



Leveraging Long-Term Strategic Partnerships



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Analysts were predicting a gloomy future for long-term supply chain relationships during the “economic downturn” that started in 2008. The premise of this prediction was that all decisions would be made based on the lowest price. These forecasts failed to account for Supply Chain Solution experts finding innovative ways to trim waste and improve optimization in existing supply chain designs. They also underestimated the increase in mutually beneficial collaboration between supply chain partners. The morale of the story is that many companies survived the turbulence in the market ***because*** of their long-term relationships with clients and vendors. As noted by Logistics Professor Matthew Myers from the University of Tennessee – Knoxville, successful supply chain relationships mean much more than cost efficiencies and economic conveniences.

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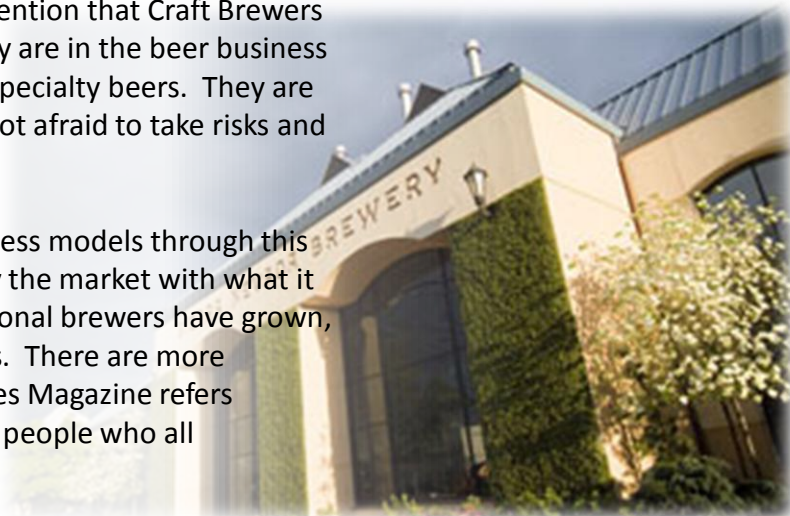
According to Ed Rigsbee of the Strategic Alliance Relationship Association, successful business leaders are in fact leveraging their relationships with strategic partners, especially supply chain partners, because it allows them to add valuable expertise and skills to their organization, without diluting their core business focus. Supply chains have become more complex and difficult to manage. Having an alliance with a supply chain partner that offers an integrated solution appeals to companies that don’t have the homegrown knowledge or internal resources to do it themselves.

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THE CRAFT BEER INDUSTRY

A prime example of this is in the Craft Beer Industry. The Craft Beer segment of the beer industry has experienced explosive growth since 2008. (See Fig. 1, p.2) It is important to mention that Craft Brewers are the mavericks in the beer industry. They are in the beer business because they have a **PASSION** for brewing specialty beers. They are pioneers, creative independents, who are not afraid to take risks and shake up status quo.

Craft Brewers have had to adapt their business models through this growth cycle to ensure that they can supply the market with what it demands ... their product. As local and regional brewers have grown, so has the complexity of their supply chains. There are more processes than ever before with what Forbes Magazine refers to as “a dizzying number of interfaces, with people who all seem to speak a unique dialect”.



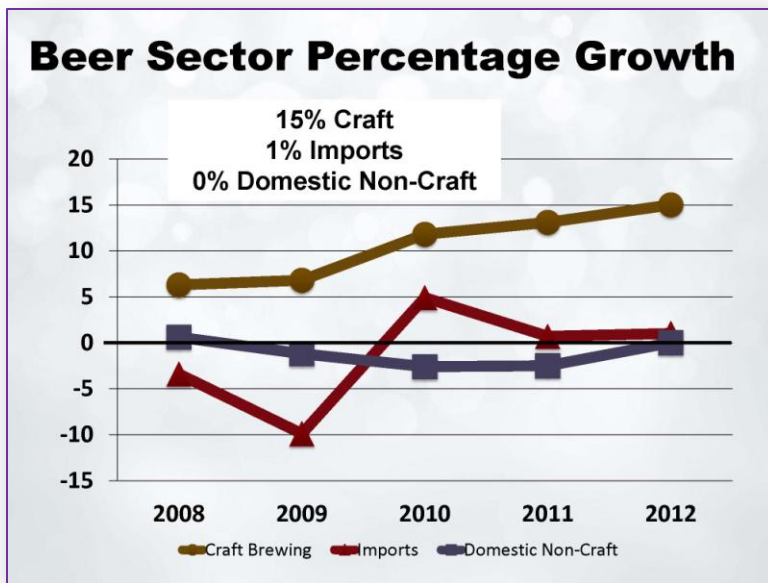


Fig. 1 - Brewers Association: 2013 State of the Industry Report

The Craft Beer segment of the beer industry has experienced explosive growth since 2008.

