

# Baltika Breweries – Economic benefits of standards – Case Study

June – September 2013

# Content of this presentation

- Baltika Breweries – Basic company information
- Beer production & Baltika's value chain
- Use of standards in Baltika
- Quantification of the impacts of standards
- Additional qualitative considerations

# Baltika Breweries – Company overview (1)

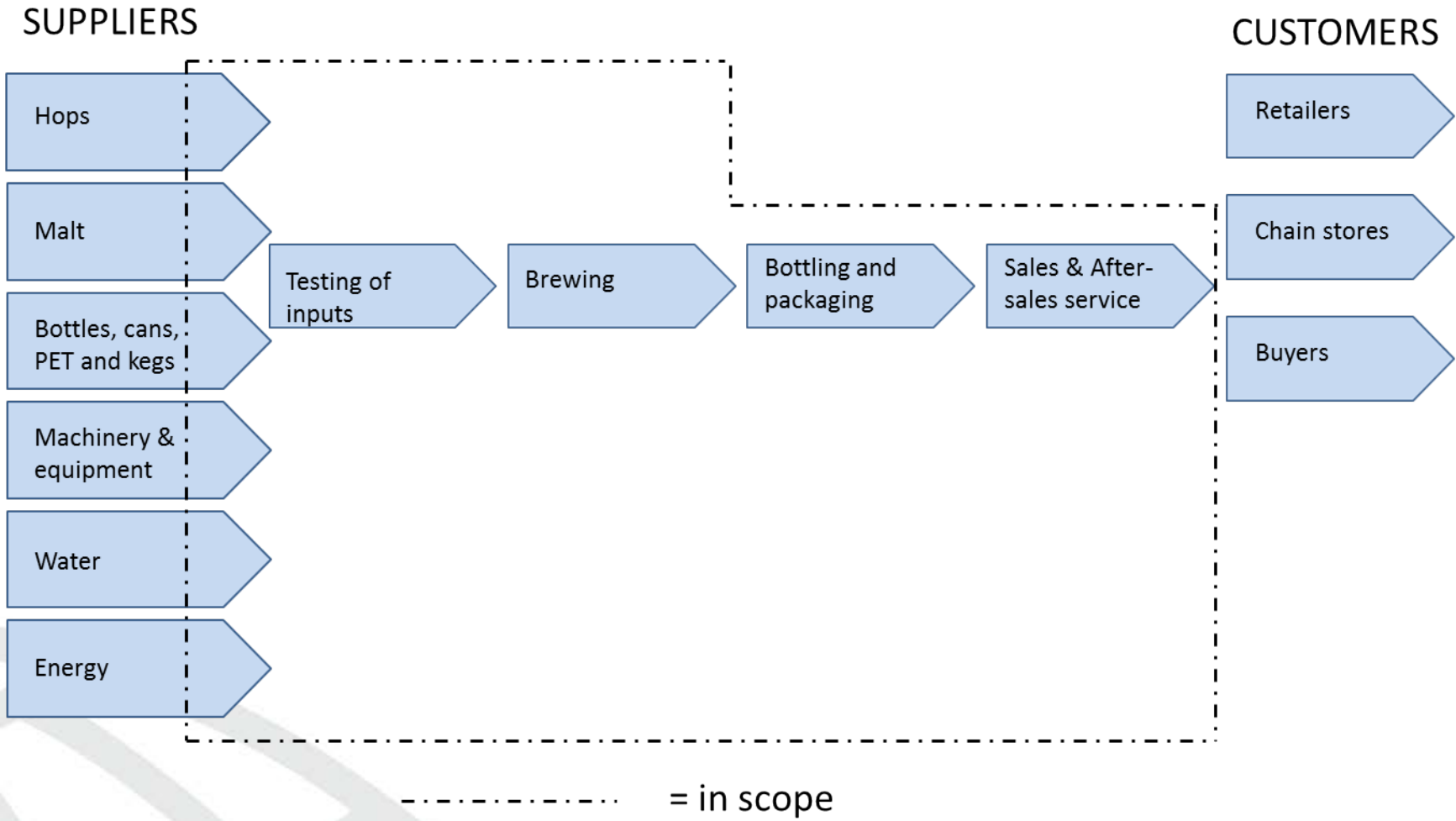
- Baltika was formed as «Baltika Brewery» in 1990 as a state-owned company
- In 1992, Baltika was privatized and was listed on the stock market and changed its name to «Baltika Breweries»
- In 2006, it merged with three other breweries: Vena, Pikra and Yarpivo
- In 2012, it was acquired by the Carlsberg Group (Denmark)

