Future-proof your business with

Multi-segment beverage production

ENCOMPASS

Maker-to-market software for the modern beverage industry

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Overcome industry challenges by becoming a

Multi-segment producer

Alternative beverages must be considered to meet consumer demand.

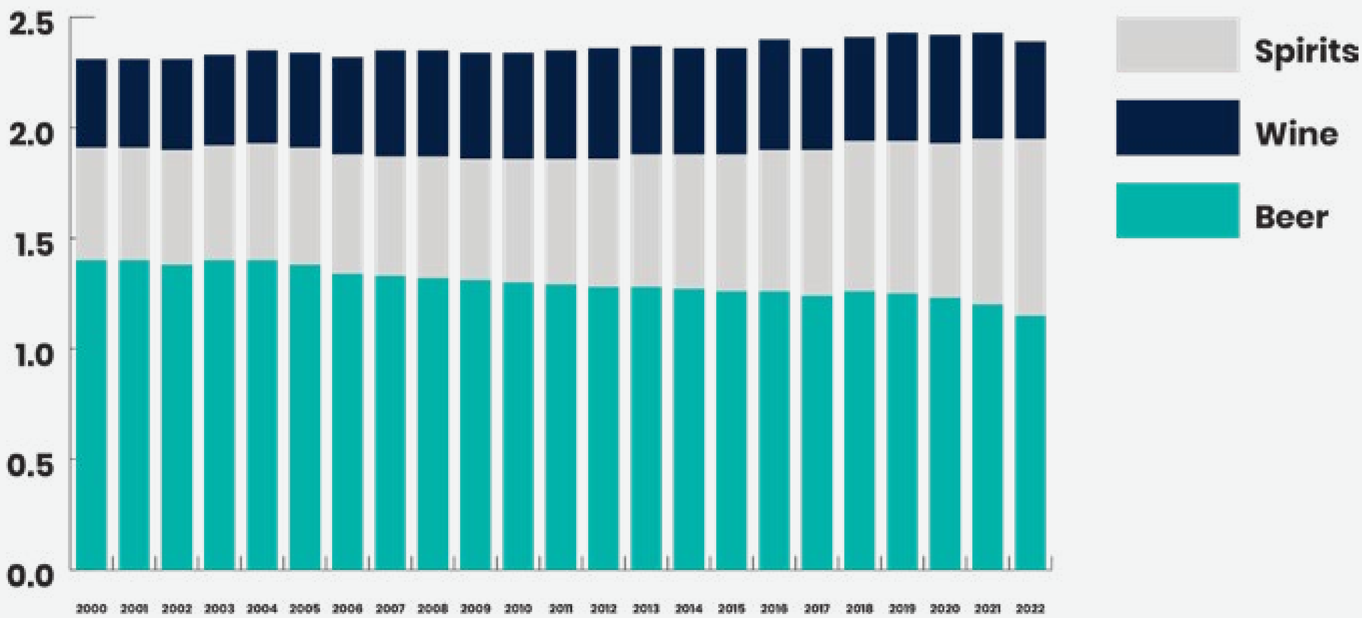
Maintaining influence, success, and brand prosperity are topics all beverage producers are thinking about. There is a modern solution that delves well beyond the scope of modernized operations and data-driven decision-making (topics we're very fond of at Encompass) – a solution that actually leverages those operations to bring a business into the modern beverage industry.

When it comes to standing out, staying relevant, and future-proofing an organization, producers need to consider becoming a multi-segment producer.

