

## MANAGEMENT

# GPOs: Bigger Buying Power for Smaller Breweries

They can't do it all, but group purchasing organizations offer a way for smaller breweries to access substantial savings on needed materials and key services. Here's what to know. **BY KATE BERNOT**

**AS OVERALL SALES HAVE SLOWED** and the cost of ingredients and supplies has risen over the past two years, small breweries are seeking ways to increase their purchasing power. Some have merged or created tie-ups, such as CANarchy or Artisanal Brewing Ventures. Others have turned toward a new model for the industry: group purchasing organizations (GPOs).

Common in healthcare and other trades for more than a century, GPOs are membership collectives that negotiate for bulk discounts on goods and services. They aggregate the buying power of their member companies to negotiate for discounts and rebates from suppliers, vendors, and service providers.

In craft brewing, however, GPOs are relatively new: The Independent Brewers Alliance (IBA) was one of the first to organize as a member-owned purchasing cooperative in

2017. Last year, another GPO called the Beer & Wine Federation—85 percent of their members are breweries—also launched. While the IBA ended 2022 with about 320 members, the Beer & Wine Federation has 39 brewery members. The average IBA member brewery produces between 4,000 and 5,000 barrels per year, while the average among brewing members of the Beer & Wine Federation is fewer than 5,000 barrels.

Both groups saw their memberships expand as brewery costs rose in 2022. The IBA says that some of its members have saved between \$20,000 and \$40,000 on packaging supplies through their membership. The Beer & Wine Federation says its members can expect to save 7 to 10 percent on supplies they purchase through the GPO.

“What motivated me to join is obvious: rising costs in the brewing industry over

the last couple years,” says Andy Gehl, cofounder of Third Space Brewing in Milwaukee. He says that membership in the Beer & Wine Federation recently saved his brewery 7 percent on an order of 1,000 tap handles, even though the order went through the brewery's usual supplier.

“That [is] the beauty of it,” Gehl says. “The group works to develop these contracts with suppliers, so they retain their clients.”

### MEMBERS WITH BENEFITS

Both GPOs have two paths for breweries to join: one paid and one unpaid.

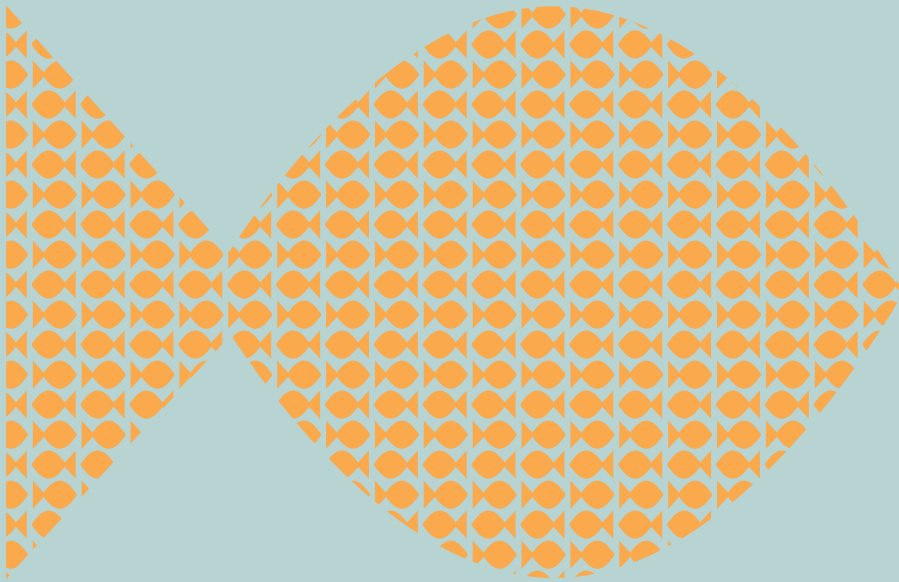
The IBA calls its unpaid tier the Affiliate Program membership. While that tier offers access to most of the IBA's savings programs, affiliate breweries may not earn as much savings as full, paid members. They also don't receive the volume rebates that paid member breweries do.

In 2021, the IBA distributed \$125,000 to paying member breweries based on their profit-sharing and participation level in rebate programs, according to the IBA's director of supplier relations, Peter Licht. Paid membership in the IBA includes a one-time, \$1,000 purchase of one share of voting stock in the IBA; then the annual membership dues are \$2,500 plus 5 cents per barrel produced in the previous calendar year.