## Baltika Breweries – Company overview (2)

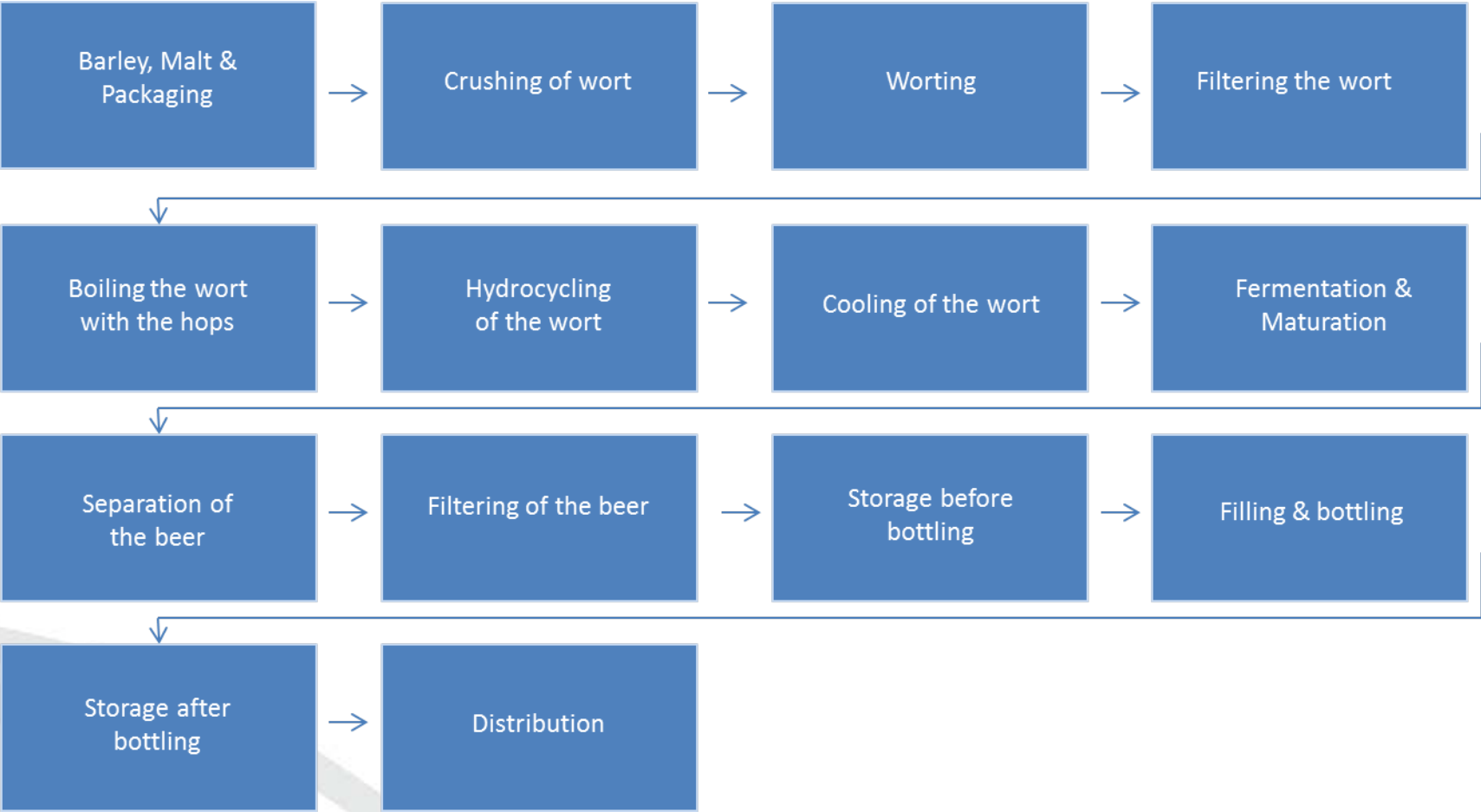
Items (in 2012)	Description
# of different beer brands	Over 30
# of other brands (non- or light alcoholic)	8
# of employees	8840
Share in beer market in Russian Federation	38.2% (market leader)
Revenues	89.3 billion Roubles (2.1 bill Euros)
Profits	6.28 bill. Roubles (145 mill. Euros)

