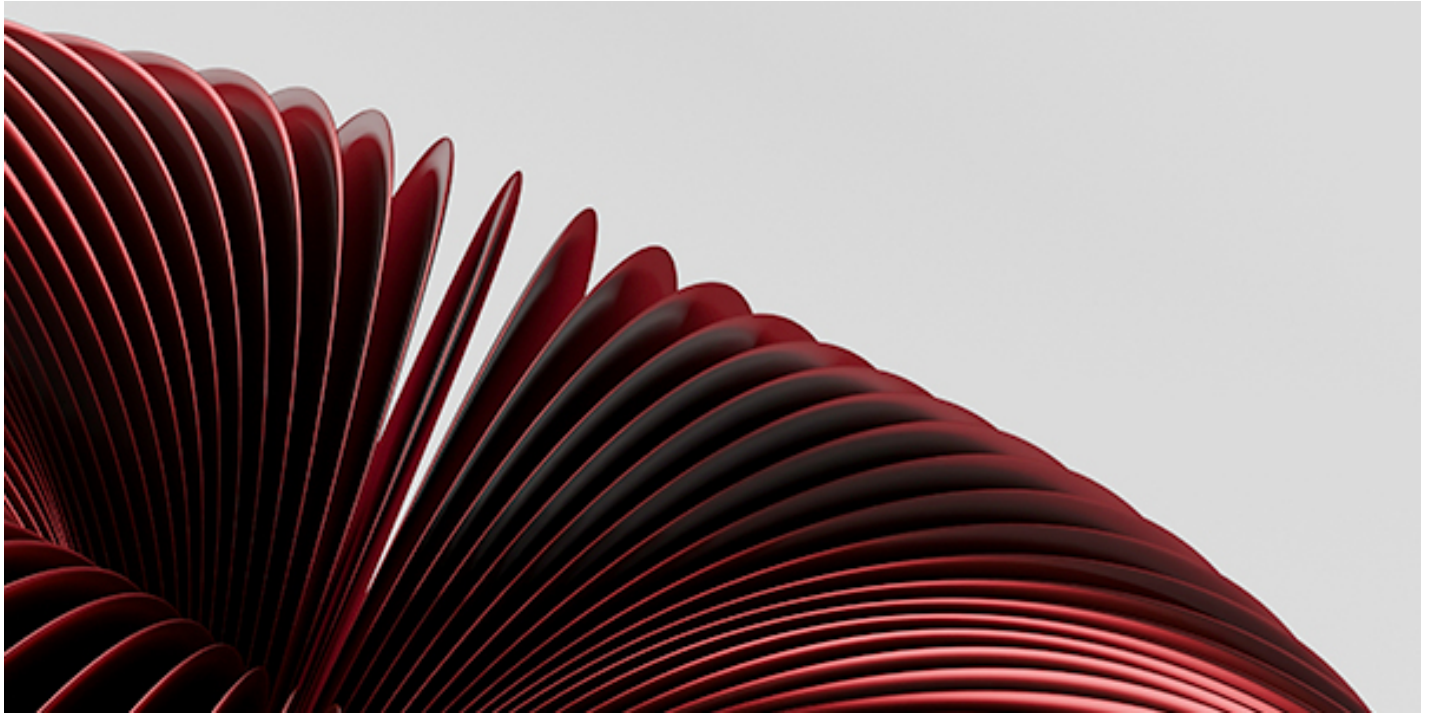


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TOPIC: SUPPLY CHAIN

BEST PRACTICES FOR CO-MANUFACTURING – EVALUATING THE OPPORTUNITY AND DEFINING A BRAND TECHNICAL DOCUMENT

🕒 9 min read

In today's beverage industry, growth requires creative strategies. For some companies, the path forward means building capacity by adding equipment, tanks, hiring more staff, and expanding facilities. For others, it means something quite different: partnering with a co-manufacturer, or "co-packer." There are a variety of circumstances where co-manufacturing should be considered:

- For breweries with capacity constraints, or when large volume brands are restricting the ability to experiment and be creative with specialty and seasonal brand, a partnership can quickly grow capacity and flexibility.
- By partnering with a co-manufacturing brewery in another part of the country or even other countries, outsourcing beverage production and packaging to a third-party producer can allow for expansion into new geographical regions to grow sales broadly or better manage shipping costs.
- For breweries offering alternative beverages to beer (e.g. RTD, seltzers, non-alcoholic, etc.), co-manufacturing can allow for market entrance and penetration prior to having capability to produce these products in-house.
- Co-manufacturing can also be a great bridge plan to avoid or postpone capital investments, redirect capital to other projects, offset timing impacts of capital construction, or allow time for volume growth to help justify future capacity-increasing projects.
- Satisfying increasing market demand typically also requires more footprint for warehousing finished goods. Co-manufacturing can aid in managing the need for expanded, in-brewery warehousing space by having it warehoused and shipped by the co-manufacturing brewery.