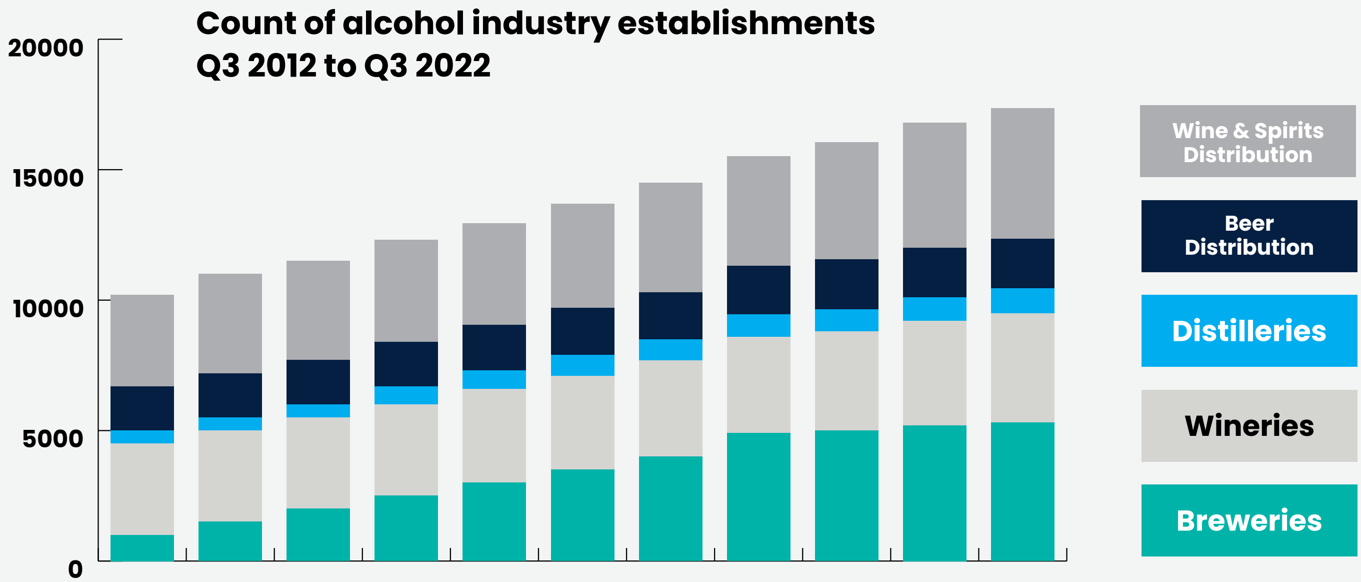
Beverage production trends: variety on the rise

In the U.S. market, ethanol production has remained relatively flat since 2000, however, ethanol usage has been geared more towards spirit production in recent years.

Gallons of ethanol supplied per capita 21+: CY 2000 to CY 2022



2023 data from NBWA shows an increase in multi-segment prominence. Based on ethanol supply by the gallon, the beer industry is showing a slight but steady decline while spirits are on the rise. And that's just at a high level: it doesn't include data on non-alcoholic, ready-to-drink, cider, and other beverages.



Sprawling category growth based on alcohol establishments from 2012 to 2022. This not only indicates growth by product category but also the fact that there are more beverages established than ever before, and that number will only keep growing.

It's time to separate yourself from the competition

A multi-segment producer is a company that produces multiple varieties of large-category beverages including, but not limited to, beer, non-alcoholics (NAs), wine, spirits, ciders, and various forms of ready-to-drink (RTD) liquids.

Many beverage producers operate along multi-segment lines, expanding their reach through new, innovative beverages to stimulate calculated growth and adeptly meet consumer demand. Some are doing so without additional equipment and space investments, too. From the rapidly expanding alcohol portfolio at Coca-Cola to the craft brands exploring RTDs to the boom of basic hard seltzers in recent years, the emergence of new product segments is impossible to ignore.

Producers have a unique and exciting opportunity to open up to trends 'beyond beer' and create new products to weave through the supply chain and match the exploratory habits of modern beverage consumers.

"We're always looking for new categories to expand into. As a distributor, we don't want to be confined to the same door or the same aisle fighting for the same space as everyone else. Ideally, a new brand or a new category will get us new shelf space to complement our portfolio and differentiate us, rather than introducing a new lager which will come at the expense of an existing one."

