



WHITEPAPER



## Optimizing Brewery Supply Chain Processes for Competitive Advantage

Learn how to leverage the SCOR model to improve supply chain performance.



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Brewers today face a competitive landscape. With intense competition, demanding customers and complex regulations, they must seek out new and creative opportunities to set themselves apart in the marketplace. Supply chain optimization is one opportunity that brewers are exploring with growing frequency.

A supply chain is made up of a set of integrated processes working together to deliver products to customers—from the supplier's supplier to the customer's customer. Every link in the chain is important, and performance shortcomings in any link result in waste.

"An in-depth analysis of supply chain performance often reveals key areas where modest adjustments can help a brewer achieve a significant business impact," says Dan Swartwood, vice president of process and technology at Satellite Logistics Group (SLG) and co-author of *Fix Your Supply Chain*.

Swartwood recommends that brewers utilize the Supply Chain Operations Reference (SCOR) model as a standard diagnostic tool for supply chain management. Developed by the APICS Supply Chain Council ([www.supply-chain.org](http://www.supply-chain.org)), SCOR establishes metrics which can provide brewers with a foundation for measuring performance, identifying priorities for improvement and bringing strategic structure to their planning process. By using this model, many brewers have been able to increase efficiency, reduce cost and improve service levels.

## Defining Supply Chains

A supply chain is a unique, identifiable combination of customers, products, suppliers, nodes and process capabilities that are managed as one. Supply chain improvement depends on clearly defining all relevant supply chains and determining the right competitive strategy for each one.

A craft brewer, for example, might have three different product families: IPAs, cider and lagers. Each of these requires different ingredients and production processes. The target customer and distribution strategy for each product may be dramatically different as well.

"Companies typically have several distinctly different supply chains, but they often attempt to manage them all in the same way," explains Swartwood. "This one-size-fits-all approach can put them at a disadvantage. When *all* of a brewer's supply chains are identified, it's possible to design each one for optimal performance."



To determine the number of supply chains in play, a brewer should start by creating a simple matrix of product families and customer segments (see Figure 1). An “X” is placed wherever a product family is sold to a customer segment. These “X’s” represent potential supply chains. Questions to consider include:

- How many product families are there?
- Are a variety of sourcing strategies needed?
- How many sales channels are used?
- Are products exported or just sold domestically?

Supply chain segmentation involves identifying these variables and grouping according to expectations, needs and priorities.

Figure 1

Supply Chain Definition Matrix		Customer/Market Channel	
		U.S. Distributor	Export
Product	IPAs	X	X
	Ciders	X	
	Lagers	X	

*A supply chain definition matrix can help to determine the number and size of supply chains.*

## Supply Chain Strategy

Once all supply chains have been defined, it is important to understand the competitive strategy for each. For optimal performance, the supply chain must be aligned with key business goals. “Where is the brewer in need of a competitive advantage?” Swartwood asks. “Is it important to get to market faster? Expand geographically? Control transportation costs? Understanding priorities is key to tailoring a supply chain for optimal performance. Priorities may be different for each of the brewer’s supply chains.”

SCOR can help to guide the prioritization process. Within the model, five performance attributes have been identified that, taken together, provide a balanced measure of supply chain performance:

1. Delivery reliability – on-time, complete and correct delivery
2. Responsiveness – speed in meeting customer requirements
3. Flexibility – ability to adapt in response to market changes
4. Cost – cost associated with operating the supply chain
5. Inventory management – effectiveness in managing inventory and assets

“Each of these attributes plays a critical role in effective supply chain performance,” Swartwood says. “Collectively, they have a direct impact on revenue, cost and, therefore, profitability.”

It is unlikely, however, that a company will excel in all of these areas. Brewers must determine which of these attributes have the greatest impact on their business in order to ensure strategic focus.

For each supply chain, Swartwood recommends identifying one key area where it is critical to stand out in the marketplace and one or two areas where the brewer should be above average. For each supply chain, ask:

- For which single performance attribute is it most important to achieve “Superior” performance (90th percentile) relative to competitors?
- For which one or two performance attributes is it most important to achieve “Advantage” performance (75th percentile) relative to competitors?

For the remaining areas, it should be sufficient for the brewer to be on par with competitors. A matrix of performance attributes can aid in this rating process (see Figure 2 below).

“Often companies find that they are concentrating on achieving superiority in the wrong area,” says Swartwood. “Ask yourself where you really need to excel to succeed in the marketplace. That’s your top area of focus—where you want to devote the most energy and resources.”

