



Narragansett Brewing Company

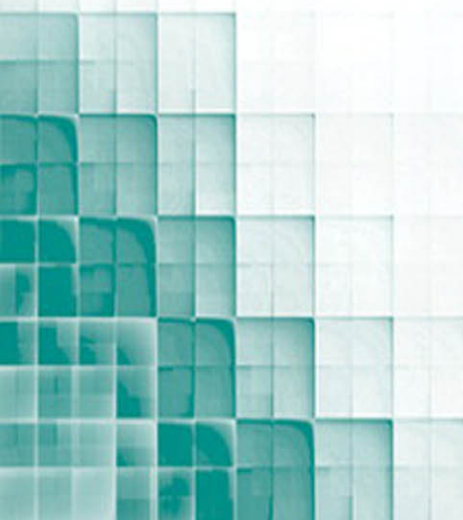
Build a Brewery

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Bryant University

PEARSON CASES IN SUPPLY CHAIN MANAGEMENT AND ANALYTICS



The case is reprinted from
The Applied Business Analytics Casebook
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Narragansett Brewing Company: Build a Brewery

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Introduction to Narragansett Brewing Company

Narragansett Brewing Company (NBC) was originally founded in 1888 in Cranston, Rhode Island, and it experienced tremendous growth right from the start. By 1908, the company was producing 196,000 barrels (1 barrel = 2 kegs = 31.5 gallons) annually, and the rapid rate of growth continued right up until Prohibition. NBC survived Prohibition, and in 1959 production reached 1,000,000 barrels. NBC reached its peak of popularity in the 1960s with 65% of the New England market share, and Narragansett was available at 80% of the bars in Rhode Island and 100% of the retail stores. Competitive pressure began to increase significantly during the late 1960s, and in 1974 Falstaff Brewing Company of St. Louis, Missouri, purchased NBC. At the time of sale, NBC was brewing 1.27 million barrels annually. Profitability problems led to the closing of the brewery in July 1981, and the Narragansett Brewery closed its doors for the last time in 1983. Most of the brewery equipment was shipped to China, and in 1998 the once-proud brewery was demolished to make way for a retail complex.

In 2005, lifelong Rhode Islander Mark Hellendrung and a group of New England investors purchased the rights and licenses to sell and market Narragansett beer. Mark recruited the brewmaster from the former Narragansett Brewery in Cranston, Rhode Island, and in 2006 the original recipe Narragansett lager was available for sale. Narragansett's sales have grown steadily since the rebirth as both product variety and geographic spread have increased. Currently, Narragansett's beers are brewed in two locations: all bottles and cans and year-round kegs at the High Falls Brewery in Rochester, New York, and seasonal kegs in Coventry, Rhode Island. Because the majority of the beer was produced out-of-state, Mark received push-back from restaurants, bars, and liquor stores in Rhode Island about why they should sell a Rhode Island beer made in another state. Narragansett turned this around with the slogan "Buy a Gansett, Build a Brewery," which became a major marketing campaign. Building a brewery in Rhode Island would validate the success of Narragansett and help to grow sales in the entire New England region. Pressure to build a brewery in Rhode Island was also coming from new craft beer competitors, who were popping up all over Rhode Island and could lay claim to being a locally produced brew.

Mark knew Narragansett needed to brew beer in Rhode Island. Moving the entire production from the High Falls Brewery in New York to Rhode Island would be expensive and disruptive. A significant investment would have to be made in equipment to brew and package large quantities of beer. Bottled and canned products are pasteurized and have a 180-day shelf life, after which the beer will begin to taste stale and/or flat. Keg beer is not pasteurized and has a shelf life of 60 days, although at 90 days, it is still acceptable. A considerable amount of space would be required for storing ingredients and packaging materials, brewing, bottling, canning, and keg filling, as well as temperature-controlled storage for the finished product. Due to the scale that would be required to perform all brewing in Rhode Island, Mark and his team decided that the best strategy would be to operate a keg-only facility in Rhode Island. This would require

a much smaller investment in a facility and equipment, while giving Narragansett tighter control over a short-shelf-life product. Control was especially critical for the four seasonal beers (Bock, Summer Ale, Fest, and Porter). With a keg-only facility, Narragansett could also compete with the local craft brewers by producing a variety of unique, short-run styles.

The Keg Facility Location Decision

Keg sales in 2011 were around 5,500 barrels, and Mark estimated that the annual production of a keg facility should be approximately 7,000 barrels with a monthly seasonal peak of 700 barrels. This would require a minimum floor space of approximately 30,000 square feet (sq. ft.), provided the space available could be utilized in a highly efficient manner. Inefficient floor plans would require a larger amount of space for operations. The minimum ceiling height needed to install the brewing equipment was 12 feet. The facility would need to include room for production, inventory storage, office space, a tasting/heritage room, and a gift shop. Mark also envisioned plant tours as a way to help promote Narragansett and build customer loyalty.

Rhode Island accounts for the largest percentage of Narragansett's sales and is supplied by two wholesalers that are both located in Cranston off Exit 14 of major highway I-95. The first distributor, McLaughlin Moran, is located at 40 Slater Road. The second, Wayne Distributing Company, is at 45 Sharpe Drive. Being close to the wholesalers would reduce Narragansett's transportation costs to deliver filled kegs to the wholesalers.

Other factors that are important to NBC included community approval, the advertising and promotion potential of the building through billboards and signage, the number of vehicles that drive by each day, and the accessibility of the building to the general public for facility tours. Because breweries emit a strong aroma that might be considered an annoyance by some residents, a good fit with the