2017 Malt Beverage Supply Chain Performance Survey

DISTRIBUTOR SUMMARY RESULTS PACKAGE

PRESENTED BY TAMARRON CONSULTING

Survey Results Outline

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Survey Overview

- Purpose, Structure, Process
- Respondent Profile

Survey Overview

Purpose:

- To understand how your distributor partners scorecard your performance against supplier supply chain roles & responsibilities; Identify opportunities to improve your performance and relationships with distributors; Benchmark your performance against other suppliers

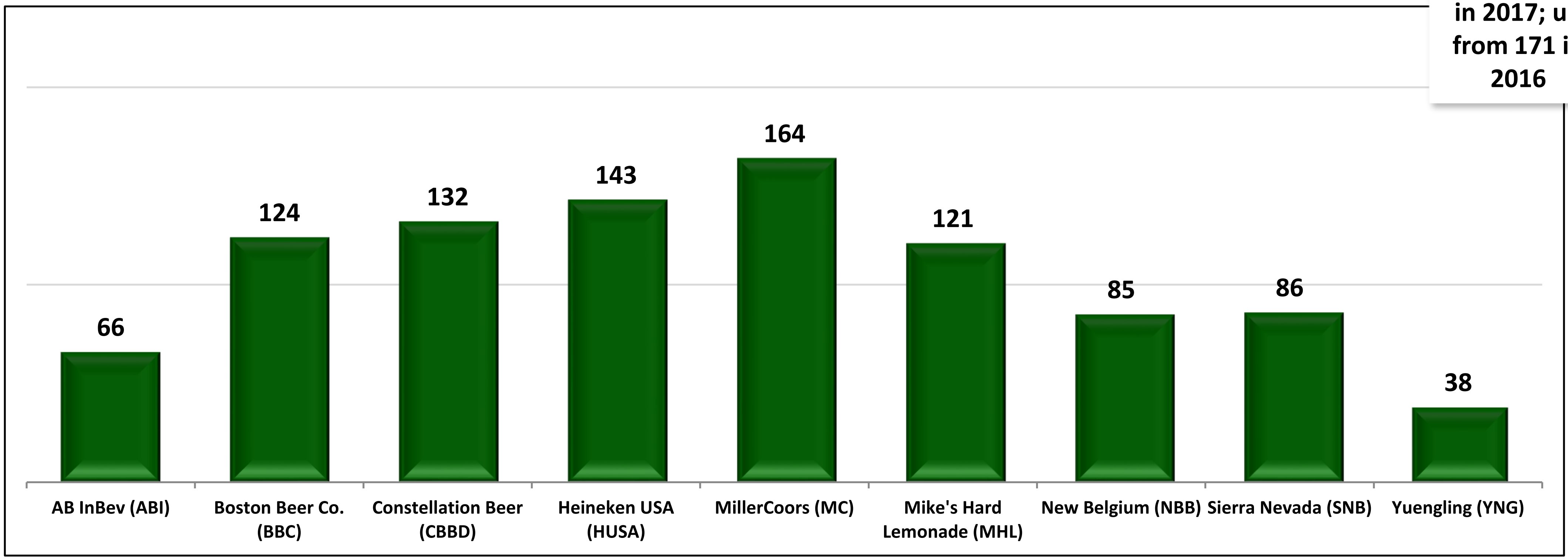
Structure:

- The survey focuses solely on the performance of Supplier Operations/Supply Chain. All questions pertinent to sales and marketing will remain on Tamarron's Malt Beverage Supplier Performance Survey. Survey questions remain in the same format as years past - aligned with the responsibilities of suppliers and distributors as defined by a panel of industry leaders from both tiers (Tamarron Consulting's Operations Leadership Council).
- Craft Brew Alliance and Diageo Beer Company were taken off the 2017 Survey; all other suppliers remained the same.
- The rating scale is: 1=Poor; 2=Fair; 3=Good; 4=Very Good; 5=Excellent

Process:

