



Pallet Systems
bettaway



PALLET PARTNERS

How Arizona Iced Tea, Bettaway Pallet Systems and PECO Pallet Teamed Up to Deliver a Better Cup of Tea



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When Don Vultaggio and John Ferolito, the founders of Brooklyn-based Arizona Iced Tea, decided to get into the beverage business in 1992, they were at the forefront of innovators who were reimagining the beverage industry. Their fresh take on iced tea, and later, other non-carbonated fruit-flavored drinks, created an entirely new class of beverages and a market unto itself that consumers have enjoyed now for generations.

The founders were innovative in a number of ways now familiar to today's entrepreneurs. They focused on inventing, creatively marketing and selling unique, high-quality, refreshing products at great prices. All the other elements of the business, from manufacturing

to procurement, warehousing, logistics, material handling, transportation, and supply chain management, were outsourced to professionals who were experts in their fields.

Don and John famously started in business in the 1970s buying and selling soda out of a van. During the early days, they purchased soda from another Brooklyn native, Tony Vaccaro, Bettaway Logistics' founder, who ran a soda pop bottling factory. A friendship was established based on mutual admiration for each other.

Several years went by, and Tony Vaccaro decided to close his soda-pop bottling business. Plastic bottles were the new rage, and returnable glass bottles were going out of style. With his knowledge

of the beverage business, he pivoted and started a trucking operation focused on delivering to beverage producers. That led to another opportunity, as Tony connected again with Don and John, this time teaming up to run a wholesale beer delivery business.

Their paths converged once again in 1992 as Don and John were hatching their idea for the now-iconic Arizona Iced Tea brand. A conversation ensued, they struck a deal, handshakes were made, and Bettaway and Tony Vaccaro became Arizona Iced Tea's "day one, bottle one" logistics and outsourced pallets provider.

That business relationship, which found its roots in a little Brooklyn side-street factory, flourished and grew. Today, it's matured into a multi-million dollar, Bettaway-managed, integrated material handling, transportation and supply chain management operation spanning some 40 Arizona Iced Tea company owned and contracted manufacturing facilities in North America. The operations produce and deliver some 100 million cases of iced tea and other beverages per year.



THE PALLET FINDS ITS PLACE

Moving large lots of carton-based beverages or other consumer products in and out of trucks, between production plants, warehouses and distributors, as well as within warehouses, requires a platform on which multiple lots of a product can be placed and secured. And that's where the wooden shipping pallet comes in.

Pallet supply was and still is a highly fragmented market. One of the opportunities that Tony Vaccaro recognized early on was the need for a more organized, holistic approach to acquiring, deploying, delivering and recovering pallets. In the early years there were no vendors and no formal "networks" for managing pallets. Typically, pallets were exchanged at the time of delivery. That placed the freight companies in the middle of pallet accountability between the manufacturer and distributor.

Understanding the deposit structure in the beverage and beer world for kegs, crates and dunnage, Tony Vaccaro developed a similar program for pallets. That eventually matured into the industry's first formal National Pallet Program, with Bettaway deploying a network of depots providing supply and delivery, transportation, recovery, repair and management of pallet pools for shippers, principally food, beverage and consumer goods producers.



"WHITE WOOD" PALLETS ESTABLISH THE STANDARD

Large beverage producers and consumer products companies have historically relied on "white wood" pallets, which typically are purchased by the manufacturer. They may build inventories of pallets in advance, so they are available at all times as manufacturing lines produce and ship goods at various intervals.

The pallet might be in the retailer's or distributor's warehouse for several weeks or more. Or it might move "downstream" to a retail store or smaller end-user, where it doesn't return. "It's a cost of doing business that is built into the price of the product. Once it's out of [the manufacturer's] orbit, they forget about it," says John Vaccaro, president of South Plainfield, NJ-based Bettaway and son of the founder. In this scenario, the pallet is often considered an absorbed cost of doing business, much like disposable dunnage, such as cardboard or packing material.

