



TOPIC: SUPPLY CHAIN

# **BEST PRACTICES FOR CO-MANUFACTURING – THE RIGHT FIT: QUALIFICATION AND SELECTION OF A NEW CO-MANUFACTURING PARTNER**

🕒 10 min read

You've made the strategic decision to co-manufacture products to help offset immediate capacity constraints, expand your brands into broader geographical regions or just keep up with immediate demand for your products. Your next steps are critical to ensure that you enter into a reliable and beneficial partnership that achieves the outcomes you envision. Selecting the right co-manufacturer is a critical decision that requires careful evaluation.

A relationship with a co-manufacturer becomes an extension of your brewery or distillery operation, so finding the right dance partner and not just anyone who can dance is essential. Your brands and market positioning are too important to leave to just anyone. The relationship will take time to develop and sustain but starting with a transparent and honest grounding will set the course of the business relationship.

Getting to this point of the co-manufacturing decision takes evaluation of your business objectives and production capabilities along with evaluation of risks and overall feasibility of the initiative. Prior to searching for a partner, it is important to define the “playbook” by using a template called a Brand Technical Document (BTD) which provides an organized way to communicate what the specific requirements for potential co-manufacturer partners will be.

If the BTD is your “playbook”, then selecting the right co-manufacturer is choosing your teammate. And as any team knows, the wrong teammates can turn a promising season into a losing one.

Based on First Key’s experience supporting clients, the following considerations and guidelines are a set of best practices for the qualification and selection methodology for a co-manufacturing partner.

### **Culture & Commitments**

While technical capabilities are important, successful partnerships hinge on shared values and mutual trust. To gauge this alignment, First Key has found the following aspects and questions helpful when choosing a co-manufacturer that aligns with your company culture, product quality expectations, and company values.

- What are the Co-Manufacturer’s driving motivations for pursuing this opportunity?
- What is their track record in the industry and what are their mission and values?
- How do they prioritize safety and quality? What is their track record with these critical aspects?
- Ask about the co-manufacturer’s existing client base to understand their workload, ability to prioritize your product, and client management approach.
- Assess the level of employee engagement – both of their management team and on the production floor. Be careful when the co-manufacturer is operating primarily to fill their own excess capacity and it is not their core business, as this could indicate trouble ahead.
- Does the co-manufacturer have a designated customer service role so there is someone to be a main point of contact for you? What voice and support does this customer service representative have within co-manufacturer’s organization?
- Assess the business health of the co-manufacturer – you want to know they are financially sustainable to support your incremental production needs into the future.
- Assess the co-manufacturer’s knowledge of the industry – are they dialed into market trends (e.g. innovation in package types)? Are they innovative and open to future growth to satisfy emerging market trends?

As Tim Wolf, Senior Advisor, Engineering Services at First Key, explains:

“We advised a client who had narrowed its search to two potential co-manufacturers. Both were existing clients of ours, but one had engaged us for quarterly audits and ongoing technical support. That meant that the client could benefit from an additional layer of insight at that facility. While one option offered newer equipment, the other provided a collaborative team and a strong commitment to partnership. The client chose the latter, and the relationship thrived because both sides prioritized quality and transparency.”

## **Contract**

The partnership will be formalized with a contract. Any good contract will define key items such as the responsibilities of each party, pricing, term, production forecasting and delivery requirements, production trials, insurance, confidentiality, risk management, intellectual property rights, issue identification and corrective actions requirements, and termination. But contracts only go so far, they can't legislate trust. That's why it's essential to evaluate how the co-manufacturer treats its other clients. Do they have a reputation for being fair, communicative, and reliable?

The co-manufacturer may have a standard client contract. Evaluation of the contract language and commitments will be important to ensure that it aligns with your legal rights, responsibilities and risk tolerance. It may be wise to consult legal counsel to ensure all agreements and responsibilities are clearly defined. Be aware that there are some fundamental differences between Contract Brewing and Alternating Proprietorship contracts.

## **Capacity & Capabilities**

Capacity and capabilities are critical factors to consider and are typically the driving reasons for your decision to partner with a co-manufacturer in the first place. They must have the capacity to meet your initial volume and your multi-year (3-5 year) volume forecasts and the ability to produce your products the way they should be produced. Below are some detailed aspects to consider during qualification:

- Assess capabilities of the co-manufacturer using the BTM as a reference. Can they make the product you need? If not, what are the gaps and can they be closed? Are the production processes set up to make your products consistently? Are their packaging sizes and types what you require? Do they have the space in their facility to store and handle the ingredients and materials your product needs?
- Clarify minimum batch sizes, production frequency, and inventory requirements to ensure they align with product quality and freshness needs.
- Confirm the co-manufacturer's willingness and capability to dedicate adequate capacity to your production for a mutually agreed time horizon.
- Verify that the necessary equipment for your product is available or if capital investments are required (e.g. tunnel pasteurizers for non-alcoholic beer or blending capability for seltzer/RTD production, etc.). How will these investments be paid for and how quickly can these capabilities be added?
- Human resources capacity and capabilities are critical too! Confirm that there are appropriate technical expertise and experience in achieving your product specifications and packaging requirements in-house.