Arthur Flores
President & Founder, LA Distributing

Get on the path to profitability

Investment strategies to catapult your business Into multi-segment success

Becoming a multi-segment producer is what breweries on the path to profitability are doing. Here are four strategic investment options that can jumpstart your journey to multi-segment production:

1. **Add equipment in existing space:** Consider adding a new canning line to support the packing of 19.2oz cans, water treatment systems for your new hard seltzer line, or automated mixing and dispensing systems to ensure quality output of your new line of RTDs. New equipment opens new channels for production in your facility without forcing you to reinvent the wheel.

"The 19.2-ounce can accounts for more than 92% of craft single sales at C-stores, according to Circana data. Just six years ago, it amounted to less than 10% of craft single sales, while 22-ounce bombers owned the channel, with more than 75% of craft single sales. Today, bombers account for less than 1% of craft single sales at C-stores, while 24-ounce cans don't even clear 7%."

- Molson Coors Beer & Beyond blog

2. **Expand your facility footprint:** This may simply mean building a wall to separate operations so you can ensure QA/QC of varying product production, but it could also mean buying or building an entirely separate location. More space, or optimizing existing space, means a better opportunity to easily ramp up production for new products without the risk of falling behind on demand for foundational products.

3. **Co-pack in new segments:** Contract new product ideas to other producers to learn a new segment, expedite your time to market, and maximize the use of your existing equipment that you're already known and valued for.

4. **Merge with or acquire companies in other segments:** Mergers and acquisitions are a good way to expand space, equipment, and people all at once. There is a wealth of resources available to help you develop a strategy that works for your business.

Let's dive into each...

Get equipped to scale

Dominating product diversification by investing in equipment

Investing in production equipment to create new categories of products, gain traction, and generate profit requires you to first lay some foundational work to ensure a smooth growth trajectory on your way to becoming a multi-segment producer.

Based on expert advice and your defined portfolio, specific equipment requirements will present themselves. Consider brewing systems, fermenters, filtration systems, carbonation equipment, canning or bottling lines, or other machinery relevant to your new production needs.

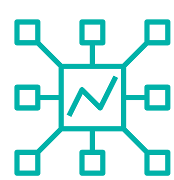
Here's a look at some of the best practices for investing time and money in equipment addition, alteration, or contracting.

1. **Identify market trends:** It's important to stay up to date on the latest consumer preferences by leveraging data and analytics that track emerging categories in alignment with your company's vision and target market. This data, in addition to qualitative research through conversations with other multi-segment producers, will help you decide what you'll need to begin production in a new category. A great place to start is diving into the wealth of trade publications available like Beverage Industry Magazine, Beverage Daily, Food & Drink Technology, and others.

2. **Assess your existing equipment:** Factors like capacity, flexibility, and compatibility with different ingredients and brewing processes bring you closer to equipment purchasing decisions. Evaluate the capabilities of your existing equipment as it relates to new beverages or if there are specific elements you need to add on or purchase.

3. **Consult with a finance team:** Leverage financial minds to assess the viability of investing in new equipment. Return on investment, production costs, demand, and scalability are all factors that will help you gain clarity into the feasibility and profitability of producing in new categories - and give you peace of mind as you make your investments.

4. **Current & projected portfolio:** Be intentional about the new beverages you plan to produce based on research and the perceived exertion of learning new segments. Identify ingredients, processes, and packaging requirements you need for each brand. This helps you identify the exact equipment to purchase and the personnel to hire or train to support it.

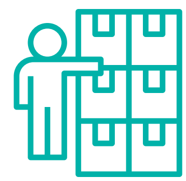


Get equipped to scale (continued)

Dominating product diversification by investing in equipment

5. **Consult with or hire industry experts:** Engaging with industry experts, consultants, or experienced producers in your target segment can help diversify your product offerings. Seek advice on the types of equipment required and risks that may arise during production in your new segment. You could apply for a grant from the Brewers Association, scour online listicles (like this one), get in touch with equipment suppliers, or even ask generative AI tools like ChatGPT or Bard where to begin.