Yet, at an average cost of \$7 for a refurbished pallet or \$14 for a new white wood pallet, when you are talking about hundreds of thousands of pallets, that turns into serious money quickly, notes Vaccaro. That opened the door for Bettaway to establish and operate a nationwide network of pallet supply "partner depots," over 475 of them in North America, where white wood pallets are returned, repaired, refurbished and staged for redeployment.

Bettaway manages and operates the supply network, providing the resources to deliver, pick up and return the pallets. For a shipper who might have 50 different manufacturing plants shipping to 200 different distributors, the logistics of pallet management and control can be immense. It's a critical need: without pallets, products don't move. And a delay in receiving pallets delays goods to market, creating a whole other set of issues.

Bettaway relieves the manufacturer of the hassle – and saves them hard cash. “We'll give the manufacturer a cash credit upon return” of the pallet to a Bettaway partner depot, notes Vaccaro. He adds that manufacturers can gain significant savings – as much as 30-40 percent – by replenishing their pallet pool with more refurbished pallets compared with new construction. “White wood is a tradable commodity; in some of our managed programs, the returned unit does not have to be the exact same pallet

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- John Vaccaro, Bettaway

provided. It's a win for the manufacturer, for the distributor, and for the environment as we're recycling a sustainable, reusable asset,” he says. Refurbishing pallets and running them over a longer useful life also reduces the need for new pallets – and the lumber to build them.

For over two decades Bettaway's integrated solution and its white-wood pallet supply network has supported Arizona Iced Tea's needs of pallet supply management – and grown along with it. The company's **Managed Services Platform** provides complete and comprehensive pallet category management. It supports businesses that need to optimize use of the whole variety of pallet options available for their supply chains, manage/consolidate the large number of pallet vendors, and guarantee the appropriate pallet supply reducing total cost of ownership.

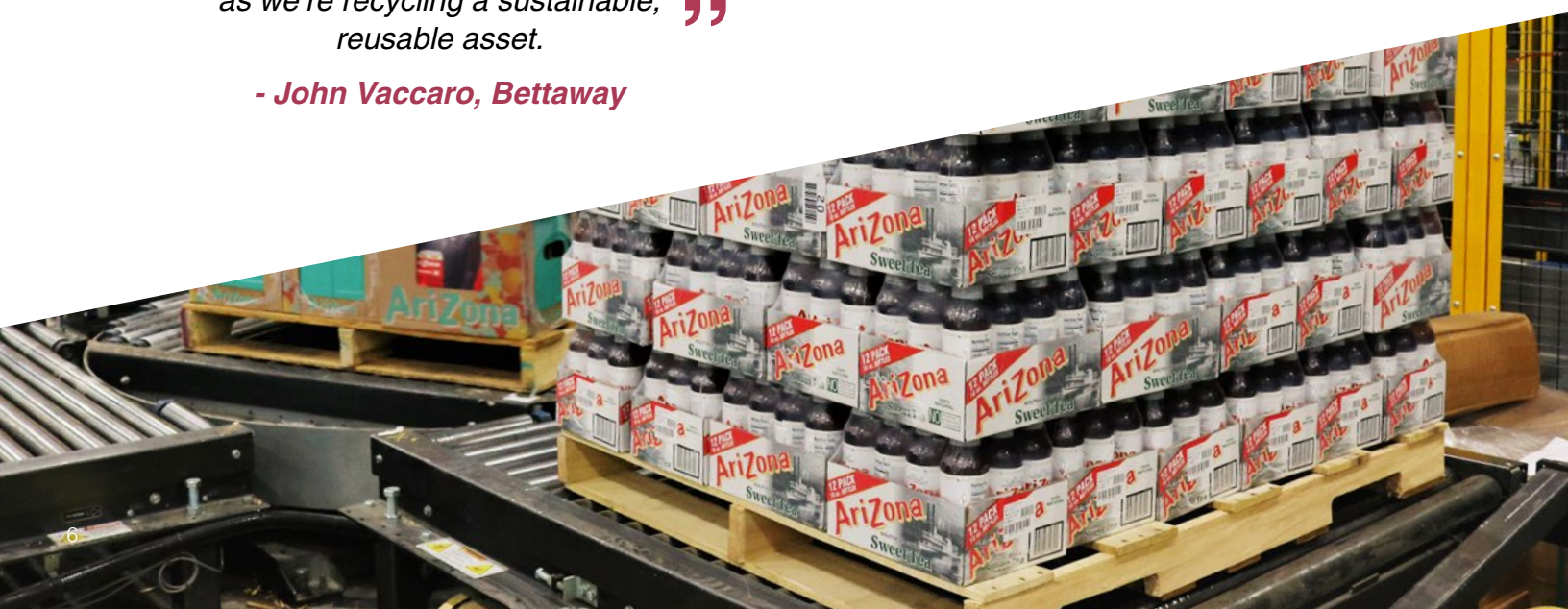
Today Bettaway serves over 100 clients, generating some \$200 million in revenues annually as a full-service third-party logistics, supply chain engineering, pallet supply and transportation management enterprise.