Beer from Baltika is sold in 98% of the retail outlets selling alcoholic beverages in the Russian Federation. It exports beer to 75 countries, including Western Europe, North America and the Asia-Pacific region

# Beer production – Industry value chain



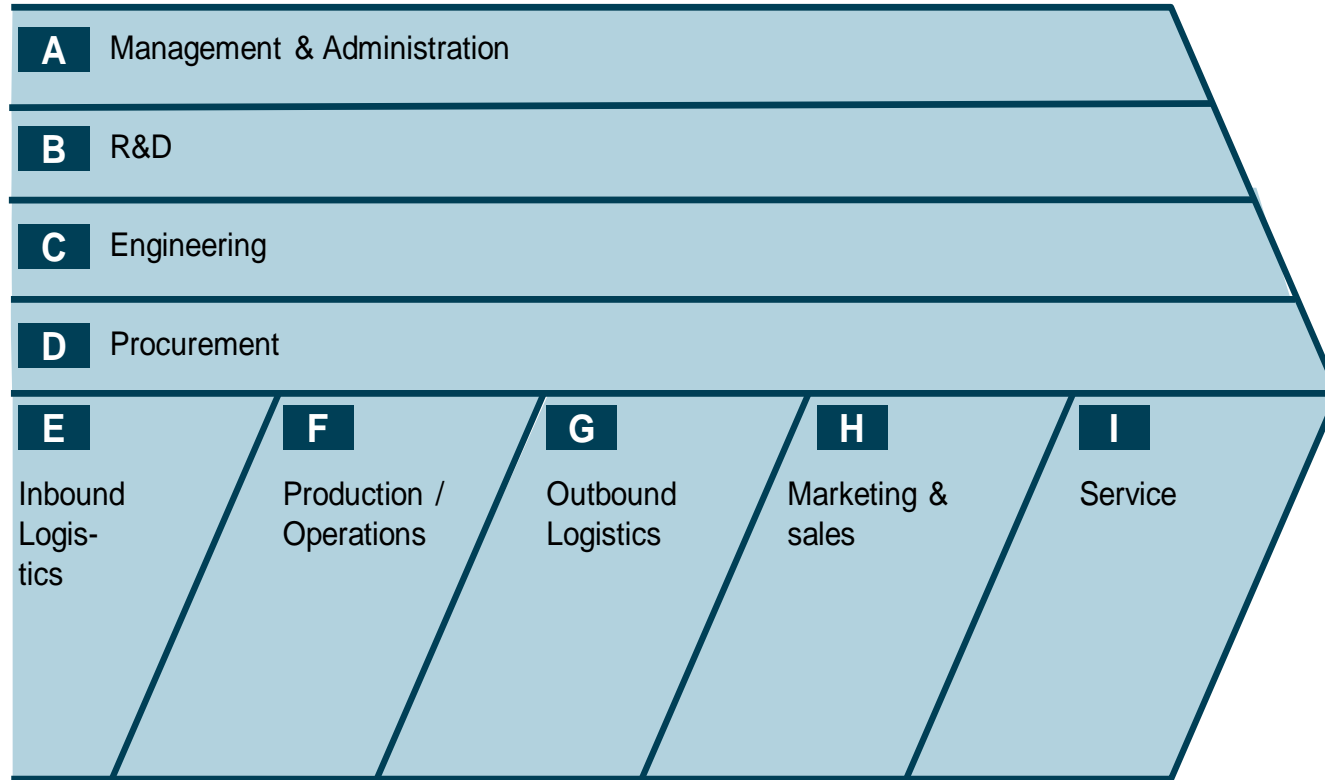
# Key stages in the production of beer



From **procurement** of inputs, through **production**, to **distribution**



# Model of a company value chain (M. Porter)



The “value chain” is used as a tool in the assessments to structure and analyze the activities of companies