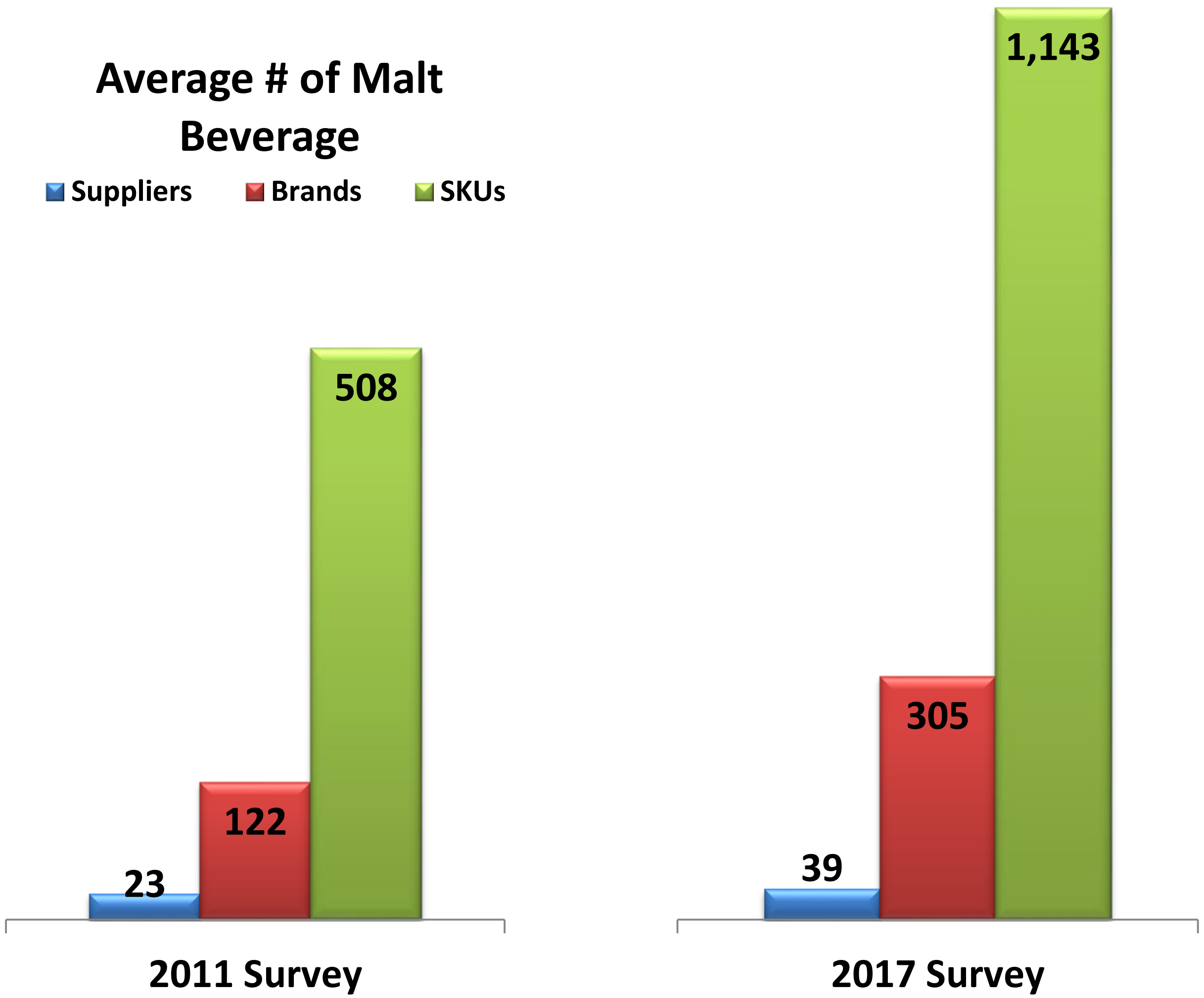
- We send the survey to every malt beverage distributor in our database (approximately 1,250). The survey is typically mailed or emailed to the GM/Principal or VP of Operations of the Distributor. The majority of surveys were filled out by either VP of Operations or the GM/Owner. As always, distributors respond only for suppliers whose products they sell.
- The 2017 suppliers are: AB InBev (ABI), Boston Beer Co. (BBC), Constellation Beer (CBBD), Heineken USA (HUSA), MillerCoors (MC), Mike's Hard Lemonade (MHL), New Belgium Brewing Co. (NBB), Sierra Nevada Brewing Co. (SNB), Yuengling (YNG).
- No distributor is weighted, every distributor has an equal voice. Data can be segmented further into more detailed breakouts (e.g., Regional, Top Distributors, etc.).
- If you have any questions or concerns, take an opportunity to dig deeper with your key distributors to better understand their thoughts around their responses (scores) and/or call Tamarron for suggestions.

of Responses by Brewer



184 Total Respondents in 2017; up from 171 in 2016

Suppliers, Brands, SKUs *(Carried by Distributors)*



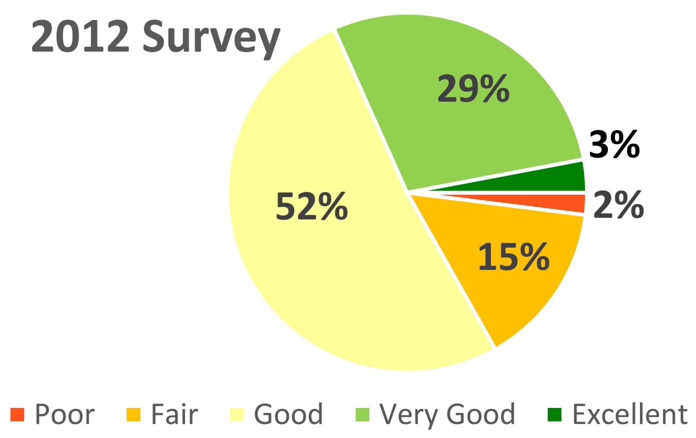
- The Supply Chain Performance Survey is in its 8th year. Since its inception, the number of Suppliers, Brands, and SKUs has grown at a rapid pace - due to a number of reasons including consolidation, brand & SKU proliferation, and the explosion of craft brewers:
  - Average # of Suppliers has increased by 16 (+69.6%); with a range of 2 to 200
  - Average # of Brands has more than doubled (+150%; +183); range of 5 to 4300
  - Average # of SKUs has also more than doubled with an increase of 635; range of 29 to 6500
- Due to the increase in Brands and SKUs, it has become an issue for Suppliers to manage and an even more amplified issue for the distributor network as the products go down the Supply Chain.