MARKET EVOLUTION DICTATES CHANGES

As the market evolved beyond distributors, and beverage makers began selling more product direct to mega-retailers like Walmart and club stores like Costco, owning “white wood” pallets no longer met the need. A market emerged for rental of a more robust and standard pallet, or “block” pallet, and a national supply and management network. Enter PECO Pallet.

In this model, pallets are delivered to manufacturers to support their production cycles. The manufacturer's goods are produced on to pallets, which then move typically in truckload lots to the retailer's distribution network. Once product is unloaded from the pallet, it becomes available for return. The manufacturer has an obligation to report to the pallet pool provider when the pallet is transferred or released to a retailer's location.



Importantly, in this case, it's a rented asset. The manufacturer pays an "issue" fee and a rent-per-day fee plus other associated costs, such as a fuel surcharge.

As a turnkey service, PECO operates a closed-loop pallet "pool." The company builds and maintains a fleet of reusable, 9-block, 4-way-entry, edge-rackable pallets that can carry up to 2,800 pounds. Once ordered, PECO delivers specified quantities to manufacturers, tracks them through the supply chain, then, once unloaded at the destination distributor or warehouse, picks them up and returns them to a PECO facility, where they are inspected, repaired, repainted, and put back into circulation.

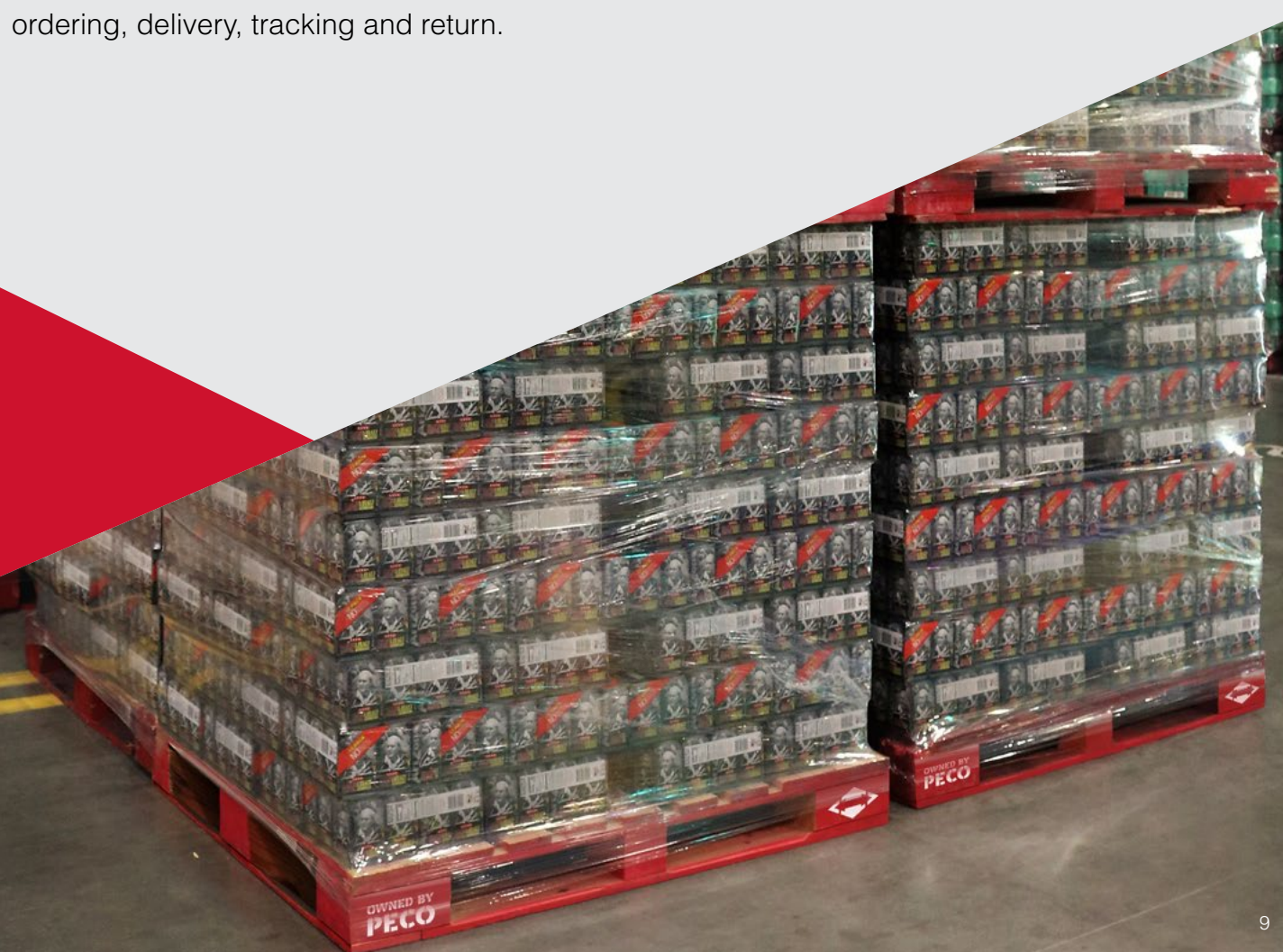


Within its network, PECO has some 2,100 pallet recovery locations, including 42 full-service depots and 44 sort facilities strategically located throughout the U.S. The company maintains a rolling inventory of roughly 20 million pallets.