6. **Evaluate supplier options:** Find reputable suppliers that specialize in the equipment best suited to your new product category. Compare offerings, pricing, warranties, and customer reviews. Look for suppliers who offer ongoing support, maintenance services, and training to ensure optimal performance and longevity of your new equipment.



7. **Budget & financing:** You know the need for a budget and finance evaluation but remember to include utilities like water, electricity, and gas accessibility to support the new equipment demands.

8. **Installation & training:** Coordinate with your supplier for installation and commissioning. Make sure the supplier provides comprehensive training for as many people as possible and document the nuance you discover as it applies to your space and processes. This is a crucial step for optimizing performance and ensuring the quality output of products in your new segment.

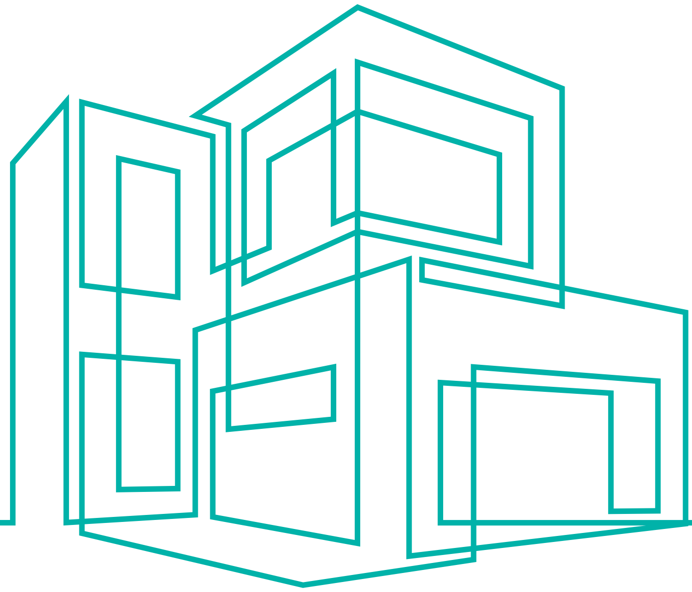
Listening to the makers and existing users of your new equipment will ensure you stay prepared to make adjustments to your product lines, production processes, and equipment as you master one segment and begin to look into other product categories.

You need room to grow

Expand your physical space to kickstart new beverage production

Brewing, winemaking, distilling, and nearly all other forms of beverage production require a lot of physical space.

If you need more space before you can consider a more calculated investment in new equipment, follow these steps to ensure success in growing the space required for you to become a successful multi-segment producer:



1. **Evaluate current infrastructure:** Determine limitations that could impose on your plans by evaluating available floor area, ceiling height, utility connections,, drainage systems, and legal compliance. Consider any modifications or upgrades required to accommodate new product categories as additional expenses.

2. **Determine space requirements:** Evaluate space allocation for factors outside your main equipment like storage, lab space, office space, and other specific needs for efficient workflow and future growth of the segment. This is your chance to plan for success.

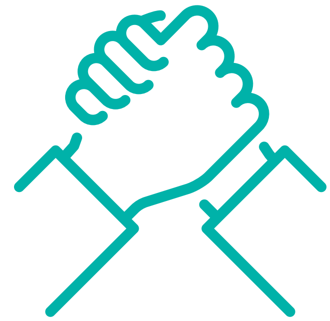
3. **Calibrate budget & financing:** Prepare a budget for your expansion project considering the space necessities, architectural and engineering fees, permits, contingencies, and, if you're building from scratch, construction fees. Ensure your budget includes costs for physical expansion and equipment for your new product categories.

4. **Engage with experts:** Consult with architects, designers, and contractors experienced in the expansion of production facilities for the beverage segment you're pursuing. Share your plans and requirements and work closely with them to develop a layout and design that optimizes space, workflow, and safety. And don't forget about zoning regulations, building codes, and environmental considerations.