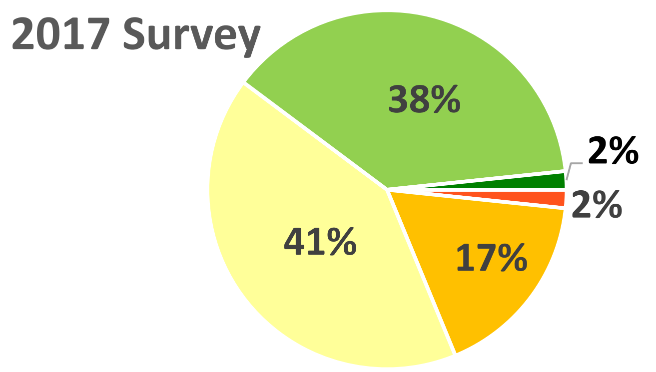
Industry Performance Overview

- State of the Industry
- Top-Line Results
- Industry-Wide Opportunities / Strengths

State of the Industry (5 Year Trends)

In the area of operations/supply chain, how well are the supplier and distributor tiers currently working together?

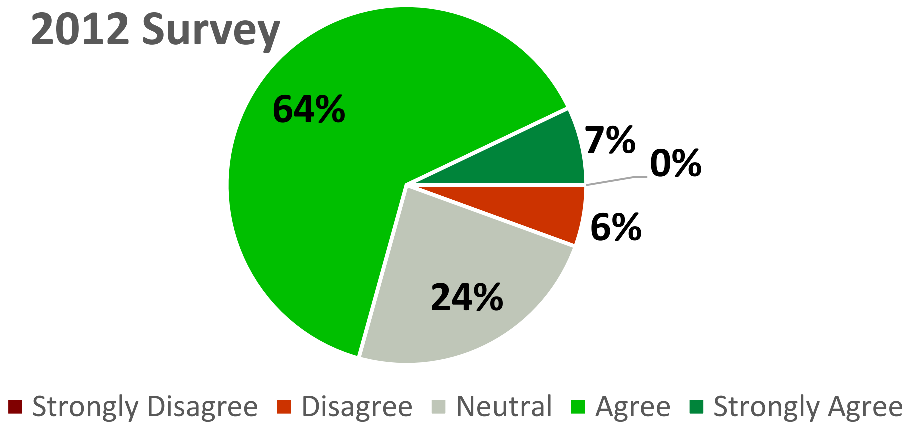


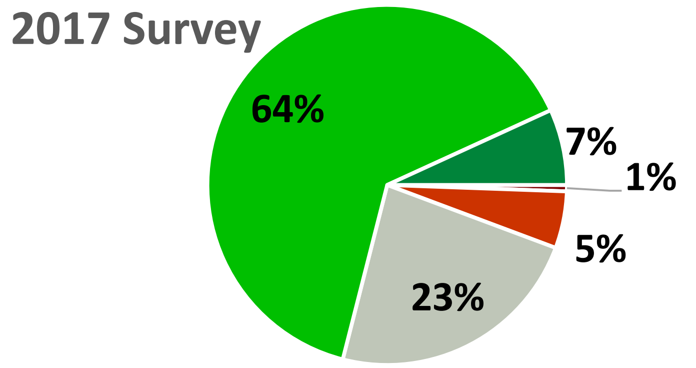


Relative to the 2012 Supply Chain Performance Survey, Distributors' opinions of the <u>operations/supply chain state of the industry</u> has remained <u>relatively consistent</u> over the past few years.

More distributors were positive about the working relationship between the tiers in 2017 with 9% more than 2012 responding 'Very Good'.

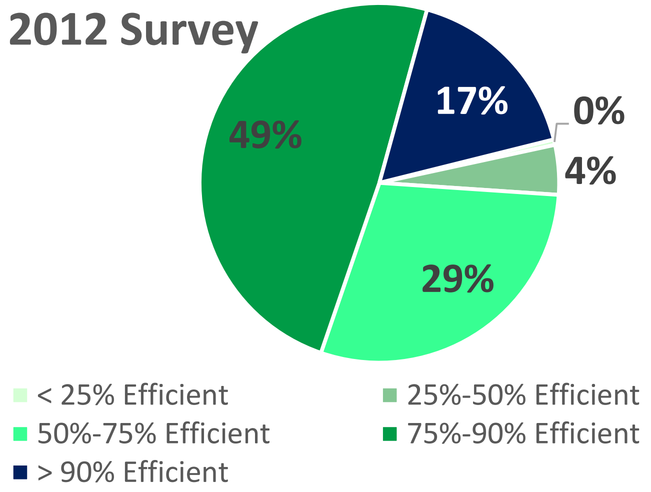
Overall, my suppliers understand and appreciate the need for the total supply chain to be efficient and effective:

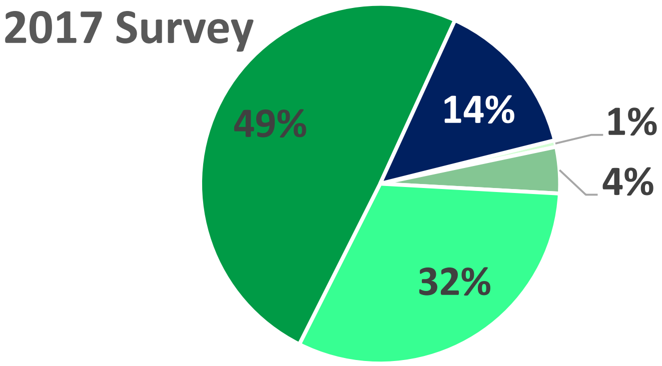




State of the Industry (5 Year Trends)

How would you rate the efficiency of the Malt Beverage Supply Chain (Supplier→ Distributor→ Retailer)?