The process is managed with enabling technology through PECO's Red<>Link website, which connects PECO logistics planners with its customers like Kraft, Mars and Bettaway, distributors/retailers (like Costco or Safeway), and freight companies. It provides an intuitive platform, tools and workflows enabling collaboration and efficient management for all aspects of pallet pool planning, ordering, delivery, tracking and return.

"The manufacturer or distributor gets a high-quality pallet at the lowest landed cost," says Joe Dagnese, PECO's president and CEO. "The customer benefits from a highly-engineered pallet, ideally suited for high-velocity automated material handling systems, providing superior efficiency, as well as improved safety, utility, operational consistency and production line optimization."

PECO supplies its red rental pallets to North America's largest consumer products companies, including Treehouse, Hersey's, Dole Foods and First Quality Tissue.



ENTER THE HYBRID MODEL

Sustained relationships between 3PLs and their customers that go past a couple of contract cycles are relatively rare. Bettaway and Arizona Iced Tea are an exception; 2020 is their 28th year together (and 40 years since Don Vultaggio and Tony Vaccaro first hooked up in the soda pop business). The secret, says John Vaccaro: “Be nimble, be creative, never stop looking for opportunities to improve, or re-engineer what you’re doing to adapt for new tools and technologies. And don’t dismiss an idea and say it won’t work just because ‘we’ve never done it that way.’”