# Key value drivers in Baltika

- Based on interviews with staff in Baltika, the following areas of company operations have been identified as key value drivers:
  - Ensuring high quality of production and of raw materials
  - Powerful portfolio of brands
  - Efficient marketing team
  - Strong consumer focus and customer relationship
  - Extensive and efficient distribution network



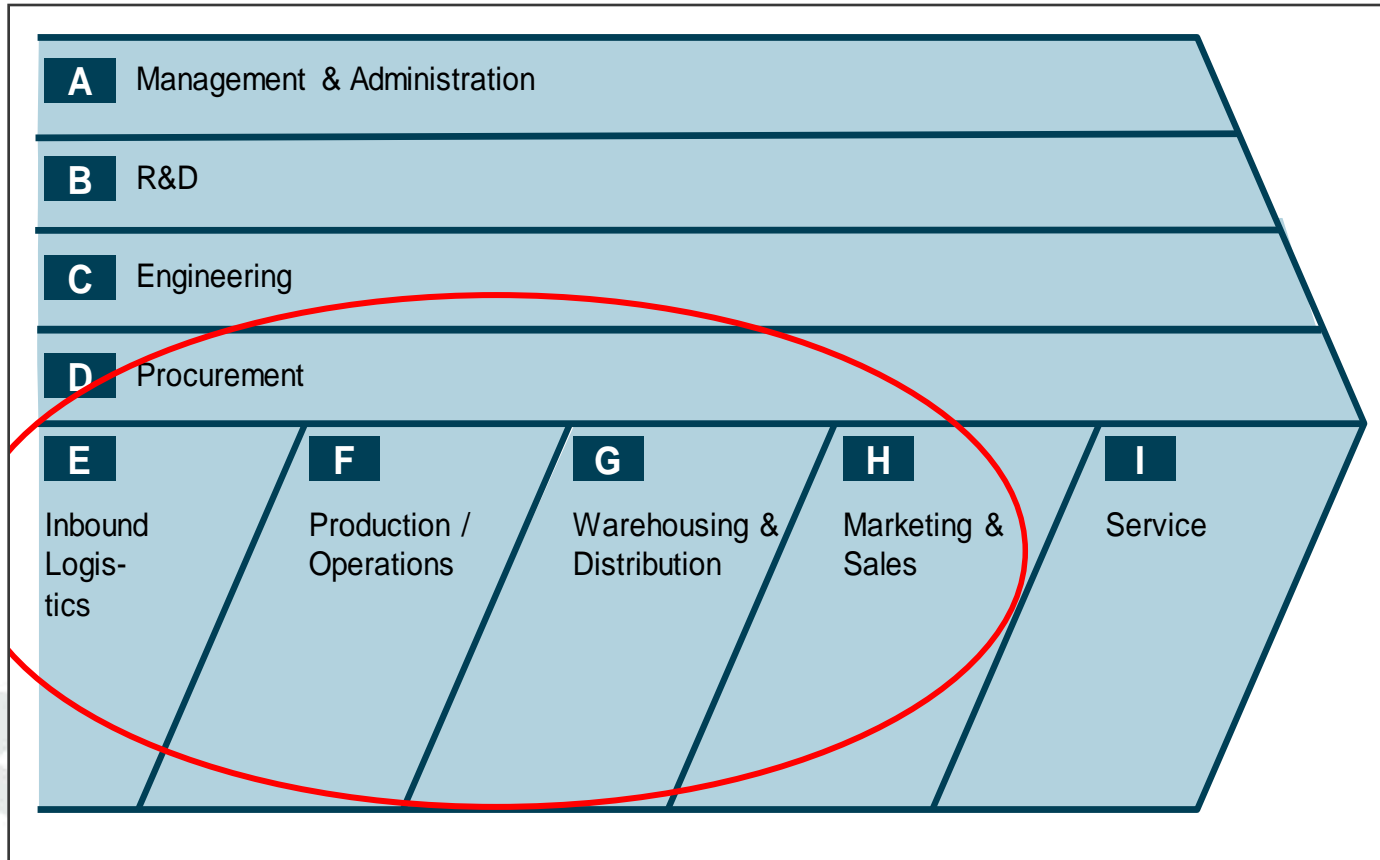
# Attitude of Baltika towards standards

- Baltika is actively involved in standards development and is an active user of standards. Its president, Dr. Isaac Sheps, has been an active participant in ISO/TC 176 on quality management and quality assurance
- Baltika uses over 200 standards, most of which are GOST, ISO and other standards. In addition, technical regulations on hygiene, health and safety are of high importance
- The company is certified against ISO 9001 (quality systems), ISO 14001 (environmental management systems), HACCP (food safety management system) and has started implementing OHSAS 18001 and FSSC 22000 (which is built on the ISO 22000 food safety management systems). It also uses ISO 10002 (customer complaints handling)

# Preliminary analysis of the Standards Impact

- Based on a preliminary analysis and interviews with management staff in Baltika the following five business functions have been selected for the assessment:
  - **Procurement**
  - **Inbound logistics**
  - **Production**
  - **Warehousing and Distribution**
  - **After-sales service**

# Value chain of Baltika -- Business functions selected for the assessment of the impacts of standards are highlighted



# Procurement

- Main factor in the savings: Transition to the use of the European Brewery Convention (EBC) standards as a basis for harmonized procurement (from the previous use of GOST standards)
- The transition to the EBC standards opened markets for inputs that were formerly not accessible.
- Total savings (per year): **2% Procurement costs (contribution from the use of standards)**

# Inbound logistics

- Reduction in time for in-house laboratory staff testing of incoming materials from ISO 9001-certified suppliers resulted in significant increases in the quality of inputs
- Reliance on GOST, EBC and other standards allows to save own resources
- Total savings (per year): **14,3% of laboratory personnel costs (contribution from the use of standards)**

# Production

- The qualification and productivity of workers has increased. Reference to external standards was an important factor in the development of training.
- Overall labour productivity has increased, i.e. ratio of total volume of beer output/number of workers.