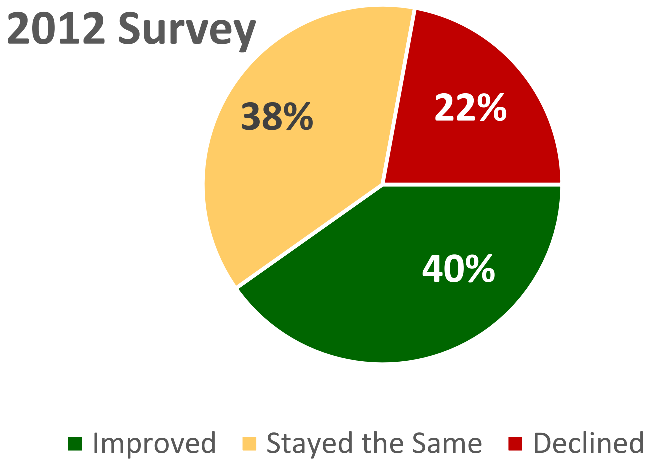


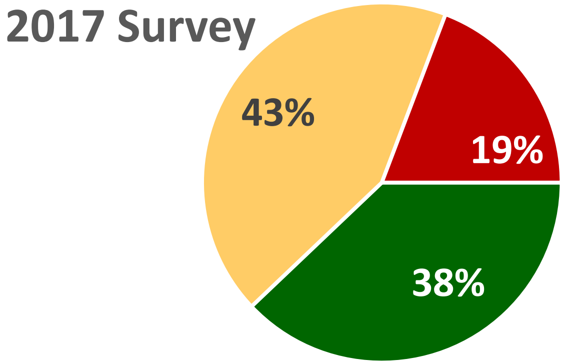


Similar to years past, the majority of distributor respondents believe that the entire Malt Beverage Supply Chain has reached at least 75% efficiency; however, a large opportunity clearly exists to capture more value for all 3 tiers.

As an industry, we should strive for a greater number responding '>90% Efficient', instead of declining 3 percentage points within that area from 2012-2017.

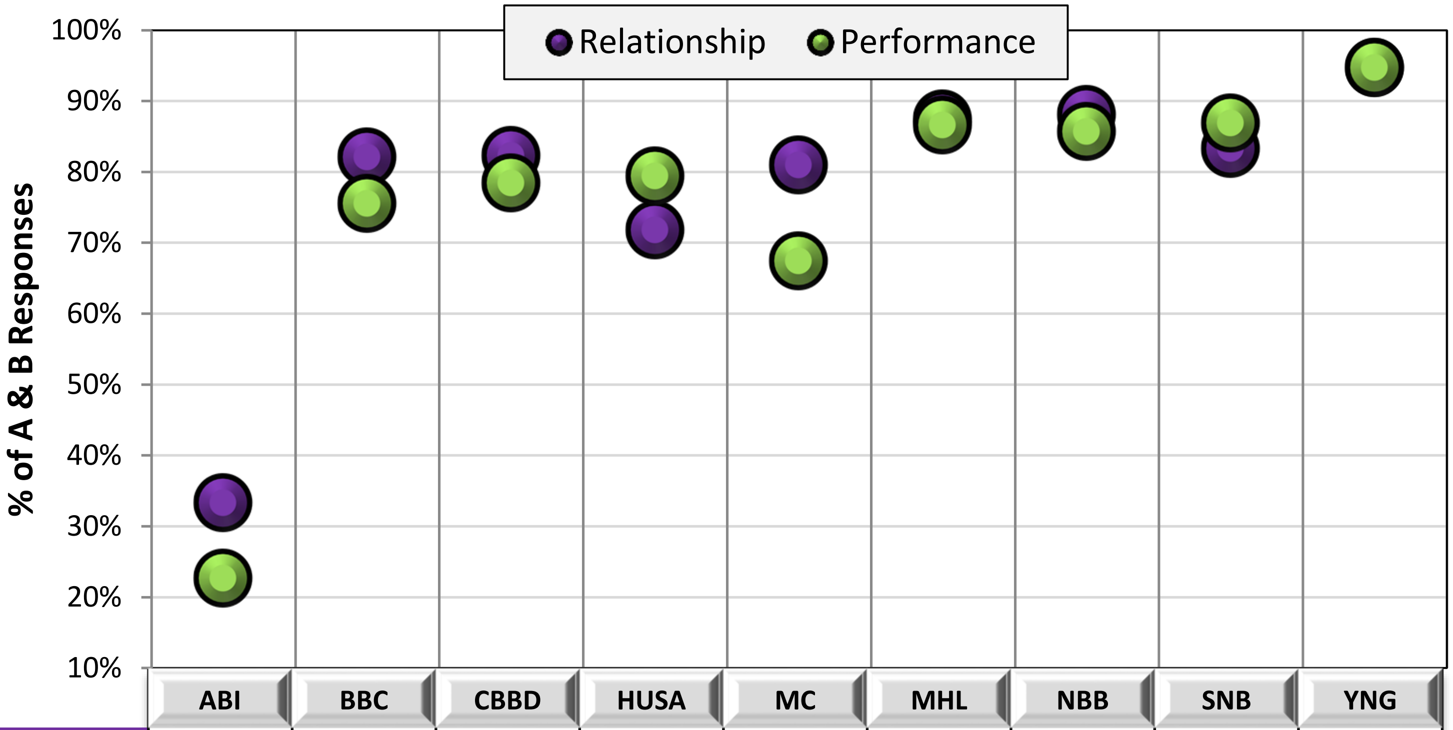
Over the past 5 years, the overall efficiency of the supply chain between the supplier and distributor tiers has:





Relationship/Performance Grades

Tamarron's perspective is that a supplier should **not** be satisfied with any grades (C, D, or F) lower than an 'A' or 'B'. Below is a chart depicting each suppliers' % of As and Bs.