What may begin as a blank canvas can quickly turn into a booming production facility when you make calculated and informed investment moves. Investing in physical space provides you with the opportunity to grow and explore new product segments to find your niche.

Collaborate to dominate

Leverage co-packing opportunities to learn and grow in new segments



Co-packing, also referenced as contract brewing, can be a lucrative way to take your first steps into multi-segment producer territory. This investment strategy enables brewers to leverage their capabilities and resources in a collaborative manner to expand product lines and enter new markets, potentially without the need to invest in additional space or equipment.

Begin your co-packing investment by determining what approach might work best for your organization:

Option 1:

Produce your new product line with a contract brewer so you can learn the ropes, and validate the market demand for your product. Think of it as dipping a toe into the multi-segment pool and doing market testing or recipe refinement without having to invest in your own equipment.

Option 2:

Start co-packing for others so you can explore a range of product possibilities by utilizing your existing or additionally purchased equipment. Think of this as a way to learn as well as use your entire tank capacity.

Regardless of the route you choose, the benefits of co-packing range from optimizing tank space and reducing downtime to hands-on education and market exploration in a new segment.

It's often associated with beer, seltzer, and cider, but co-packing has a range of opportunities well beyond the basic bev-alc products. If you're looking for the most accessible way to break into a new product segment, here are some guidelines to ensure your first step is taken on solid ground.

"We often start with companies who are a certain size and help them grow. We work with products that are already in the market with a sales track record and need production to help them grow into a national brand."

OCTOPI

Isaac Showaki
President
Octopi Brewing

Octopi's business model is primarily rooted in co-packing. They focus on helping brands grow by providing the necessary equipment, facilities, labor, and strategies to facilitate expansion for beverage producers in categories spanning beer, seltzer, tea, NAs, CSDs, CBD and Cannabis-infused beverages, and more!

1. **Define your use of a co-packer:** Considering the demand for new types of beverages, emerging trends, and market gaps that align with your company's expertise, you'll want to clearly define your goals to assist your strategy throughout the co-packer evaluation process. Consider which type of co-packer might be best for your business as you develop a plan:

    Tolling: You are responsible for purchasing all of the necessary materials and paying the co-packer for the use of their machines and labor.

    Turnkey: The co-packer will create everything for you from start to finish. Co-packers order all of the ingredients on your behalf and you pay for the finished product in a single invoice.

2. **Assess your capabilities and resources:** If your goals include co-packing for others, assess your existing setup and infrastructure to determine what you can support. Identify gaps or the need for additional equipment before you begin. If you're hoping to co-pack elsewhere, recruit an employee or team of employees who are educated on the new product and co-packers capabilities, processes, and QA/QC to hold the co-packer accountable.

3. **Develop a production plan:** If you're co-packing for others, it's critical to have the software to manage multiple beverage segments and associated financials. Determine the specifications of your new beverages and how to work with your new partner to source ingredients, schedule production runs, meet packaging requirements, market the new beverage, and adhere to quality assurance protocols.

4. **Identify potential partners:** Research and reach out to potential co-packing partners in your target product segments. Look for partners with the people, resources, and expertise to help produce your new beverages. Consider their track record, creativity, marketing plan, reputation, capacity, and compatibility with your brand values. Note that, while there are many large co-packers, there are plenty of breweries co-packing but not promoting it. A great place to start is by reaching out to your existing network of beverage producers.

5. **Secure necessary permits and licenses:** Ensure you check all of the legal boxes before entering into a co-packing agreement (especially if producing NAs). This may include federal, state, or local licenses, adhering to new or different packaging requirements, and QA protocols to ensure you operate within the proper production and distribution parameters. While the legality of co-packing may vary depending on your location, general laws are available to review through the TTB.

6. **Negotiate terms:** Address pricing, production volume, quality control standards, intellectual property rights, and timelines. Consider people in these negotiations because the human element can expedite the learning curve. You'll want to have a lawyer at the ready to review prior to ink hitting paper.