This white paper will illustrate an excellent case of how the relationship between a craft brewer and its supply chain management partner evolved over the years to adapt to changes in the market and the brewer's accelerated growth.

SIERRA NEVADA BREWING COMPANY

Sierra Nevada Brewing Company (Sierra Nevada), is the second largest craft brewer in the U.S. The company's growth statistics since 2008 have closely paralleled those of the craft beer industry. Ken Grossman, owner and founder, is adamant about a "triple bottom line"; economic, social and environmental.

[Sierra Nevada] ...is highly regarded in the industry for leading the charge in creating innovative brewing processes ... and "brewing the beers they want to drink".

They are highly regarded in the industry for leading the charge in creating innovative brewing processes, creating on-site power generation, developing waste reduction processes, developing their human capital, supporting the global community and "brewing the beers they wanted to drink".

Prior to their explosive growth, Sierra Nevada managed several elements of their regional supply chain internally using a manual system of spreadsheets and employee intuition. As they grew, so did their need for more sophisticated logistics support.

When you are a pioneer in your field, there are no best practices or road maps to use as guideposts. The very nature of a pioneer is one who opens up new areas of thought, research or development.



So, it made perfect sense that a pioneer in the craft beer brewing industry, would draw upon the expertise of a supply chain partner that was also known for their pioneering spirit in the supply chain solutions industry. Twenty years ago, Sierra Nevada recognized the value in SLG's Kegspediter® solution and selected Satellite Logistics Group team and the Kegspediter® program to manage all empty keg returns except those in the state of California.

SATELLITE LOGISTICS GROUP

Satellite Logistics Group (SLG) has been the dominant supply chain solutions provider specializing in the beverage industry for over 25 years. SLG manages over 130 brands and coordinates services with over 1500 distributors throughout the U.S. This extensive network cannot be matched, giving SLG the competitive advantage. The company cornered this niche market by excelling in three areas:

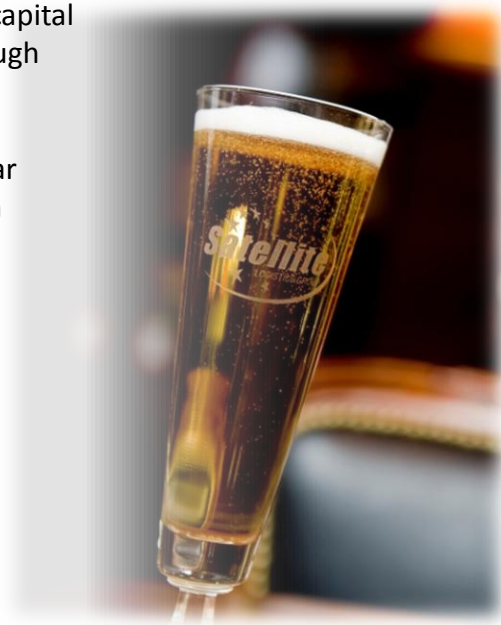
- Extensive knowledge and expertise in the beverage ***and*** logistics industries
- Innovative solutions designed for beverage producers, importers and distributors
- Strong and enduring relationships with their customers and supply chain network partners

SLG's highly successful Kegspediter® system provides return logistics of empty kegs back to the brewery of origin for cleaning and refilling. Using proprietary technology, Kegspediter® returns kegs faster and more frequently than the brewer can do on their own. This is very attractive to a craft brewer that is growing and facing a potential capital investment for stainless steel kegs. The faster the kegs cycle through the supply chain, the fewer kegs the brewer needs in their fleet. This alliance was a perfect fit for Sierra Nevada. Because of SLG's position and involvement in the beverage industry, they had a clear understanding of the brewery's business needs as well as the pain points that all beverage producers face in the highly competitive beverage industry.

SLG built a solid relationship with Sierra Nevada's team based on trust, creativity and execution. SLG distinguished itself from its competitors by providing added-value services to the customer. They exceeded Sierra Nevada's expectations, delivering a level of service that went beyond the technical or problem-solving skills.

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COLLABORATION

As demand in the market place for Sierra Nevada beer increased, so did the complexity of their supply chain. Research conducted at the University of Tennessee – Knoxville’s research showed that increasingly competitive supply chains create intense pressures on supply chain managers to develop new processes that enhance both optimization and customer service. New process development can be quite expensive and risky. Long-term alliances, like the one between SLG and Sierra Nevada mitigate that risk, therefore reducing costs and providing benefit for both partners.

Robert J. Thomas notes in a Harvard Business Review article, “Collaboration works well for problems that require imagination, structure and the voluntary sharing of knowledge and ideas...it can help an organization adapt to changes in the world around it.”