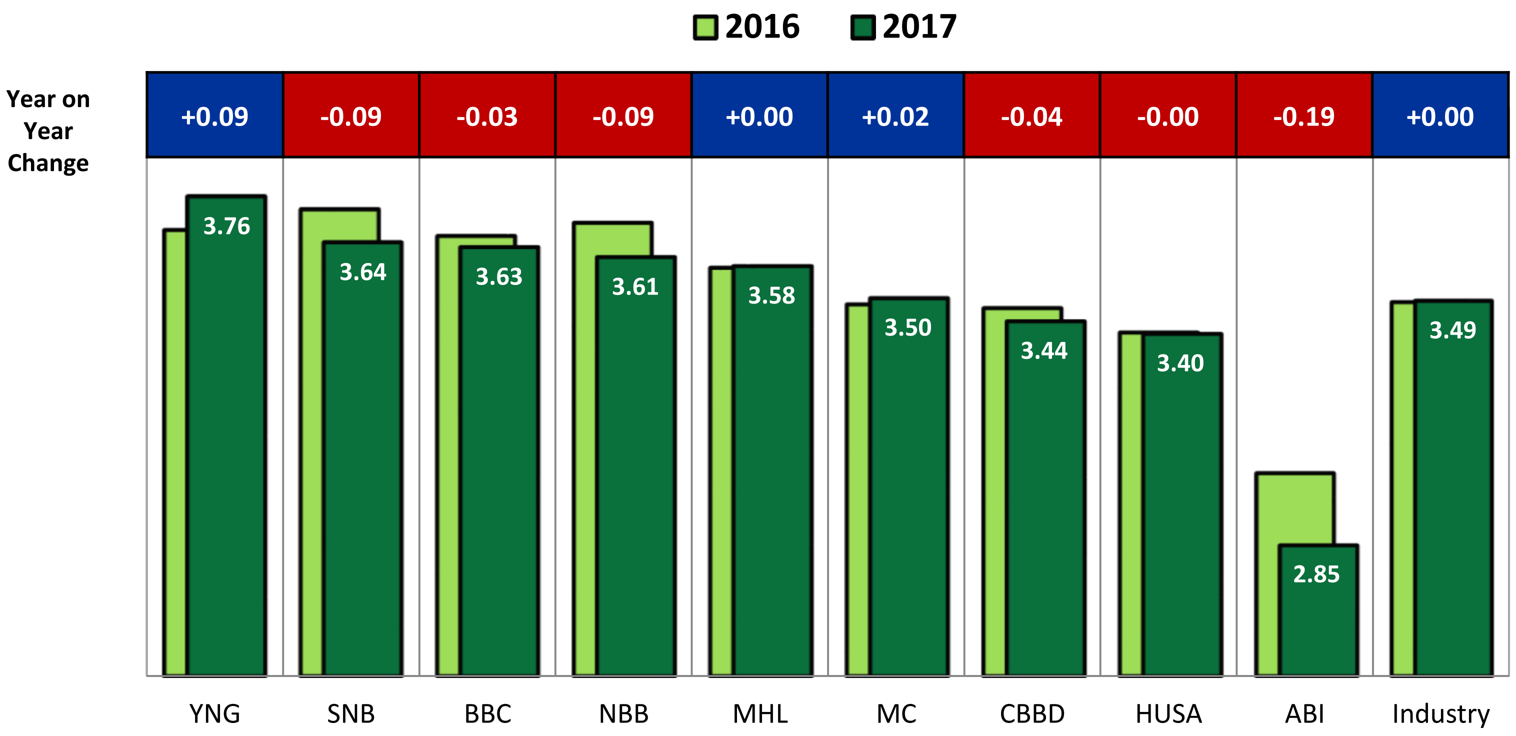


	ABI	BBC	CBBD	HUSA	MC	MHL	NBB	SNB	YNG
Relationship	33%	82%	82%	72%	81%	88%	88%	83%	95%
Performance	23%	76%	78%	79%	67%	87%	86%	87%	95%

- Respondents are asked at the beginning of the survey to give each of their suppliers in their house a grade for relationship and performance; the grades are a good indication of distributors' general perception of the suppliers.
- The majority of suppliers received similar grades for Overall Relationship and Overall Performance; different from years past, in which suppliers typically received much higher Relationship grades than Performance. MillerCoors has the biggest gap between Performance and Relationship (14%). HUSA and Sierra Nevada received higher Performance than Relationship grades in 2017.
- Yuengling* continued to lead all suppliers in grades with 95% of the grades being either an 'A' or 'B'.

**Please note Yuengling had the lowest number of respondents.*

Overall Performance Score by Supplier



The results for all 42 capability-related questions were averaged to obtain an "Overall Average Performance Score" for each of the suppliers.