7. **Launch and market your new beverages:** Throughout the process, define and execute a marketing strategy to promote your new products and partnership. Materials like tasting sheets, labels, beverage names, social media plans, launch dates and events, add structure to your marketing campaign. Marketing will make or break your new beverage, so make sure it's a priority.

Co-packing is a collaborative process, so it's important that your team's roster is filled with proactive communicators and they're ready to work with other stakeholders to ensure you get the most out of your co-packing strategy.

Conquer the conference table

Grow multi-segment production through M&A

Want to cover investment in space, equipment, people, and education with one swift move?

Mergers and acquisitions (M&A) of products or companies in new segments is a great option when you have the financial means to make it happen. When done right, M&A can be financially fruitful, so here are some important steps to take while seriously analyzing if an M&A strategy could be right for you:

1. **Develop an acquisition strategy:** Start by considering important factors like synergy, growth potential, competitive advantages, and cultural fit. Think about whether it makes more sense to acquire another company outright, or if a strategic partnership makes more sense. Reach out to industry connections who have gone through M&A before. They will be supportive and likely share their insights and 'watch-out-fors'.

2. **Assemble a team of professionals:** Lawyers, investment bankers, financial advisors, and industry consultants will be guides for your M&A strategy. They can help with deal structuring, due diligence, valuation, negotiations, and legal matters so you can put your best foot forward in making a strategic acquisition.

3. **Conduct an in-depth analysis of potential M&A:** Evaluate financial performance, market position, operational capabilities, intellectual property, legal compliance, and potential risks. Your team of professionals will be very useful through this process. Get ahead of any hidden liabilities or issues that could impact the success of your intended M&A.

4. **Valuation and negotiation:** Determine the fair value of the company or companies you've evaluated based on financial analysis, future growth potential, and industry benchmarks. Then, negotiate the terms and conditions of the deal including the purchase price, payment structure, warranties, and indemnities.

5. **Lay out a strategic integration plan:** If you can identify potential integration challenges in addition to synergies and potential cost savings before executing a deal, you'll execute a smooth transition. Develop an integration roadmap to maximize the value of your acquisition and ensure a smooth transition.

6. **Align on your marketing strategy:** Always account for the after-effects internally and in the market. Work diligently with stakeholders at the company or companies involved in your deal(s) to align people, processes, branding, and external communications to ensure a smooth transition once your deal is done.

Surrounding yourself with thorough, diligent, and patient people will be key to successful M&A (and make it more fun). The more you leverage your support network, resources, and team of experts, the smoother and more lucrative your M&A investment strategy will be.

Ninkasi Merges with Ashland Hard Seltzer. Ninkasi Brewing Company recently merged with the prominent MSP, Wing & Arrow to expand their market coverage, knowledge, and product portfolio. BREWBOUND

There are lots of ways to enter multi-segment production… If you've made it this far, take a moment to mull it all over and have a drink before you keep reading. *Cheers!*

The big “watch-out-for”

The importance of the human variable when becoming a multi-segment producer

The human variable is the‘ x factor’ on any path to growth, especially when evolving into a multi-segment producer.

True success in becoming a multi-segment producer is dependent on three culturally human elements:

1. **Understanding the consumer**
2. **Employee understanding of products**
3. **QA/QC of your product journey**

1 **Understanding the consumer:** Data only tells part of the story. To really understand the consumer, having intentional conversations with your customer base is paramount. We’re talking about the human variable. While technology and data are essential to keeping your business running, the face-to-face element will remain a staple of successfully creating the products people want. Data doesn’t replace the conversation entirely, it merely aids productivity. There is no better way to accumulate knowledge than going directly to the source.

> ***Example:*** *Equipping sales reps with real-time inventory and depletions data at the retail level enables them to have higher quality, sales-driven conversations with their accounts. This strengthens partner relationships across the supply chain while simultaneously ensuring success with product placements. Data is useful, but humans are essential to using the data to build a more successful supply chain.*

2. **Employee understanding of new products:** Your workforce must be willing and motivated to take on new challenges and meet learning curves head-on. You need to make smart choices when hiring and promoting the right people to ensure your new brand's success.

