

Post-Pandemic Inflationary Effects on the Beer Distribution Industry

The COVID-19 pandemic caused changes that most people hadn't experienced in their entire lifetimes; many were forced to stay indoors, businesses had to revamp operations to accommodate ever-changing guidelines while trying to maintain profitability, and the uncertainty of the future presented new challenges daily.

The abundance of lockdown orders and stimulus packages have altered the flow of the economy, potentially for years to come. According to Brown Brothers Harriman in July 2021, the federal budget "has run a deficit of more than 10% for over a year, and the Federal Reserve has bought bonds and increased the size of its balance sheet by over \$4 trillion since the beginning of the pandemic".¹

Economists predict that inflation will rise as sectors reopen, reducing the purchasing power of the U.S. dollar and impacting the general cost of living, ultimately leading to a deceleration in economic growth. The Consumer Price Index (CPI), one of the most commonly used inflation indexes,

reported in July 2021 a 5.4% increase in cost of goods over the prior twelve months.² It is important to take actions to hedge against inflation and protect your capital.

According to journalist Adrian Croft, even as the pandemic recedes and on-premises consumption resumes, beer distributors still face challenges as "...rampant inflation in everything from barley to aluminum could put a squeeze on their margins through this year and the next."³

Let's talk about some practical measures that beer distributors can take to compete in an inflationary environment.

1. Prepaid insurance. Many beer distributors have accumulated large cash reserves or have larger than normal credit availability due to Paycheck Protection Program money and the retention of profits. This liquidity offers an opportunity for you to hedge against inflation by locking in prices now for goods or services you think are going to rise in price in the future. Ask your broker if they can offer you a two-year policy instead of one-year.

¹ <https://www.bbh.com/us/en/insights/private-banking-insights/all-rise-threat-of-inflation-in-the-post-pandemic-economy.html>

² <https://www.bls.gov/cpi/>

³ <https://fortune.com/2021/08/19/big-brewers-reopening-bars-sales-recover-inflation-looms-carlsberg-abinbev-heineken/>

- 2. Fuel.** If you expect fuel costs to rise, and you have sufficient tanks on premises, consider pre-paying fuel in advance, for the same reason that prepaid insurance may make sense for your company.
- 3. New trucks.** If your fleet is due for an upgrade, now could be the right time, but don't trade in a reliable truck that could provide you with many more years of service.
- 4. Make the right cuts.** During the peak of the pandemic, your distributorship may have been forced to deliver a similar number of cases in a shorter amount of time; many of you went to 4-day delivery

schedule. This cut the cost of delivery and warehousing significantly. Many also discovered that although marketing expenditures were down, sometimes significantly, there was not a substantial reduction in cases sold. Be strategic about which changes remain, however. With a very tight labor market, it's crucial to keep your workers happy and engaged. Finding and training talent is more laborious than retaining your existing team.

- 5. Identify high- and low-performing segments and SKUs.** Forbes' Carson Lappetito reminds business owners in general to "track gross and net profitability by product and business



RJ Martucci (left) and Gary Cassiello (right) spend some time at The Golf Club at Mansion Ridge in Monroe, New York. Click the image above to be redirected to their accounting video for beer distributors.

⁴ <https://www.forbes.com/sites/forbesfinancecouncil/2021/05/18/how-business-owners-can-prepare-for-possible-inflation-post-pandemic/?sh=57d41f9b71e5>

line to ensure optimal performance.”⁴ With recent stock-outs, many distributors simply lacked the supply to fulfill all orders for their most popular SKUs. You may have been pleasantly surprised to find that consumers generally looked for comparable products in their desired segment. Stock-outs may not have hurt your bottom line.

Distributors may turn to the National Beer Wholesalers Association’s Beer Purchasers’ Index for an idea of current trends. The monthly graphs plot beer segments on a

0-100 scale, with 50 representing a stable category and scores above 50 representing expansion, relative to the same month last year. The August BPI showed that August 2020

and 2021 were tied at 74 overall, but the segments varied. The premium regular segment, which was formerly expanding, fell to below 50. Flavored malt beverages and seltzer continued to expand, but at a sharply lower rate than August 2020.⁵

The BPI provides an overall view of the industry, but only you and your accountant can determine how closely the consumers in your region match the data. We still need to analyze the trend, but it’s a positive sign

for the industry when distributors are able to increase the gross profit margin in an environment with decreasing sales volume.

When we analyze clients’ financial statements, we look for ways to maintain and grow margins. The 5-year-analysis is a great tool here, because it allows us to mitigate anomalies, including the atypical activity that marked 2020. We use the case equivalent to make apples-to-apples comparisons across product segments that utilize different containers, such as cans, bottles and kegs.

It’s important to be prepared for any possibility. Inflation is nearly certain in the wake of a post-pandemic boom, so taking steps to mitigate those effects on your business will be beneficial in the long run. Through careful planning and understanding the trends, we believe you will navigate through inflation and be able to improve your overall business model.

“rampant inflation in everything from barley to aluminum could put a squeeze on their margins”



© 2021, Judelson, Giordano & Siegel, CPA, PC All Rights Reserved.

⁵ <https://www.nbwa.org/news/nbwa-releases-august-beer-purchasers-index>