Overall Score:

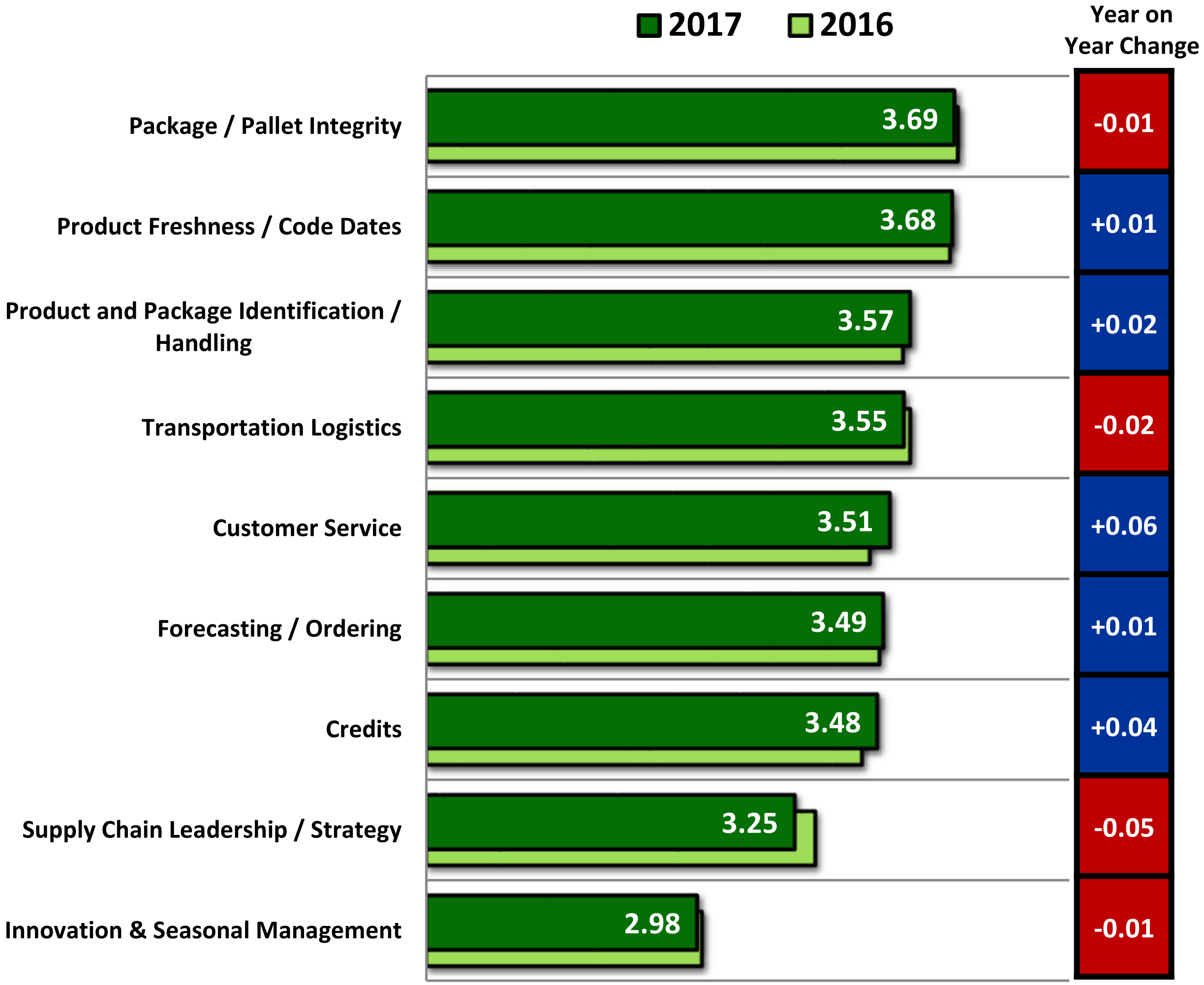
- Yuengling moved up 2 spots in rank to overtake the 1st place rank from Sierra Nevada in 2017 with a score of 3.76 (Yuengling was last at the top spot in 2013).

Year on Year Change:

- As noted earlier, Diageo Beer (8th supplier in 2016) and Craft Brew Alliance (10th in 2016) were taken off the 2017 survey, which impacted the overall Industry Average. Even though the remaining suppliers posted declines as an aggregate, the Industry Average did not have any movement due to the 2 suppliers no longer being assessed.
- Yuengling and MillerCoors were the only suppliers to report a measurable improvement from 2016; ABI, Sierra Nevada and New Belgium posted the most measurable declines out of the suppliers.

Capability-Level Performance Score

Industry Average



Overall Industry Capability Scores:

- The Innovation & Seasonal Management capability received the lowest Industry Average score for the fourth year in a row with a score of 2.98.
- For the second year in a row, the Package / Pallet Integrity capability received the highest score for the Industry in 2017.

Year on Year Change:

- 5 of the 9 capability areas received higher Industry Average scores compared to last year. Customer Service recorded the largest improvement in score (up +0.06 from 2016).
- Leadership / Strategy had the largest decline (-0.05) with only MillerCoors posting improved scores in this capability.
  - Delving into the distributor comments for all suppliers, poor or lack of communication of the strategic plan has driven the scores down within this area.

Scale: 1=Poor; 2=Fair; 3=Good; 4=Very Good; 5=Excellent

Strengths
Industry Average

Top 10 Question Scores		
Capability	**Question**	**Score**
Forecasting / Ordering	**9) Accuracy of Product Shipments** – Ensures accuracy of product shipments on orders placed	**3.84**
Product and Package Identification / Handling	**33) Package Description** – All packages are easily identifiable (brand, package size, style, flavor, etc.)	**3.75**
Package / Pallet Integrity	**26) Mother Cartons** – Strength and resilience of mother cartons	**3.74**
Package / Pallet Integrity	**30) Shrink Wrap** – Effective application of shrink wrap on pallets of product (i.e., evenly wrapped, stretched to prevent damage, etc.)	**3.73**
Product Freshness / Code Dates	✓ **16) Code Dates on Arriving Product** – Products arrive with sufficient lead time to sell prior to code date expiration	**3.72**
Package / Pallet Integrity	✓ **25) Overall Package Integrity** – Strength and resilience of overall product packaging (in warehouse and on truck)	**3.71**
Package / Pallet Integrity	**27) Secondary Carriers**– Strength and resilience of secondary carriers	**3.71**
Transportation Logistics	**22) Damage** – Minimized product damage upon shipment arrival	**3.70**
Product and Package Identification / Handling	✓ **31) Package Handling** – Ease of handling individual packages (stacking, loading, delivering)	**3.68**
Customer Service	✓ **38) Customer Service** – Supplier customer service representatives are knowledgeable and responsive	**3.68**