   Give your employees tours of other facilities, have them visit a new ingredient supplier, spend time in the lab as you develop products outside of your flagship offerings, and involve them in the creation of sell sheets and promotional materials so they can gain a more granular understanding of your end-to-end process.

   Training and education are much easier when employees are afforded the opportunity to not just learn, but get excited about expanding their knowledge of new tech, products, and equipment.

   Example: *Producers are leveraging a lot of tech that streamlines operations and saves employees time so they'll have a better work-life balance. A happier workforce often results in willingness to learn new things and take on new challenges.*

3. **QA/QC of your product journey:** Use your digital data to empower employees with the knowledge to have business-driving conversations with your distributors and retailers. Teach your people to hold supply chain partners accountable for sales, placements, and feedback regarding your new products.

   The qualitative data you get from upholding downstream accountability will enable you to identify important elements of your product's performance, strengthen relationships, and pinpoint opportunities to grow your network. Collective execution across the supply chain helps everything fall into place.

   Example: *If an employee mentions that they drink hard tea on the weekends, consider putting them on a team that empowers this interest as your organization expands into the hard tea category.*

Your use of technology

You won’t want to grow without it

Regardless of production volume, producers need to leverage technology to remain competitive. Leveraging data within your operation and across the larger beverage industry is difficult when you don’t have the right software and supply chain connections in place.

After installing connected systems that communicate seamlessly with one another, you’ll not only become more efficient but build a knowledge-driven company culture.

BEFORE

Inaccurate or missing inventory for both raw materials and packaged goods

Complicated relationships with your distributors due to lackluster translation of product info

Mismanaged tank space and brew scheduling

Multiple points of data entry cause inaccuracies in data translation and result in employees shouldering the weight of time-consuming manual processes across your operation

Holes in cost of goods sold, reconciliation, batch costing, and financial reporting

Time consumed by manual tasks and gaps between systems that don’t communicate

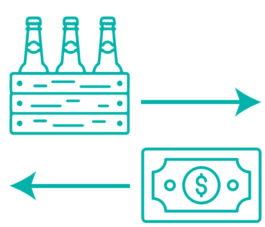
AFTER

A complete picture of your inventory from raw materials to finished goods so you always know what’s on-hand and when to order more

Strong relationships with supply chain partners giving you **control over your brand presence downstream**

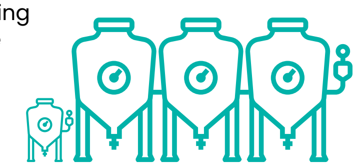
Data-driven production scheduling that minimizes downtime and maximizes tank efficiency

Easy data entry, error identification, and automated reconciliation **give your employees more time** and enhance the quality of their lives



Reliable costing, sales, reconciliation, and financial reporting metrics that provide a **detailed understanding of your entire business**

Stimulate growth by enabling software systems to handle time-consuming activities, while freeing up time for employees to grow their knowledge and help your business thrive in new ways



The technology you choose for your operation matters. And it matters a lot. It's challenging to become a multi-segment producer when you don't have insight into the cohesive truth of your operation across inventory management, production, packaging, sales, and financials.

It's important to weigh the current success of your tech stack against your multi-segment investment goals. If the above-listed issues are something you encounter in your day-to-day operations, you should strongly consider shifting to full-featured beverage production software.

"We implemented a full-scale, connected ERP and Self-Distribution software which enabled us to leverage data and analytics in new ways. Since then, we've expanded distribution into new states while simultaneously developing Palo Pinto Craft Cocktails and a hard seltzer brand called Awesome Sauce. It's really amazing what our teams have accomplished with the right technology taking over so many of the processes that blocked us from this kind of innovation in the past."