The pallet business typically has been bifurcated: one set of customers were on the white-wood model, and another on the block-pallet rental model. There was little incentive to mix. Most companies don’t want to deal with both owned and rental pallets. The logistics challenges are too complex, the savings inconsistent or unverifiable.

Still, Vaccaro felt there was a missed opportunity – one that could provide Arizona Iced Tea and other Bettaway customers with the benefits of white wood, yet in certain segments, strategically leverage and incorporate a rental network, and provide an overall lower landed cost-to-serve.

That led to a meeting with PECO’s Dagnese.

“It was an exercise in collaboration, innovation and material handling engineering,” Vaccaro noted. “We looked at the size of the prize, if we could be flexible and nimble enough, where we could potentially work together . . . and what it would mean for the client. We could not afford any degradation in service, quality or reliability,” he emphasized.

The evolving nature of Arizona Iced Tea’s business was requiring an increasing number of new white wood pallets, Vaccaro recalls. “Brand new pallets come at a premium cost. When you are refreshing the pool with 10 percent new, and 90 percent refurbished, you can justify it,” he explained. “But when you get up to 30 or 35 percent new, the math doesn’t work.”



Bettaway also examined instances where a manufacturer or distributor may have locations that are remote, have inconsistent production, or need a smaller number of pallets for a shorter period of time. Those “one-offs” can be costly to serve with an all-white wood solution – yet could be ideal for a tailored rental program. And customer footprints change; some sites drop off while others are added, requiring adjustments to pallet pools. “We had to think in other terms, alternatives we had perhaps rejected in the past. You have to evolve,” Vaccaro noted.

Bettaway and PECO assembled a team to tackle the project. They launched a pilot of the new “hybrid” or blended pallet supply model for Arizona Iced Tea in August 2018, focused on high-velocity product. Bettaway also had the advantage of a long history with the client, and access to extensive data and intelligence on product flows, ship-to locations, and SKUs of Arizona Iced Tea products.

The goal was a balance: faster-moving, quick-turn products and “one-off” locations served by PECO’s rental network, with slower-moving, often higher-volume products going to distributors or larger retailers on white wood. “Where was the point at which we

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- Joe Dagnese, PECO Pallet

struck a balance, so we did not have a slow-moving SKU on a rental pallet? Or we were shipping to a non-participating distributor, where the pallet would likely get lost or not returned,” noted Vaccaro.

To the shipper or manufacturer, the pallet, and the process by which it is managed, is transparent, happening behind the scenes. Yet it’s undeniably a critical necessity. “The manufacturer just wants the right number of high-quality pallets at the best cost delivered on time to their facilities,” says Dagnese. “And the retailers want the pallet retrieved from their facility without delay, so they are not taking up valuable warehouse space.”

The six-month pilot proved out the concept. Bettaway’s analysis revealed that the hybrid model maintained high quality standards, and actually improved service for some lanes and markets. On a net basis, the blended “hybrid” model helped Bettaway reduce overall pallet landed cost to serve, across Arizona Iced Tea’s network of plants and distributors, by 31 percent.

One other unanticipated benefit was the precision fit of PECO’s highly-engineered and durable pallets into Bettaway’s material handling systems, with machines automating the process of loading product on to pallets, moving pallets around the production plant on automated conveyors, and staging loaded pallets at shipping docks. “The pallets fit like a glove, and we had zero pallet integrity failures,” said Dagnese.



A CONCEPT PROVEN; A NEW MARKET CREATED

Dagnese and Vaccaro are excited about the next steps – and the opportunities ahead. PECO and Bettaway are forming a dedicated team to bring the hybrid solution to a broader customer base. “We think there are numerous co-selling opportunities, with existing customers of both PECO and Bettaway,” Dagnese says. Vaccaro agrees. “I hate the term ‘think outside the box,’ but this is really an instance of where two companies came together, threw out the old playbook, and started with a clean sheet of paper to design a solution that would bring together the best of what often were considered competing services. And in the end the customer got a better solution.”

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