### **Safety & Compliance**

Building on the above commentary on culture, the safety and compliance culture of a potential co-manufacturer is very important to evaluate and ensure these are aligned with yours. Some aspects to consider:

- Confirm that the co-manufacturer holds all necessary licenses and permits for operation.
- Does the co-manufacturer have a formal Safety Program and adhere to best practices regarding safe operations?
- Do they regularly conduct safety audits, and what is their safety record? Do they help protect workers against hazards and reduce the risks of production delays or shutdowns due to safety incidents?

### **Food Safety & Quality Assurance**

The quality and consistency of your products are critical to your brand image. Significant evaluation when selecting a co-manufacturer should focus on the food safety standards, practices and their quality assurance program of the facility. Are they able to adhere to the BTM playbook? The following aspects should be considered:

- Are there specialized certifications (e.g. gluten-free) that the co-manufacturer holds? What certifications are required to produce your products based on your BTD?
- Verify if the co-manufacturer follows Good Manufacturing Practices (GMP) and maintains traceability protocols, including recall procedures. Likewise, verify that they have an effective HACCP (Hazard Analysis and Critical Control Points) plan in place.
- Request documentation outlining their sanitation protocols, equipment CIP procedures and records, pest control measures, and employee training programs.
- Check if the company has a Quality Management System (QMS) in place. How is it functioning?
- What is the standard sampling plan and how does that align with the BTD requirements for your products.
- Verify that there is a quality review process to ensure that the required preventive and corrective measures are completed on a regular basis.
- Review how consumer complaints are addressed and what the corrective actions from past complaints have yielded.
- Does the company conduct a formal Taste / Sensory Panel with trained panelists? Does it include sensory data generation and analysis?
- Specific measurements of success will need to be defined, such as what is considered acceptable product variability, and limits of what is deemed acceptable vs not acceptable quality. This should be detailed in the BTD.

### **Supply Chain Management, Storage & Distribution**

Since the co-manufacturer will act as an arm of your brewery or distillery, it is important to understand how the logistics will work.

- How will volumes be forecasted from your demand plan to their production plan?
- How will brewing & packaging materials be procured?
- How will finished goods be stored or distributed?
- Evaluate their commitment to On-Time, In-Full (OTIF) principles and performance from their referred clients.

Aligning with the co-manufacturer's suppliers can reduce costs and improve line performance, but it is important to evaluate these benefits against the quality and consistency of your products – again the BTD should be adhered to.

Many of these logistical discussions can seem detailed and “in the weeds” but these aspects will have significant effect on the cost to produce and could impact product quality or the ability to supply the volume demand.

### **Pilots & Proof of Concept**

Finally, consider how new products will be piloted to gather the needed evidence of the feasibility of this project. Will the co-manufacturer allow small-scale runs before scaling up? One client avoided a costly nationwide recall by catching an issue during a pilot test, underscoring why this step is so important!

### **Visit the Co-Manufacturer**

You can gauge a lot by walking the production floor and experiencing the facility first-hand. A visit should be considered as part of the selection of a co-manufacturer to see things with your own eyes. An in-person tour will help evaluate many of the best practices mentioned above, by just walking around and talking to the team. Here are some considerations during a tour:

- Evaluate cleanliness, organization, and adherence to safety practices (e.g. use of PPE).
- Engage with staff to gauge their knowledge, experience, and enthusiasm.
- Does the co-manufacturer employ a routine management process, utilizing data and meetings to drive continuous improvement?
- Sit in on the daily production and quality meetings and shift change meetings to witness the brewery's processes in action
- Are root cause analysis (RCA) tools used when troubleshooting production / quality / maintenance issues?
- Does the co-manufacturer have a formal taste panel that conducts on-going training and meets regularly? Can you participate in one?
- Are there signs of actions focused on utilities usage and sustainability goals and does this align with your business?
- Have they conducted audits to verify their ability to do product traceability from ingredients through finished product?

### **Final Selection**

Your final evaluation may include multiple co-manufacturing partners. To facilitate the comparison, it is useful to establish an evaluation matrix which lists all critical criteria and grades the alternatives with a relative weighting and numerical scoring. Be sure to include both the tangible and intangible (e.g. culture, commitment, employee engagement etc.). When completed, this matrix will help summarize and highlight the strengths and weaknesses of each co-manufacturer and will help in your assessment for final selection by providing a relative score for each.

**Case Study Callout:** A midsize craft brewery in the Midwest wanted to launch a non-alcoholic beer but lacked tunnel pasteurization capability. By carefully vetting potential partners, they found a co-manufacturer with tunnel pasteurizers, solid HACCP controls, and a reputation for collaboration. The result: a successful product launch that hit shelves within six months, without the brewery needing to invest millions in new equipment.

Selecting the right partner is part science, part art. It requires detailed evaluation, yes, but also intuition about whether this is a team you can trust to handle your brand as if it were their own.

This article is part of the **Co-Manufacturing Best Practices Series** by First Key. The next article will focus on **The Active Partnership: implementation of the contract, relationship management, and auditing of a Co-manufacturer.**

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