- *Accuracy of Product Shipments* received the highest Industry Average score for the 2nd year in a row; 5 of the 9 suppliers scored above a 4.00 ("*Very Good*") on this question.
- 9 of the 2017 Top 10 scoring questions for the Industry remained the same from 2016. *Customer Service* was a new addition to the list in 2017.
- Similar to years past, 4 of the 6 Package / Pallet Integrity capability questions represent the highest scoring industry questions.
- <u>4 of the Most Important Questions</u> to Distributors landed on the Top 10 Industry Highest Scoring question list.

✓ *Indicates the Most Important Question(s) to Distributors in that Capability*

Greatest Improvements

Industry Average

Top 10 Question Improvements			
Capability		**Question**	**Score**
Transportation Logistics		**17) Order Visibility** – Visibility of product shipments en route to distributor	+0.19
Product and Package Identification / Handling		**34) Code Date Legibility** – Code dates on all packages are easy to read and understand	+0.10
Customer Service		**42) Response Time** – [Supplier] responds to questions or issues in an appropriate length of time	+0.09
Customer Service	✓	**38) Customer Service** – Supplier customer service representatives are knowledgeable and responsive	+0.09
Forecasting / Ordering		**6) Inventory Requirements** – Expects a reasonable level of product inventory (days of inventory) and/or case targets	+0.07
Product and Package Identification / Handling		**32) UPC Codes** – Accessibility to UPC codes for scanning	+0.06
Forecasting / Ordering		**8) Production Frequency** – All products and packages are produced frequently enough to meet sales needs	+0.05
Product and Package Identification / Handling		**35) Product/Package Repack** – Ensures repack material ordering process is simple; materials are consistently available; and the cost is reasonable.	+0.05
Customer Service		**39) Claims Resolution** – Ease of claims resolution procedure	+0.05
Credits	✓	**36) Accounts Payable** – [Supplier] remains current on its supply chain/operations related payments to distributors (not including discounts or other sales & marketing expenses)	+0.04

- 22 of the 42 Survey questions posted improvements for the Industry from last year.
- The *Order Visibility* question improved the most compared to last year (+0.19 Industry Average improvement). Yuengling, MillerCoors and HUSA all posted double-digit improvements on this question.

✓ *Indicates the Most Important Question(s) to Distributors in that Capability*

Opportunities
Industry Average

Capability	Question	Score
Innovation & Seasonal Management	13) **Inventory Exit Strategy** – Employs a relevant exit strategy to manage inventory on discontinued items	2.79
Innovation & Seasonal Management	12) **Innovation Collaboration** – Advises distributor and solicits input on potential impact of supplier planned innovation on distributor operations	3.08
Innovation & Seasonal Management	✓ 14) **Seasonal Items Inventory Management** – Effectively transitions between seasonal programs; manages inventory levels on outgoing items and provides adequate inventory of incoming items, etc.	3.08
Supply Chain Leadership / Strategy	3) **Contingency Planning** – Has contingency plans in place to mitigate future uncontrollable issues that arise and impact supply chain performance (e.g., fuel pricing, commodity pricing, raw goods availability, driver shortages, etc.)	3.10
Forecasting / Ordering	5) **Forecasting Collaboration** – Collaborates with distributor to forecast sales and inventory needs	3.14
Supply Chain Leadership / Strategy	2) **Strategic Supply Chain Decisions** – Engages/advises distributors on strategic decisions that will impact [supplier's] supply chain alignment with distributors in the future	3.24
Supply Chain Leadership / Strategy	4) **Progressive Technology Investment** - Progressively invests in and uses state-of-the-art and emerging technologies to drive supply chain efficiencies	3.25
Product and Package Identification / Handling	35) **Product/Package Repack** – Ensures repack material ordering process is simple; materials are consistently available; and the cost is reasonable.	3.31
Customer Service	40) **IT Helpdesk** – Ease of dealing with supplier IT helpdesk	3.35
Credits	✓ 36) **Credits** – Provides a simple and timely procedure for applying for credits (including freight breakage)	3.38

Bottom 10 Question Scores

- The Industry scored below the 3.00 ('Good') mark on only 1 question – *Inventory Exit Strategy*; only Boston Beer and New Belgium scored above a 3.00 on this question. All 3 Innovation & Seasonal Management questions comprised of the Bottom 3 scores for the 3rd year in a row.
- Supply Chain Leadership / Strategy also has been an opportunity for the Industry for the past few years.
- All of the 2017 Bottom 10 scoring questions for the Industry remained the same from 2016.