Figure 2

Performance Attributes	IPAs		Ciders	Lagers
	U.S. Distributor	Export		
Delivery Reliability	S	A	P	A
Responsiveness	P	P	S	A
Agility	A	P	A	S
Cost	A	S	P	P
Asset Management	P	A	A	P

*S=Superior, A=Advantage, P=Parity*

## Performance measurement

Once all supply chains have been defined and the strategy determined, the brewer can then assess current supply chain performance in light of these goals. It is important to measure the performance of each supply chain and compare to benchmark data collected from comparable businesses. At least one metric should be identified for each of the five attributes and measured with a “SCORcard” (see Figure 3 below). For example:

1. Delivery reliability – Perfect Order fulfillment
2. Responsiveness – order fulfillment cycle time
3. Flexibility – upside supply chain flexibility
4. Cost –supply chain management cost
5. Inventory management – cash-to-cash cycle time

Figure 3

Supply Chain SCORcard				Benchmark				
Attribute	Metric (Level 1)	Strategy	Our Company	Parity	Advantage	Superior	Req. Gap	
Reliability	Perfect Order Fulfillment	S	93.5%	92%	96%	98%	4.5%	Underperforming
Responsiveness	Order Fulfillment Cycle Time	A	6 days	6 days	4 days	2 days	2 days	Underperforming
Flexibility	Upside Supply Chain Flexibility	P	63 days	80 days	62 days	40 days	-17 days	Overperforming
Cost	Supply Chain Management Cost	P	10.2%	10.8%	10.4%	10.2%	-0.6%	
Assets	Cash-to-Cash Cycle Time	P	18 days	45 days	30 days	20 days	-27 days	

S=Superior, A=Advantage, P=Parity

*When comparing actual performance to targets, performance gaps can be identified quickly.*

Performance priorities should be aligned with business goals. Performance gaps represent strategic opportunities for improvement. If responsiveness is a priority in order to retain tap handles, for example, a brewer might be very concerned that average order fulfillment cycle time is six days when an Advantage cycle time for the industry is four days. Or if a brewer is dramatically overperforming in terms of flexibility, that may represent an opportunity to standardize select supply chain operations in order to improve delivery reliability.

“This can be a very productive exercise, but it’s important to seek participation from all involved parties and make sure everyone is in agreement about top priorities,” says Swartwood. “Competing priorities can create conflict and tension in an organization if they’re not acknowledged and addressed up front.”

## Implementation

Swartwood recommends that brewers identify the performance gaps that are easiest to fix and can deliver the greatest results. Brewers should develop an opportunity ranking to hone in on those opportunities with the lowest risk and highest return (see Figure 4 below).

“In today’s marketplace, there’s no time to waste making changes that have minimal impact,” says Swartwood. “Brewers must be strategic and focus on critical areas for improvement. This process fosters understanding and assessment at a high level. It helps brewers to consider the bigger picture—facility location, transportation issues, regulatory compliance, etc. Ultimately, they must decide what they want their supply chain to look like.”

Figure 4

Opportunity Ranking Matrix	Low Risk	High Risk
High Return	<ul style="list-style-type: none"> <li>• Change in few processes</li> <li>• 80/20: high impact</li> <li>• Inexpensive change</li> <li>• Easy to back out</li> <li>• High ROI</li> <li>• Quick deployment</li> </ul>	<ul style="list-style-type: none"> <li>• Change in many processes</li> <li>• 80/20: high impact</li> <li>• Expensive change</li> <li>• Difficult to back out</li> <li>• High ROI</li> </ul>
Low Return	<ul style="list-style-type: none"> <li>• Change in few processes</li> <li>• 80/20: low impact area</li> <li>• Inexpensive change</li> <li>• Easy to back out</li> <li>• Low ROI</li> <li>• Quick deployment</li> </ul>	<ul style="list-style-type: none"> <li>• Change in many processes</li> <li>• 80/20: low impact</li> <li>• Expensive change</li> <li>• Difficult to back out</li> <li>• Low ROI</li> <li>• Long deployment</li> </ul>

It is also important for brewers to realize that supply chain analysis is always a work in progress. “Keep in mind that priorities can change over time,” advises Swartwood. “You’ll want to evaluate your supply chain regularly to ensure optimal effectiveness.”

Implementing the SCOR process can be challenging for beginners, Swartwood cautions. An experienced third-party supply-chain solution provider can help a brewer to take control of all applicable supply chains to guide the process and implement best practices. Their expertise can be valuable in analyzing the flow of materials throughout the supply chain as well as processes and information flow. They can also help the brewer to apply a variety of methodologies, including Lean, Six Sigma, ISO, etc., to eliminate performance gaps and increase efficiencies.





## Achieving Results

Utilizing the SCOR model for supply chain optimization can have a significant impact on a company's bottom line.

"On average, a SCOR analysis identifies opportunities equal to two to six percent of revenue in just eight to 17 weeks," Swartwood says.

Swartwood has guided companies in a variety of industries through the process and seen the results firsthand. Defining supply chains and fine-tuning strategy for eight supply chains helped one company to identify \$13 million in savings opportunities—three percent of revenue. Another company identified opportunities totaling \$48 million by analyzing four supply chains, including SCORcard development and benchmarking. SCOR initiatives also help to increase efficiency and improve customer service levels—critical areas for supply chain excellence.

In today's marketplace, brewers can't afford to overlook such an effective solution. By investing the necessary time and resources to optimize supply chain processes, they may achieve a significant competitive advantage.

Dan Swartwood is vice president of process and technology at Satellite Logistics Group (SLG), co-author of *Fix Your Supply Chain* and a certified Master SCOR instructor with the APICS Supply Chain Council.





## 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](http://www.slg.com).



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