While co-manufacturing can be an attractive strategy, it is not without potential challenges.

Like any relationship, success depends on the groundwork laid at the beginning, the care taken in choosing a partner, and the ongoing attention given to nurturing the partnership. Over and over, the lessons are clear: clarity, diligence, and trust are the cornerstones of successful co-manufacturing relationships.

Co-manufacturing is a critical business and technical brewing decision that often is an emotional and psychological hurdle to jump over! Your brands and recipes are everything to your brewery and core to its image and your team's years of effort. Rest assured that co-manufacturing is a very common strategy.

Based on First Key's experience supporting clients, we share a roadmap of strategic considerations for evaluating co-manufacturing opportunities, followed by a set of best practices for implementation.

Evaluating Co-Manufacturing as an Opportunity

Like most brewery operational decisions, there are a variety of aspects to consider prior to jumping into a co-manufacturing partnership.

First, what is the goal of co-manufacturing for your brewery?

As mentioned above, this decision can be driven by multiple reasons or goals but defining the objectives and what success looks like is important. Here are important questions to consider:

- What brand(s) will be co-manufactured?
- How much volume will be co-manufactured?
- How long are you anticipating a partnership lasting?
- What proven experience does the co-manufacturer have?
- What production capabilities does the co-manufacturer have available?
- When do we need co-manufacturing production to start/stop?
- What benefits are you looking to gain in your brewery from a partnership?
- How will the sales team benefit from this partnership?
- How will routes to market change?

Next, what are the risks to consider with co-manufacturing? Defining them up front helps in developing a co-manufacturing plan and partnership that manages around risks:

- What is the potential impact on the brand being co-manufactured?
- How will the brand's image be protected?
- How will the co-manufacturer ensure their products are a flavor-match with products made at your brewery?
- What protocols do the co-manufacturer have to make joint decisions, such as for any recipe change or any batch that may not be fully compliant with the specifications?
- If your products have traditionally been made in-house, what will co-manufacturing do for your brewery's morale?
- Are there tax implications to co-manufacturing in your state or province? Or in the co-manufacturer's state or province?
- Are there legal or distribution implications of co-manufacturing in your state or province? Or in the co-manufacturer's state or province?

One of the largest aspects to consider is the feasibility of co-manufacturing. Will your brewery make money on this co-manufactured volume?

Critical for this financial evaluation is to understand your brewery's operating costs associated with any brand you intend to co-manufacture so you can compare it with the contracted co-manufacturing cost to produce. Once the product is produced, what other downstream costs (e.g. shipping, distribution, tax, sales) will change because of the co-manufacturing partnership. Evaluating the current "in-brewery" total operating cost compared to the "co-manufacturing" total operating cost is important to make a fully informed decision. Does the savings in capital costs for equipment and infrastructure outweigh the increased operating costs driven by co-manufacturing? You don't want to grow or shift volume and lose money doing it!

Once the brewery team considers the objectives, opportunities and risks of co-manufacturing, if it seems like the right direction, the best way to move forward in a very intentional and organized way is to develop a **Brand Technical Document**.

Brand Technical Document

Every strong partnership starts with clear and effective communication, and in co-manufacturing that communication is embodied in a Brand Technical Document (BTD). Think of it as your product's playbook, the BTD captures everything essential about your beverage: recipe, process, quality standards and controls, packaging, and beyond. This will help your partner reliably and consistently reproduce your product.

The BTD has been referred to as the “brand's passport” as it tells the specific story of the brand while setting clear rules for how the product must travel through each stage of production, warehousing and distribution.

This document should be drafted before engaging potential co-manufacturers, as it is invaluable during discussions and partner vetting. All the key stakeholders at your brewery need to be involved in the drafting and approval of this document.

