Economics of Draught Line Cleaning

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Agenda

• Market Update
• Background
• Study
• What this means
Overall Beer Draught Trends

Bbls (1,000s)

Draught Volume
Draught Share

% of Beer Production

2005 2006 2007 2008 2009 2010 2011 2012 2013
## U.S. Beer Industry by Package Type – YTD June 2014
(volume in millions of case equivalents)

<table>
<thead>
<tr>
<th>Package</th>
<th>2014 Volume CE’s</th>
<th>Volume Change</th>
<th>Growth</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottle</td>
<td>508.7</td>
<td>-8.3</td>
<td>-1.6%</td>
<td>35.4%</td>
</tr>
<tr>
<td>Can</td>
<td>790.7</td>
<td>22.8</td>
<td>3.1%</td>
<td>55.0%</td>
</tr>
<tr>
<td>Draft</td>
<td>139.2</td>
<td>-6.5</td>
<td>-4.5%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Total</td>
<td>1,438.5</td>
<td>8.0</td>
<td>0.6%</td>
<td>100%</td>
</tr>
</tbody>
</table>
## Craft Package Mix by Type (2011), %

<table>
<thead>
<tr>
<th>Package</th>
<th>Draught</th>
<th>Bottle</th>
<th>Can</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>37.4</td>
<td>60.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Production</td>
<td>36.0</td>
<td>61.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Brewpub</td>
<td>85.9</td>
<td>12.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Other (Contract)</td>
<td>51.0</td>
<td>48.9</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Brewers Association (Brewery Operations and Benchmarking Survey, 2012); numbers may not add due to rounding.
Measuring Craft Growth

- Off-Premise Volume: 16.6% Growth
- On-Premise Volume: 7.8% Growth

~540,000 bbls = ~All Brewpub + Micro Growth
**CASE STUDY I: TOTAL PROFIT IN A 1/2 BARREL OF BEER RETAILED AT $4.00/ GLASS.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of 1/2 bbl of beer</td>
<td>$100.00</td>
</tr>
<tr>
<td>Refundable Deposit</td>
<td>$50.00</td>
</tr>
<tr>
<td>Number of 16 oz. glass Servings with 3/4” of foam and 15 oz. of beer</td>
<td>132</td>
</tr>
<tr>
<td>Retail Price</td>
<td>$4.00</td>
</tr>
<tr>
<td>Total Gross profit = Retail Price minus keg cost</td>
<td>$528.00</td>
</tr>
<tr>
<td>Return on each $1.00 invested</td>
<td>$4.28</td>
</tr>
</tbody>
</table>
**CASE STUDY II: YEARLY PROFIT FROM DRAUGHT BEER AT A RETAIL ACCOUNT WITH 10 DRAUGHT BEER LINES.**

Here is what a case study looks like when you dig a little deeper into the draft beer numbers.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Draught Lines</td>
<td>10</td>
</tr>
<tr>
<td>Number of 1/2 barrels sold each week</td>
<td>10</td>
</tr>
<tr>
<td>Gross Profit, minus beer cost in this 10 draft line system at 10 kegs per week</td>
<td>$4,280.00</td>
</tr>
<tr>
<td>52 weeks per year x $4,280.00</td>
<td>$222,560.00 total profits from draught beer.</td>
</tr>
</tbody>
</table>
**CASE STUDY III: COST TO MAINTAIN A 10 FAUCET DRAUGHT SYSTEM.**

10 Draught Lines x $10.00 per draught line cleaning and maintenance investment = $100.00

Servings Per week from example above = 1,320 x 2 weeks = 2,640 servings in 14 days

Let’s take the $100.00 investment in cleaning and maintenance and divide by the 2,640 servings. You will see each serving of draught beer will require $0.04 to protect the flavor and integrity of the beer on draught.
**CASE STUDY IV:**
How much beer is in each line of this 10 line system.*

