

## Changing US Beer Market Creates New Considerations for Distributors

In 2015, case sales increased only slightly year over year, yielding a \$105.9 billion market, according to the [National Beer Wholesalers Association \(NBWA\)](#). But while overall beer sales showed only modest growth, the demand for craft beer grew dramatically. [The Brewers Association](#) reports that craft beer sales rose 13 percent in volume in 2015, with a 16 percent increase in retail dollar value. Furthermore, there were [4,269 breweries in the US at the end of 2015](#)—the highest amount recorded in the history of the country.

While early 2016 data from the [consumer research firm Nielsen](#) suggests that the craft beer boom may be slowing compared to previous years, consumers continue to sustain high demand for craft beer. Over the last year, 3,905 new beer products have come to market, 75 percent of which are craft beers, according to [Nielsen's 2016 beer audit](#).

### MASSIVE GROWTH IN SKUs

With over 4,300 breweries and counting, each with many individual brands, the economic significance of distributors has also increased. Retailers and consumers are able to enjoy the many choices emerging from the thousands of craft breweries in the US thanks to the expertise and local knowledge of beer distributors. In 1996, distributors delivered on average 190 SKUs (unique stock keeping units). That average leapt to 981 SKUs by 2015, according to [NBWA](#). And this trend is only accelerating: The number of SKUs carried by distributors has increased fivefold since 2006, adding significant complexity to beer distributors' operations.

Given that the demand for craft beers is expected to grow for the foreseeable future, distributors need to consider making new investments in the equipment, processes and technologies they use to manage the hundreds of SKUs that are necessary to compete in a dynamic marketplace.

To create efficiencies in operations, improve safety and reduce breakage and labor costs, distributors may want to capitalize on advances in automation and technology—such as automated warehouse equipment (e.g., Vertique systems) or voice pick systems. Furthermore, new technology may yield greater efficiency in accounting and logistics.

Importantly, distributors must also cater to new consumer preferences. Many consumers are now willing to pay a premium for craft beer, but they have also become more sensitive to freshness—so they look for transparency in how products are stored and date-coded, and they often look to local producers for fresher beer, according to the [Brewers Association](#).

### NUMBER OF SKUs SKYROCKETS

Distributors delivered an average of:

190 SKUs in 1996  
981 SKUs in 2015



**IMPORTANT EQUIPMENT UPGRADES TO CONSIDER**

The vast increase in the number of SKUs demands new efficiencies and technologies, and each distributor's equipment needs may be different. But for all distributors, it will be important to consider what equipment and technology upgrades are necessary to consolidate operations, find new efficiencies and remain competitive in a dynamic marketplace. For example, there is an increasing need for distributors to use cold rooms to hold finished products at various temperatures. This is important in warehouse storage as well as in delivery trucks that hold the perishable goods.

**Inventory Management and Route Account Management Systems**

With hundreds of SKUs, upgraded inventory and account management systems may be essential for keeping track of the products while also achieving greater speed and efficiency in movement and transportation.

**Conveyors, Racking, Packaging and Wrapping Equipment**

Automated equipment can increase speed while also reducing labor costs. An effective racking system with a small footprint can reduce the need for forklift aisles, capturing more storage space. Automated packaging and wrapping equipment can also expedite movement and storage while decreasing costly product damage.

**Industrial Shelving**

With limited warehouse space and consumer demand for fresh products, distributors need to effectively use cubic storage to take in more inventory and rapidly reach it for faster loading and transportation through improved warehouse traffic flows. Additionally, distributors require impact-resistant shelving to minimize product damage or loss in an accident.

**Forklifts and Material Handling Equipment**

Even with upgrading racking systems, distributors still require the most mobile and safe forklifts. The most valuable upgrades are those that reduce forklift travel, increasing speed and decreasing labor.

**Refrigeration Equipment**

Beer freshness depends in part on cold storage, and advances in cold storage systems allow for modular units that can expedite warehouse holding and transport. Cost savings may be found in systems that reduce energy use, helping distributors to lower overhead while maintaining product freshness.

**Tractors, Trucks and Trailers**

Tractors, trucks and trailers of all types are used for beverage distribution. One trend in craft beer favors local brewers and distribution. New Class 6 tractors or smaller trucks are well-suited for city delivery. Distributors may also consider making investments in trailers that can move larger volumes of product to the retailer. Additionally, for unpasteurized beer, cold storage is essential on trucks and trailers to preserve product freshness—which consumers today demand.

**ABOUT THE AUTHORS:**

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Karyn Miller has more than 23 years in the banking industry, and her last six years have been focused in Beverage Finance. In her current role as Executive Director for the national Beverage Finance team, she leads a team that is dedicated to understanding and finding solutions for the unique financial and operational challenges of the beverage space. Her team is part of J.P. Morgan's 65-year focus on the industry that covers over 130 beverage clients nationwide with nearly \$2.4 billion in commitments.

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Mike O'Grady has 19 years of valuation experience focusing on numerous asset types from various industries. His team of experienced asset valuation managers completes approximately 1,500 valuations per year, and they also engage third party appraisers if the specifics of a transaction merit the additional due diligence.