✓ *Indicates the Most Important Question(s) to Distributors in that Capability*

Largest Declines
Industry Average

Bottom 10 Question Declines			
Capability		Question	Score
Transportation Logistics		**24) Reverse Logistics** – Ease of returning cooperage, dunnage, pallets, etc.	-0.10
Supply Chain Leadership / Strategy		**3) Contingency Planning** – Has contingency plans in place to mitigate future uncontrollable issues that arise and impact supply chain performance (e.g., fuel pricing, commodity pricing, raw goods availability, driver shortages, etc.)	-0.09
Supply Chain Leadership / Strategy		**2) Strategic Supply Chain Decisions** – Engages/advises distributors on strategic decisions that will impact [supplier's] supply chain alignment with distributors in the future	-0.08
Transportation Logistics		**20) Quality of Assigned Carriers** – Consistency, quality of service, and ease of dealing with supplier assigned carriers	-0.08
Product and Package Identification / Handling	✓	**31) Package Handling** – Ease of handling individual packages (stacking, loading, delivering)	-0.07
Transportation Logistics		**23) Product Stability** – Dunnage and load securement are applied adequately to prevent load shifting	-0.06
Package / Pallet Integrity		**30) Shrink Wrap** – Effective application of shrink wrap on pallets of product (i.e., evenly wrapped, stretched to prevent damage, etc.)	-0.06
Forecasting / Ordering		**9) Accuracy of Product Shipments** – Ensures accuracy of product shipments on orders placed	-0.05
Innovation & Seasonal Management		**13) Inventory Exit Strategy** – Employs a relevant exit strategy to manage inventory on discontinued items	-0.05
Transportation Logistics		**21) Issues with Assigned Carriers** – Cooperates with distributor to resolve issues with supplier assigned carriers	-0.04

- The industry had declines on 20 of the survey questions.
- The *Reverse Logistics* question declined the most compared to last year (-0.10 Industry Average decline).
- The 2nd largest decline was in *Contingency Planning* (-0.09) in which all of the suppliers experienced a negative year-on-year change on this question.
- The declines experienced in the Supply Chain Leadership / Strategy components ties in with the decline in distributors' perception of the efficiency of the Malt Beverage supply chain (see slide 16).

✓ *Indicates the Most Important Question(s) to Distributors in that Capability*

Appendix I

- **Top 3 Supplier Results by Capability**

Top 3 Supplier Results by Capability

SUPPLY CHAIN LEADERSHIP / STRATEGY	
MillerCoors	3.43
Mike’s Hard Lemonade	3.41
Sierra Nevada	3.39

PRODUCT FRESHNESS / CODE DATES	
Boston Beer	3.84
Mike’s Hard Lemonade	3.84
New Belgium	3.83

PRODUCT AND PACKAGE ID / HANDLING	
Boston Beer	3.78
MillerCoors	3.76
Yuengling	3.70

FORECASTING / ORDERING	
Yuengling	4.04
Sierra Nevada	3.73
New Belgium	3.70

TRANSPORTATION LOGISTICS	
Yuengling	4.00
New Belgium	3.69
Sierra Nevada	3.66

CREDITS	
Yuengling	3.68
Sierra Nevada	3.65
Boston Beer	3.60

INNOVATION & SEASONAL MGMT	
Boston Beer	3.30
New Belgium	3.26
Sierra Nevada	3.16

PACKAGE / PALLET INTEGRITY	
Sierra Nevada	3.87
Boston Beer	3.85
New Belgium	3.77

CUSTOMER SERVICE	
Yuengling	3.97
Sierra Nevada	3.69
Mike’s Hard Lemonade	3.62

Scale: 1=Poor; 2=Fair; 3=Good; 4=Very Good; 5=Excellent

Appendix II

- **Most Important Question Chart**

Most Important Question Chart

SUPPLY CHAIN LEADERSHIP / STRATEGY	% of Top Question
1. Supply Chain Strategy	**36.6%**
2. Strategic Supply Chain Decisions	28.4%
3. Contingency Planning	18.6%
4. Progressive Technology Investment	16.4%

FORECASTING / ORDERING	% of Top Question
10. Adjustments to Orders	**19.1%**
7. Product Ordering	18.0%
8. Production Frequency	17.5%
11. Order Flexibility	15.8%
9. Accuracy of Product Shipments	12.0%
6. Inventory Requirements	9.8%
5. Forecasting Collaboration	7.7%

INNOVATION & SEASONAL MANAGEMENT	% of Top Question
14. Seasonal Items Inventory Management	**65.2%**
13. Inventory Exit Strategy	24.3%
12. Innovation Collaboration	10.5%

PRODUCT FRESHNESS / CODE DATES	% of Top Question
16. Code Dates on Arriving Product	**72.8%**
15. Quality Control Standards	27.2%

TRANSPORTATION LOGISTICS	% of Top Question
18. Shipment Arrivals	**50.0%**
17. Order Visibility	15.9%
22. Damage	11.0%
19. Transit Time	8.8%
23. Product Stability	4.9%
20. Quality of Assigned Carriers	4.4%
21. Issues with Assigned Carriers	3.3%
24. Reverse Logistics	1.6%

PACKAGE / PALLET INTEGRITY	% of Top Question
25. Overall Package Integrity	**79.7%**
29. Pallet Integrity	9.0%
30. Shrink Wrap	7.3%
27. Secondary Carriers	3.4%
26. Mother Cartons	0.6%
28. Trays	0.0%

PRODUCT AND PACKAGE ID / HANDLING	% of Top Question
31. Package Handling	**38.5%**
34. Code Date Legibility	30.7%
35. Product/Package Repack	13.4%
33. Package Description	9.5%
32. UPC Codes	7.8%

CREDITS	% of Top Question
36. Credits	**53.7%**
37. Accounts Payable	46.3%

CUSTOMER SERVICE	% of Top Question
38. Customer Service	**59.0%**
42. Response Time	14.6%
41. Supplier Website	12.4%
39. Claims Resolution	11.8%
40. IT Helpdesk	2.2%