



TOPIC: SUPPLY CHAIN

## SUPPLY CHAIN: THE SECRET WEAPON IN BEER

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Supplier costs have impacted the entire beer industry, but the pressures are most significant on smaller independents who have less leverage with suppliers and distributors and less sophisticated supply chain systems than macro brewing companies.

Results from the July 2024 National Beer Wholesaler Association (NBWA) *Beer Index* highlight the challenges the craft beer sector has faced since 2020, especially in the most recent year. Based on wholesaler beer orders, six of the seven segments grew compared to July 2023, with craft beer as the only exception.<sup>[i]</sup> The NBWA Beer Index data represents over 90% of US beer sales (it should be noted that this data does not include most of the 9,538 breweries in the US that are classified as nano breweries that sell most, if not all, of their product at their taprooms). According to the NBWA data the sector with the highest gains was the *below-premium* category, indicating consumers are becoming more cost-conscious. The middle market that brews between fifty thousand and five million barrels annually faces stiff competition from the macro brewers in the wholesale market. These pressures have led the middle market to retract through closures, the scaling down of operations, and even sell-offs. Those who remain must reinvent their business model beyond the inside walls of their brewery to consider the efficacy of their end-to-end supply chains. Many of these companies haven't given sufficient attention to this critical aspect of the business.

Consider the US beer market in three selling categories: branded taprooms, non-branded on-premise (restaurants and bars), and off-premise consumption. Despite volume losses in the craft beer sector, active breweries remain constant, from 9,339 in 2023 to 9,538 in 2024.[1] Most of these breweries are *nanos*, and this non-wholesaler market is saturated in most geographies and relatively insignificant in terms of overall volume. A few macro breweries dominate the remainder of the beer market (over 90%), driven by wholesalers and efficient supply chain systems that deliver large-scale volumes of beer at high levels of quality. To compete in these ultra-competitive on and off-premise markets, middle-market independents must play and win in the *supply chain game* to gain consumer access. That means these independent breweries need to look at the function of the supply chain differently: it needs to be more strategic than the tactical activities, such as buying raw and packaging materials from suppliers and coordinating with distributors and retailers. The supply chain must become a strategic secret weapon to compete in the current and future beer market. In the primary on- and off- premise markets, the data shows that market growth won't come from a greater variety of flavors and seasonals, but rather real growth will be achieved by improving end-to-end efficiency from raw material sourcing through to distribution of the finished product.

Breweries must focus on understanding their existing supply chain through an integrated view of *people, processes, and technologies*. Rather than viewing their suppliers and distributors in a limited manner as only transactional partners, they must build longer-term, win-win relationships to act effectively as an integrated supply chain. For example, sourcing contractual arrangements must be established with their malt, hops, packaging, and transportation providers, to name a few, to create integration within their business model. The largest US breweries win through the supply chain by creating and harnessing successful relationships that improve quality, service, and cost-effectiveness. Breweries must grasp the dynamics of commodity markets for their materials, leading to strategic sourcing decisions. Over the next decade, inflation and supply availability will continue to pose significant challenges. Macro breweries have an advantage due to their economies of scale. Still, middle-market breweries can often reach parity through improvements in strategic sourcing agreements. On the demand side of the business, craft brewers should solicit improvements in their strategic agreements with distributors and retailers.

Second, independent brewers must achieve improvement in process controls within their operations and integrated across their suppliers and distributors. Brewing is a manufacturing process; best practices are defined through standards and formalized processes. Establishing standardized process controls can sometimes be perceived in the independent community as becoming "too corporate," but this is a mistake in understanding for those seeking greater market share with distributors and retailers. Good processes drive waste reduction (and lessen a brewery's environmental footprint), sales growth, profitability, fewer quality defects, cost efficiency/value, perfect order fulfillment, and excellent service levels. Contrary to what may be conventional wisdom across some independents, standard operating procedures (SOPs) drive improvements in culture rather than stifling creativity. Independents must be willing to compete as an aggregate supply chain that is as efficient as possible.

Finally, technology should be harnessed to enhance processes among suppliers, distributors, and their teams. With effective strategies, the tools offered by technology facilitate seamless supply chain integration. As partners to suppliers and distributors, breweries that are easier to conduct business with can achieve lower pricing, better terms, and more sales opportunities than those who are not. Integration within demand forecasting, inventory management, production scheduling, and transportation management can drive sales in new and existing markets. In addition to suppliers and distributors, properly utilized technology can improve integration across functional areas (brewing, packaging, supply chain) and overhead functions (finance, human resources, administration). The core of the beer industry will always be about the product, but it can be argued that Big Data and the speed and capabilities in decision-making will drive market success. Think about the changes in the beer industry over the past five to ten years and appreciate the pace of change will only accelerate in the future; information will be crucial across the supply chain.

What will become the future of the craft beer market over the next decade? Will it shrink back to being primarily relegated to branded taprooms of nano breweries, or can it grow alongside the other wholesale categories alongside macro breweries? While the current data emphasizes a contraction of the craft market, the middle market sector can respond by making strategic improvements in its aggregate supply chain system. The craft beer industry should continue to market itself as fiercely independent and distinctively different from the macro brewers, but beneath the surface, able to compete within an end-to-end supply chain system required to win at the wholesale market level. Supply chain factors relating to supply, demand, inflation, and others will dictate a need to make quicker, better decisions integrated into their suppliers, distributors, retailers, and operations. The current data suggests that middle-market brewers aren't keeping pace with the speed of information that drives decisions in the wholesale and retail markets. As controversial as it may be to suggest that the beer itself isn't the sole factor that leads consumers to markets, these realities are becoming increasingly critical as a focus for the purveyors of the craft!

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[i] Chris Crowell. (2024). "Craft beer keeps contracting in 2024 Beer Purchasers' Index." *Craft Brewing Business*. August 5. <https://www.craftbrewingbusiness.com/packaging-distribution/craft-beer-keeps-contracting-in-2024-beer-purchasers-index/>

[ii] *Brewers Association*. (2024). "Brewers Association Midyear Survey Sheds Light on the State of the Craft Beer Industry." July 23. <https://www.brewersassociation.org/association-news/2024-midyear-survey-results/>