<table>
<thead>
<tr>
<th>Line Type</th>
<th>Volume per Foot</th>
<th>50 Feet Contains</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/8” Vinyl or “jumper line”</td>
<td>3/4 oz.</td>
<td>4.5 ounces of beer</td>
</tr>
<tr>
<td>5/16” barrier tubing</td>
<td>1/2 oz.</td>
<td>25 ounces of beer</td>
</tr>
<tr>
<td>1/4” stainless</td>
<td>1/6 oz.</td>
<td>0.5 ounces of beer</td>
</tr>
</tbody>
</table>

Total beer per draught line = 30 ounces

10 draught lines = 300 ounces

$100.00 keg cost divided by 1984 ounces = $0.05 per ounce beer cost.

Ounces of beer cost = $15.00 cost of beer in the entire draught system.
Economics of Draught Quality

Prove this study right…

… how much money is at stake?
Repeating with U.S. Data
A Natural Experiment

• In September of 2012, a U.S. wholesaler purchased a local draught line-cleaning business. Can compare:
  – Accounts using the line-cleaning service, versus
  – Those that do not
Strong Opportunity

- Both accounts are relatively large
  - Line-cleaning accounts > 40,000 barrels annually
  - Other accounts > 120,000 barrels annually
- No other known differences
  - Same area, beers, etc.
  - So only difference is 2-wk cleaning
Control Period (Before): Growth in Volume Sales Q1 - Q3, 2011 to 2012

Difference = 2%
Test Period: Growth in Volume Sales Q4 2012 - Q2 2013 Versus Previous Year

Additional Growth = 2.9% (3.9% annualized)

Expected Difference = 2%
+3.9% Annualized Growth

At 132 servings in a keg
= 5 additional pints per keg per year
Across the Cleaned Accounts that’s:
• 450,000+ new pints/year
Control Accounts, it represents almost:
• 1.3 million pints a year in foregone growth
• Almost 5,000 barrels in lost growth across accounts that are > 125,000 barrels
Doing the Math...

- More frequent cleaning = 5 new pints/keg

New Profits/Keq > Costs of Cleaning
That was delicious. I should have one more beer!
Does Entail New Costs

• Net Cost of lost beer = $217.69
  – This is less than 1% of total beer cost
• Net cost of labor = $800
  – May be cheaper with cleaning service; retailers often do not bear cost
• Net cost of cleaning materials = $371.65
  – May be cheaper in bulk
• Total Net Cost = $1,389.34
FAR Outweighed by New Profits

5 pints/keg x $3.41 profit/pint x 52 kegs/year/line =

$886.60 profit/year/line x 4 lines =

= $3,546.40 in new profit
Total Net Profit

- Under this scenario, moving from two-month to two-week cycle generates:
  - Total Net Profit = $2,157.06 ($539.26 a line)

- Can re-work assumptions to increase costs

- Even with the most extreme set of assumptions, retailers are projected to reap new profits from frequent line cleaning
Economics of Draught Quality

Kegs have cost savings vs. bottles
Draught Quality $$$

Case of 24, 12 oz bottles = $26.40
Need 6.88 cases = \( \frac{1}{2} \) bbl @ $125.00
$181.63 cost of bottles vs. \( \frac{1}{2} \) bbl

$181.63 btl\$ - $125.00 keg = $56.63 per keg

1 Line @ 1 Keg Week...

$56.63 x 52 weeks = $2944.76 YR
Poll Results

• “5 Cardinal Sins of Craft Beer Service”
• 23% of survey “say” Dirty Beer Lines
• Very close to “quality of service” and “diversity of beer menu” and MORE important than dirty glassware
4% Growth for the Industry

Total industry = ~200 million barrels
Draught = 10% or 20 million barrels
4% growth on 20 million barrels = 800,000 barrels, or almost 200 million pints

More beer than South Dakota drank in 2013

Craft would get roughly 25% of that
200,000 barrels or 50 million pints
Questions?

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