “I wonder if any average consumer would notice that, but we sure notice it.”*

The situation would be catastrophic across the industry were it not for the huge increase in worldwide demand for bourbon.

“Eight years ago I would go to trade shows in the European Union and have to define bourbon for people,” said Susie Garvin, director of Distillery Sales at Bardstown Bourbon Company, a relatively new producer for the sourcing market that many agree is changing the way sourcing works. “They didn’t understand what it was. Now everyone knows. The need is tremendous.”

The result is that the big international brands have almost no surplus whiskey to sell.

“Now, you can’t just walk up to Heaven Hill or Jim Beam and say, ‘I’m running 500 barrels short. Can I get some 6-year-old?’” Harris said. “They need that stuff. The heritage guys’ products are already sold before they’re put in the bottle.”

### Blending Gains in Stature

The bourbon boom may have been driven largely by consumer assumptions that “single-barrel” and “small-batch” were automatic identifiers of quality, but in the last few years a group of non-distilling producers whose core competency is blending has begun to change the way sourcing and blending are viewed.

“Over in Scotland, the blender is the celebrity,” says Andy Nelson, cofounder and head distiller of Nelson’s Green Brier Distillery, the home of Belle Meade bourbon, and an active buyer of sourced whiskey. “Here, it’s the master distiller. Neither is inherently more worthy than the other. They both play an equally important role. You can have the world’s best distillate, but if it’s not blended correctly it’s not going to be the best that it can be in the bottle.”

“I didn’t want to build a factory,” said Barrell Craft Spirits’s Beatrice, whose 100-percent sourced whiskies have been raking in awards at competitions. “I wanted to shift the focus to blending. That was one of the first questions we had to overcome to come to an understanding that [sourcing] is what promotes choice.”

As important as all of that may be, perhaps the biggest change in the sourcing market is a change in consumers. Whether they realize it or not, as more consumers search for more brands, and more brands search for whiskey that can be differentiated in a crowded marketplace, blending and sourcing have moved from back rooms to center stage.

“The consumer today, especially bourbon connoisseurs, recognize that blending adds a layer of sophistication,” Dykstra of MGP said. “Blending adds a lot more depth to the market.”

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*“You can get great liquid from many, many sources,” said Simon Burch, CEO of Green River Spirits. “We say go taste the options that are out there and come to us last.”*



“It gives you the flexibility to blend based on what’s good, not just what you have,” Thome says.

The result is often a series of limited one-and-done editions with unique attributes that can be sold at a premium—“Supply and Demand 101,” as Nelson calls it.

It is, everyone involved says, a game of relationships, of being in the right place at the right time to capture the perfect addition to a blend in progress. It’s “opportunistic buying,” Beatrice says.

“We buy mature barrels of all ages, all mash bills,” he explains. “That gives us an incredible spice cabinet. We can select and put together these incredible blends that are highly differentiated.”

And he, like an increasing number of brands, does that right out in the open, with \$300 bottles labeled with multiple states of origin.

“The ‘flavor of the day’ in bourbon has been the single barrel,” says Herb Heneman, vice president of Brand Sales and Marketing for Bardstown Bourbon. “But blending creates a much more complex product, more nuanced, many more layers that you can’t achieve through a single barrel. It’s a very exciting and untapped element of our category. We believe it’s the future of bourbon.” +