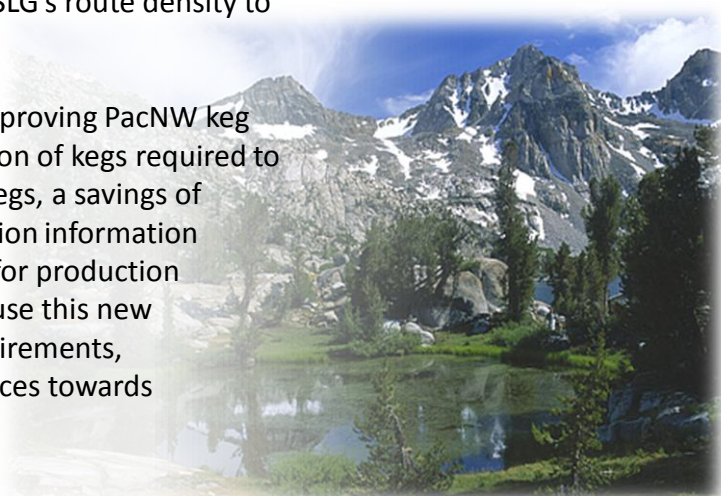
Sierra Nevada, since the beginning of its relationship with SLG had managed its own keg return in the state of California. Recognizing a need to free up resources to meet production schedules, Sierra Nevada added Southern California to the Kegspediter® program. However, to meet Sierra Nevada’s requirements, SLG had to create a solution that combined the use of Sierra Nevada’s local transportation fleet with SLG’s supply chain network.

As a result of this collaboration, SLG improved Sierra Nevada’s SoCal keg cycle time by 42 days. This remarkable improvement reduced the number of kegs required to meet production levels by 6000 kegs. By optimizing the use the existing keg float, Sierra Nevada avoided the capital expense of purchasing additional kegs, a savings of \$720,000. Understanding the squeeze being placed on Sierra Nevada’s existing beer assets, SLG recommended an innovative change to the keg return process in the Pacific Northwest. Having been successful in SoCal, Sierra Nevada agreed to pair their network with SLG’s route density to further improve keg return cycle times.

The improvements were even more dramatic, improving PacNW keg returns by 68 days. This translated into a reduction of kegs required to meet market demands by approximately 7,000 kegs, a savings of \$840,000 in capital dollars. Sharing vital production information enabled Kegspediter® to smooth out keg supply for production planning. Sierra Nevada further benefitted because this new solution reduced their storage and handling requirements, which again freed and redirected valuable resources towards the growth of the brand.

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SCANNING

As stated by Ernst & Young (E&Y), supply chains are no longer a simple matter of “logistics”. Based on a survey E&Y conducted in 2012 of more than 225 supply chain and corporate executives, thriving companies are the ones who adapt their supply chains to support rapid expansion. They develop their existing supply chains to drive cost efficiencies and boost margins.

In preparation of their expansion goals, Sierra Nevada invited SLG to partner with them on developing bar code scanning technology which allows them to track their mobile assets throughout several nodes of the supply chain on a serialized basis.

After the successful completion of the scanning project, a technical partnership developed into a shared technology platform, which Sierra Nevada utilizes as a competitive advantage. They subscribed to SLG’s state of the art transportation management system, called LogiTrax® to route and distribute their full product.

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LOGITRAX

Understanding Sierra Nevada’s business drivers and strategic growth plans, SLG proposed an upgrade of their manual transportation management processes to a more robust, automated system, which would provide visibility of shipments and enable them to manage carrier performance. Enrolling in SLG’s LogiTrax® program helped Sierra Nevada identify rogue spending, and created savings in labor costs, transportation expenses and fuel charges. Preliminary results indicate long-term benefits should far exceed the initial:

- 10 - 30% Operating savings
- 5 – 10% Freight savings
- ROI of almost \$500K

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SLG evolved its services and solutions to drive value for Sierra Nevada. Based on just the initiatives listed in this white paper, Sierra Nevada has saved over \$2,000,000 and there are more opportunities ahead. The brewery capitalized on the strategic partnership with SLG and their supply chain solutions, supply chain network, economies of scale, technology platform, and industry expertise to reach full production capacity (1,000,000 barrels per year) at their Chico, CA brewery in 2013. In 2014, Sierra Nevada will open their second brewery near Asheville, NC. This brewery will have a brewing capacity of 300,000 barrels per year. The expansion into North Carolina will provide other supply chain



challenges and adaptations to the network and SLG is poised and ready to provide the solutions to achieve Sierra Nevada's objectives.

The beauty of Sierra Nevada's success story is that they made educated, strategic decisions to manage the explosive growth of their industry and not just react to it. The leaders of this company created a blueprint for controlled growth and expansion and were savvy enough to incorporate the synergies provided by SLG, a strategic partner with similar core values. SLG's track record for innovative solution design repeatedly earned the supply chain provider a larger and more integrated role in Sierra Nevada's growth plan. This is a story of a perfect match between the two forward thinking, visionary organizations leveraging a long-term relationship that created better performance for each partner.

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