Unpaid membership in the Beer & Wine Federation earns members access to its negotiated supplier pricing and terms. Upgrading to its paid membership, called Advanced Membership—which costs \$1,500 annually—essentially gains a brewery access to a GPO procurement specialist who works with that brewery individually to identify more areas for savings. Advanced membership requires a brewery to commit to future purchases on established contracts—but if that brewery does not see savings of three times its annual membership fee by the end of the year, its membership fee is refunded.

“As of today, we're in the free, poke-around trial, but I have every intention to be a paid member” of the federation, says Tim Pauly, owner of Milwaukee's Broken Bat Brewing. “If we don't hit the cost savings they've proposed, we'll get reimbursed for that. There's a major incentive to be an active member of the GPO, rather than a lurker.”

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## TIME = MONEY

Pauly says he was eager for Broken Bat to join the GPO once he realized that was an option for small breweries. Before brewing, Pauly worked in sourcing and supply-chain management in the health-care industry, where he was familiar with GPOs. Five years ago, he had even tried to organize a collective of Milwaukee breweries to bundle orders of coasters, hops, and other supplies—however, lawyers advised the businesses that this might run afoul of antitrust laws because it wasn't operating within a formal GPO.

When Pauly learned that Dan Klasen had founded the Beer & Wine Federation, it “immediately clicked” that Broken Bat should join. The savings aren't just monetary, Pauly says. Membership also saves time.

“As breweries, unfortunately, we have to buy from a lot of different places, and I think this will aggregate suppliers into a one-stop shop,” he says. “Instead of sending an email to 20 account reps, we're going to one place.”

At Third Space, Gehl echoes this sentiment. He says that unless he's at the Craft Brewers Conference or another trade show, it's not easy to meet and compare

suppliers without doing a lot of legwork to call individual companies for quotes. While larger breweries have full-time staff dedicated to procurement, small breweries often depend on an owner or brewer who's already wearing multiple hats.

“It's easy to say, ‘I don't have time to get three quotes for tap handles. I'll go with the guy who called me last,’” Gehl says. “But we just can't afford to do that anymore. I was shocked at some of the things [the GPO] is able to help with—everything from tap handles and koozies to boots for your brewers and chemicals, and even insurance services.”

Many suppliers like this arrangement, too, because they're able to add a high-volume client—the GPO, working on behalf of members—to their list. Licht says combined output of the IBA's brewery members is about 1.5 million barrels a year. If a supplier were to sell to even a third of those breweries, that volume represents a sizable regional or national brewery.

“If you have a supplier who wants to sell to our group, then we ask the supplier to give us a compelling discount as an exclusive partner,” Licht says. “The members go directly to the supplier and place their order.”

Furthermore, IBA brewery members are not obligated to use that supplier if they already have a relationship with one they like better.

## WHITE SPACE

While GPOs offer members discounts on a wide range of goods and services—everything from stickers to accounting services—there are still some major inputs that they haven't yet been able to tackle. Chief among these is malted barley. The IBA says the historically poor 2020 barley harvest caused it to pause negotiations on a malt savings program, but the group hopes to restart those talks in the future. However, the GPO does offer savings programs for hops and for cans—two other major expenses for craft breweries.

“All the malt suppliers were scrambling to service their existing customers; the last thing they wanted to do was increase their customer base,” Licht says. “We're hoping to have a good malt program [going] forward.”

The Beer & Wine Federation doesn't yet have savings programs for hops, malt, CO<sub>2</sub>, or cans, but Klasen says he hopes to get those started within the year. There's an open question, however, of whether breweries will be as willing to switch suppliers for raw ingredients as they are to switch sticker companies or T-shirt vendors.

“Brewers are very passionate about this hop coming from this exact place,” Klasen says. “Sometimes I say, ‘If I saved you 10 percent, would you switch?’ And they say, ‘No.’ Craft brewers are always trying to offer an experience that is unique. On the other end of the GPO spectrum, there are 20 hospitals buying 20,000 of the exact same hospital beds.”

Meanwhile, many breweries in GPOs are finding that their collective buying power saves them money on the everyday items—such as chemicals, glassware, and coasters—and those add up over time. In a business climate that's forcing breweries to be more cognizant of their expenses and margins, any savings helps.

“Look at the big dogs,” Pauly says. “They all have purchasing power, which is what we're desperate for as the little guys.”

“If we can gather 1,000 tadpoles and look like a big scary fish out in the ocean, that gives us a lot of power we do not have as individual buyers.”