

Operations Diagnostic At Niche Beverage Co-Packer: Throughput And Cost Improvements To Become A Competitive Full-Line Co-Packer

The Challenge: BrewCo, a century-old branded brewer of beer, was recently purchased by the management team as a result of a merger-related divestiture. In order to fill capacity and grow, BrewCo diversified into co-packing beer, flavored malt, and tea/energy drinks. However, BrewCo's legacy as a long-run brewery created numerous challenges as it tried to migrate away from its high-volume beer company roots to a cost-efficient and highly responsive co-packer of a wide variety of beverage products. BrewCo needed to leverage capabilities in place while preparing operations for further profitable growth. BrewCo management engaged Gotham to perform a supply chain diagnostic focused on: quickly creating a fact base of current supply chain cost and performance; identifying and prioritizing potential opportunities for cost reduction and throughput improvement; and crafting a top-level plan for capturing these opportunities.

The Partnership:

Analysis: Gotham began by building a solid, fact-based assessment of BrewCo's cost structure, capacity utilization, product complexity, and production planning/scheduling, based on discussions with management, collection of existing reporting/synthesis of available system data (e.g., production history, standard costs), and line observations. The Gotham team then supplemented this fact base with a robust understanding of: current improvement efforts, risks, and focus areas of management attention (e.g., backlog); operations logistics (shift structure, conversion operation, vendor and FG network); and critical processes (including planning and inventory control, line scheduling, and order-to-ship process).

Our diagnostic indicated that the issues faced by BrewCo were driven primarily by the operation's legacy design as a long-run beer operation, which resulted in low line efficiencies and higher costs for the current mix of products. Product complexity was high (1,100 SKUs), requiring a large number of changeovers, creating: excessive changeover costs (over \$1.5MM); significant labor productivity issues (packaging line running at 43% efficiency, major overtime requirements); high material losses (especially in liquids, at approximately 10%), and ultimately, unprofitable sales volume (10% of SKUs had total negative gross margin of \$465K). Further, from our process mapping and interviews, Gotham found that the legacy organization/operations lacked the cost focus and fact-based performance tracking necessary for a co-packer, making it difficult to link operational performance to financial results.

Benchmarking analysis indicated a per-case cost structure 15-50% greater than similarly sized manufacturers.

Gotham's diagnostic and benchmarking identified \$1.5+MM in near-term cost savings opportunities that could be captured by developing a true understanding of costs, tackling identified cost drivers, and challenging the organization to become a cost-conscious, market-focused co-packer.

Strategy: Gotham proposed launching two parallel but interdependent efforts to capture near-term opportunities and develop a roadmap for longer-term success:

1. **Reduce Changeover Costs:** Take out a significant portion of BrewCo's \$1.5+MM changeover costs, by reducing both changeover number/frequency and cost/duration of necessary changeovers. One quarter of changeovers in the previous year were to produce the same SKUs multiple times in a month, due to a misaligned, legacy scheduling process and problematic material management practices. Such changeovers would be significantly reduced by redesigning the scheduling process to account for requirements of the current customer base, vendor lead times, and BrewCo's manufacturing process constraints. With 14% of BrewCo's packaging labor (and supporting overhead) lost during changeovers and significant liquid losses due to legacy, large-batch capital equipment set-up, we also recommended a focused effort to identify process and capital changes to shorten changeover duration and/or reduce batch waste.

2. **Transform BrewCo Into A Performance-Focused And Cost-Efficient Operation:** Pursue a parallel effort to develop a robust cost/performance measurement and tracking system to help the management team identify, prioritize, and implement further cost reduction opportunities.

The Outcome: BrewCo management launched a performance improvement effort focused around the two priority areas recommended by Gotham.

