WHITEPAPER

The Role of Supply Chain in Expanding Brewery Distribution Networks

A close look at how brewers can achieve a competitive advantage by optimizing their supply chain.

Satellite LOGISTICS GROUP

It is no secret that the craft brewing industry continues to experience explosive growth – a remarkable 15 percent volume increase in 2012, according to the Brewer's Association. As brewers grow their business and expand into new markets, they often find that their supply chain becomes much more complex. They have more sophisticated requirements for asset management, inventory control, transportation, and customer service – and limited investment dollars to address these challenges.

This report offers guidance for brewers who are interested in expanding their distribution network while maintaining focus on their core competency: brewing craft beer.

Common Challenges of Self-Distribution (Why Can't I Do It Myself?)

When starting out, many craft brewers opt to manage their supply chain internally. As business grows, however, they find that this effort becomes more challenging. Delivering the right brew for markets across the country on time and in quality condition requires extensive logistics expertise.

Keg management becomes increasingly critical as brewers' operations expand. Many craft brewers simply do not have an adequate keg inventory to expand to multi-state distribution and meet a new market demand. As a result, they may need to purchase more kegs in order to have sufficient on-hand inventory. With an average cost of $125 for a half-barrel, this can quickly become a budget drain.

Tracking and recovering the keg assets that they have spread throughout major markets nationwide can be a daunting task – one which brewers often lack the time, resources and/or expertise to handle efficiently.

In spite of rapid business growth, craft brewers typically do not have the business volume of empty kegs to fill a truckload and must wait for several weeks to build up enough kegs for a return shipment. This slows keg turnaround times and impedes production.

In addition, problems can occur when kegs sit unused for lengthy periods of time. Lost or stolen kegs are an industry pain-point that costs producers millions of dollars each year, resulting in a negative impact on their ROI and bottom-line performance.

"Brewers need to take into account all associated supply chain costs when calculating the viability of self-distribution," points out Kevin Brady, president, Satellite Logistics Group. "They need to look at labor, loss of productivity, transportation, etc., as these can have a significant impact on profit margin."

Improved Keg Management Streamlines Brewer's Supply Chain

As sales continued to outpace other segments of the market, a leading craft brewer realized that there was room for improvement in its methods of returning cooperage to the brewery. Satellite Logistics Group (SLG) was ready to help. The supply chain solution provider's Kegspediter® service proved to be an efficient and effective way to optimize keg use. By leveraging SLG's strategically located consolidation centers around the country, the brewer was able to minimize keg storage issues with its distributors, reduce its investment in kegs and speed keg returns, ultimately cutting four months from the cycle time. The new process also helped the brewer's distributors to avoid storing kegs until full export loads could be accumulated and receive deposit credits more promptly.

Key Considerations for Expansion (Time to Go Big, Not Home)

As brewing operations grow in size and scale, it is essential for the supply chain to grow along with them. For optimal effectiveness, Brady recommends that brewers consider several key factors:

1

Efficient keg utilization – The speed with which kegs can be returned and refilled can have a significant impact on supply chain efficacy. Reducing keg cycle time allows a brewery to service its distribution market with a smaller capital expenditure on kegs, freeing up funds for other investments.

2

Transportation optimization – As brewers expand into new markets, they will need to distribute kegs across the country and coordinate their return. Consolidated distribution is often the most efficient and cost-effective approach. Multiple orders can be shipped together across the country to take advantage of truckload savings and then local deliveries are arranged. The same approach works for reverse logistics as well. Empty kegs are gathered from multiple distribution points and shipped back to the brewer on a single truck.

3

Speed to market – A growing brewer must be responsive to customers' changing demands. Having the right product on tap and on store shelves at the right time is critical. Brewhouses and retailers will be quick to substitute another brand if supply runs out.

4

Need for more advanced technology – Brewers who are still managing keg assets with Excel spreadsheets and phone calls quickly see the value of transportation management software that helps them manage their freight spend and purchase freight on a transactional basis. The ability to track and audit their assets also has a significant impact on efficiency.

5

Quality management – Protecting product integrity throughout the supply chain is a critical element of expansion. Maintaining product temperature, ensuring safety during transit, providing visibility, and reducing the product's carbon footprint are key concerns. It is also helpful to have plans in place to handle product that is out-of-date, produced or packaged incorrectly, damaged, or recalled.

Value of Supply Chain Management Support (It's OK to Ask for Help)

To handle the growing complexity of their supply chain, many brewers find that working with a third-party provider can be a valuable resource as they build their business. "Brewers are wise to seek help for areas outside their primary area of focus," Brady says. "A reliable, experienced supply chain partner frees them up to focus on their main objective: brewing great beer."

Finding the right partner requires careful research. Brady suggests that brewers evaluate potential providers in 10 key areas:

1. **Industry expertise** – Does the provider have deep relationships in the beverage industry and understand the challenges brewers face?
2. **Solution design capabilities** – Have they demonstrated an ability to provide innovative solutions that meet customers' unique business needs?
3. **Execution** – Do they have established processes and best practices in place and a proven track record for delivering results?
4. **Scalability** – Will they be able to accommodate changing business needs and future growth?
5. **Nationwide network of specialized services** – Do they offer a variety of services (i.e. keg scanning, consolidated distribution, freight management, material recovery) for a comprehensive solution?
6. **Advanced technology** – Are their systems and software state of the art and able to provide real-time visibility and automation where needed?
7. **Available resources** – Do they have an established distribution network and staff to accommodate current and future needs? If not, are they willing to invest in the necessary resources?
8. **Flexible financing** – Do they offer payment options such as "lease to purchase" to help brewers build their keg inventory cost effectively?
9. **Product disposal** – Are they able to dispose of non-salable beverages in an efficient and environmentally friendly manner if the need arises?
10. **Quality management** – Are they involved in SCOR or another program designed to ensure consistent quality and continuous improvement?

Partnering with a supply chain provider for strategic solutions can help brewers manage their business more efficiently and cost-effectively while expanding their geographic reach.

About Satellite Logistics Group

Satellite Logistics Group (SLG) specializes in supply chain management for the beverage industry. We deliver innovative and efficient supply chain solutions to help our customers manage their businesses more strategically and accommodate changing needs. Our core services include Kegspediter® keg management, LogiTrax® transportation management and EcoBev® beverage disposal. For more information, please visit www.slg.com.