Below is an outline of the essential components for a Brand Technical Document:

Recipe & Ingredients

- A well-defined recipe section ensures consistency in every batch. Documenting the precise percentages of each raw ingredient (e.g. Briess Caramel 60L), along with preferred suppliers, minimizes variability and safeguards the unique characteristics of your product.
- Define the specifications and tolerances for all ingredients and materials (e.g. hop variety, crop, year)
- Highlight any unique or proprietary ingredients to ensure consistency in sourcing. Some co-manufacturing partnerships will allow the original brewery to ship in unique or proprietary ingredients, so they protect these recipe secrets.
- Specific inspection and testing, if any, that should be conducted on these ingredients and materials.

Process Description and Flow

- Provide a detailed description of your production process, including specific steps such as mashing schemes, yeast handling, fermentation conditions, stabilization method and clarification techniques.
- Clearly outline any special or non-standard procedures and ingredients that are critical to the product's integrity.

Specifications

- Specifications aren't only about targets but also about defining the boundaries and ranges of acceptable quality. By clearly outlining the green, yellow, and red specification zones, you empower the co-manufacturer to make informed decisions, define clear and immediate proactive action when deviations occur and avoid reactionary communications.
- Include comprehensive specifications for the ingredients, in-process, finished goods, packaging materials and storage conditions. These can be refined later if needed but should provide a solid foundation during initial discussions.
- Define for each of these their quality zones or ranges, as follows:
 - **Green Zone:** Target specifications where the product meets all requirements.
 - **Yellow Zone:** Acceptable but requires corrective action.
 - **Red Zone:** Out-of-spec (OOS) product that must be isolated and blocked from sale without prior written approval. Corrective action to prevent re-occurrence is also needed.
- Specify communication and approval protocols and reaction plans for handling OOS products to ensure swift resolution.

Sensory & Brand Profile

- Numbers and specifications don't define a brand alone! That's why sensory descriptors are essential.
- Create and provide a sensory profile that describes how the product should look, smell, taste, and feel. This profile also includes physical, chemical, and microbiological attributes.
- Sensory details are vital for maintaining brand consistency and ensuring the co-manufacturer understands the desired consumer experience. Explore ways to ensure alignment between the co-manufacturer's sensory panel and yours.
- Breweries may want to consider having co-manufactured product shipped to the "home" brewery for sensory analysis frequently as an additional check on brand consistency. Likewise, samples from the "home" brewery might be sent to the co-manufacturer for use as reference samples.

Package Types and Formats

- Outline the types and sizes of primary packaging (e.g. bottles, cans) as well as secondary packaging (e.g. trays, cartons, wraps).
- Highlight packaging requirements when vetting co-manufacturers to ensure their equipment can handle your desired formats.
- Explore opportunities for cost-saving synergies by aligning with the co-manufacturer's suppliers for packaging materials.
- Sourcing packaging materials from the co-manufacturer's suppliers can also provide benefit as these materials have been more proven. This will promote best performance on the packaging line and sustained and consistent packaging quality and appearance across both production sites.

Forecasts & Planning

- Multi-year volume forecasts will help assess whether potential co-manufacturers have the current or planned capacity to meet your production needs. Information on seasonality will be important to include in order to ensure peak-season demand is met.
- Volume forecasts are also useful for strategic planning and aligning expectations with your manufacturing partner by testing the partnership as a long-term commitment, not just a one-off transaction

Cost to Produce

- Define an acceptable range for the co-manufacturer's cost to produce that will provide for your brewery's feasibility (desired gross profit and/or profit margin)

A Brand Technical Document is not a bureaucratic exercise. It is the foundation for trust and consistency. Without it, you're leaving critical details up to interpretation. With it, you're building a roadmap for success. "Think of your Brand Technical Document as your product's playbook; it's what keeps everyone on the same page, from recipe to reality," added Kayla Johnson, Senior Advisor, Engineering Services at First Key Consulting.

Co-manufacturing can be a highly effective strategy for emerging brands, aiding expansion into new markets, overcoming in-house capacity constraints or bridging capital investments. The success of this model hinges on thorough evaluation, consideration, and due diligence during partner selection, clear documentation, and ongoing relationship management.

This article is two-part series on **Co-Manufacturing Best Practices** by First Key. The next article will focus on **The Right Fit: Qualification and Selection of a New Co-Manufacturing Partner**.