- Process control through HACCP-system and FSSC 22000 resulted in savings.
- Reduction in resource use (thermal energy, electricity, water)
- Total savings (per year): **6,95% of Production costs (contribution from the use of standards)**

# Warehousing & Distribution

- Thermal reconditioned wagons resulted in the reduction of costs for clients, retailers and for Baltika
- Use of EAN codes permits more efficient store management and reduces the number of employees needed in stores
- Total savings (per year): **7,8% of Distribution costs (contribution from the use of standards)**

## After-sales service

- Retail stores are encouraged to report non-conformities in products before purchase by consumers. Non-conforming products are returned to the company, which reduces direct costs for Baltika and supports its high reputation in the perception of consumers
  
- Total savings (per year): **48% of After-sales service costs (contribution from the use of standards)**



# Conclusion: Impact of standards on the company EBIT

Assessed Business Functions	Savings as a % of the costs of the 5 assessed business functions
Procurement	2%
Inbound logistics	14.3%
Production	6.95%
Warehousing & Distribution	7.8%
After-Sales service	48%
<b>Total aggregated savings</b>	<b>5.8%</b>

- The savings are due to the impacts of standards resulting in a **5.8% reduction in costs of the 5 business functions**
- These savings amount to **3.4% of the annual company sales revenue**

## Some additional qualitative considerations (1)

- The implementation of FSSC 22000 (ISO 22000) and related PRPs have led to better control of the production process and therefore an increase in the stability and quality of the final product
- R&D (not considered in this study!) plays an important role in the development of Baltika's large portfolio of beers
- Investment in safety and implementation of OHSAS 18001 led to increased worker safety
- Optimized information exchange as part of the ISO 9001-implementation resulted in higher transparency and sharing of responsibilities between managers

## Some additional qualitative considerations (2)

- Integration of management systems resulted in a reduction of the number of procedures and documents; one-page summaries of the relevant content of standards tailored to specific work posts ensured constant availability of key information where and whenever needed
- Implementation of ISO 14001 helped Baltika to strengthen staff awareness of environmental risks which contributed to a reduction in environmental fines
- Use of returnable bottles as much as possible decreased environmental impacts

# Thank you for your attention!



[www.iso.org](http://www.iso.org)

<http://eng.baltika.ru/>