Cody Martin, Owner,
Martin House Brewing

By leveraging Production Cloud and Self-Distribution Software, Martin House has achieved new levels of creative and logistical expansion including:

50%

increase in new beverage products

5X

more product lines introduced

3

new states added for distribution

As things became more efficient with Encompass software in place, Martin House shifted people around to accommodate this growth without having to expand their workforce.

You can't keep up with consumer demand without technology

Producers who leverage technology can effectively meet changing consumer demand more quickly and deliberately, unlocking more freedom to produce in new segments. Technology exists to help producers of all sizes meet demand with the products they produce.

Some examples of tech that can expedite your expansion into multi-segment production include:

Production Cloud

A modern, connected ERP software for beverage producers manages all aspects of your business in one platform

Distributor Ordering Portal

A single, unified online portal that makes it easy for your distributors to place orders and manage account information

Distributor Reporting

A connection to powerful, real-time sales and inventory data from your distributors enhances forecasting and production schedules

Global Products

A product information management platform (PIM) makes your brand identity accessible at all supply chain touchpoints

Objectives Management

A platform that enhances market execution by communicating product information and commitments directly to your distributors

Producers have more freedom to produce in new segments by leveraging tech with the power to span the entire supply chain.

The right technology enhances data-driven decision-making and adds valuable insights as you expand into new product categories.

Urban South Brewery collaborated with rapper Juvenile to create Juvie Juice, a hard version of lemonade/ iced tea per Craft Brewing Business.

SweetWater Brewery launched a line of vodka-based spirits and a hard seltzer.

Nate Tarantino
Financial Solutions Director, Encompass, previously a Brewery CFO

"Diversifying your business to new beverage segments is an important strategy for producers of any size to consider. It's vital to evaluate your tech stack to ensure you have the right tools to manage the new growth and the additional complexity. Bolting on more vertical-specific software to an already exhaustive list of tech tools only adds cost and time to train, reconcile, and consolidate for portfolio-wide operational and financial analysis. By investing in a financial tool that enables easy management of multiple segments, you can spend more time analyzing results to ensure you're investing in the right segment, at the right time to maximize your growth and returns."

You, too, can ride the modern wave of multi-segment production with the right technology, a smart workforce, and an investment in product exploration.

Support your business no matter what direction you decide to take it

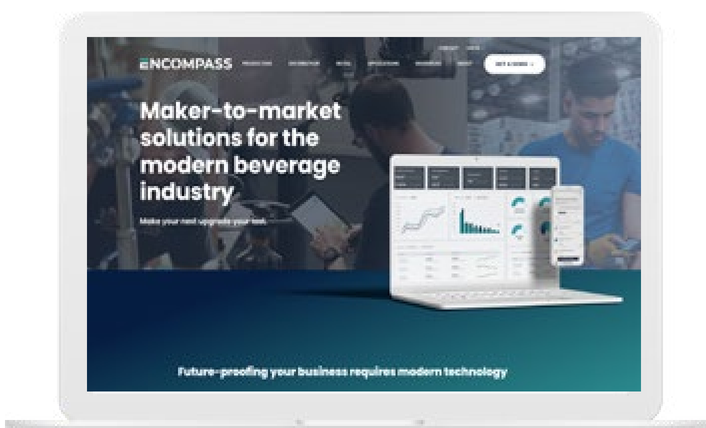
Maker-to-market software for the modern beverage producer

The time to invest and become a multi-segment producer is now

Single-segment producers have entered a time of uncertainty in the beverage industry. There is a lot of pressure to simply survive. Now is the time to prepare your business to meet that uncertainty head-on by investing in technology, processes, and people to produce a variety of beverages.

The path to become a multi-segment producer is lined with data and analytics that extend your reach throughout the supply chain. Once you take your first step, it won't be long until you're actively filling shelves, taprooms, and bars with the right drink for the right person at the right moment.

Multi-segment production is the future of the modern beverage industry.



Need beverage production software to help manage your expansion?

Let's chat.