

Beverage Company Transportation Spend



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WHITE PAPER

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Executive Summary

The **overall transportation spend for U.S. beverage companies** (alcohol and non-alcohol) **should grow from \$25 billion in 2019 to over \$30 billion by 2023.** FreightWaves research indicates that **beverage companies spend (on average) about 5.5% of total revenue on transportation costs.**

Beverage companies can save at least 1% of their transportation spend by becoming FreightWaves SONAR clients. This equates to an industry-wide potential annual savings of \$250 million to \$300 million on transportation costs.

If the top 10 alcohol and non-alcohol beverage companies in the U.S. were SONAR subscribers, they could potentially save nearly \$120 million annually on a cumulative basis on their transportation spend (assuming 1% transportation savings from using SONAR on their \$12 billion in annual transportation spend).

Beverage freight has two primary characteristics. First, beverage demand tends to be relatively predictable due to its recurring replacement demand – after consumers buy beverages, grocery stores, package stores, restaurants and bars must restock at regular intervals. This predictable demand pattern and regular transportation lanes make beverage freight conducive to contract carriers (or dedicated and private fleets) rather than the spot market. Second, most beverage demand tends to be seasonal, with peak demand in the hot summer months. Because of this, trucking capacity for beverages tends to get tight in the summer months.

Traditionally, beverage companies bid out their freight to contract carriers and brokers using 12-month contract rates. These rates tend to be honored as long as the spot market does not deviate too far from contract rates.

However, given the seasonal characteristics of beverages, the traditional, legacy annual bidding process for contract freight may not make the most sense for beverage companies going forward. Rather than using annual contracts for freight, **FreightWaves SONAR could help beverage companies save money on their transportation costs through the newly popular strategy of mini-bids.**

SONAR freight data and analytical insights (as well as FreightWaves market experts) can not only help beverage companies save on transportation costs, but **can also help them utilize internal and external capacity and buy transportation more efficiently and intelligently.** Further, for large beverage companies, **SONAR can help drive higher asset utilization of their private fleets and reduce deadhead miles.**

In freight, technology like SONAR is increasingly utilized to save shippers money and arm them with sophisticated freight data, load planning and the timing of bids.

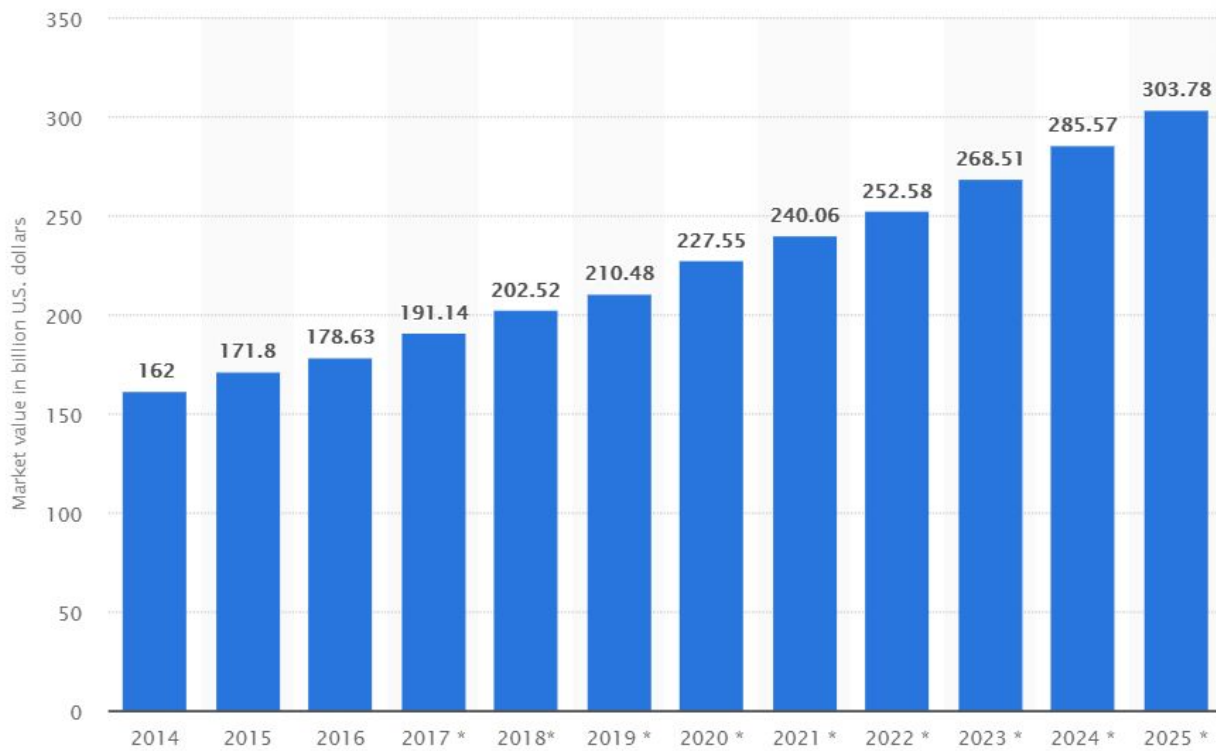
When it comes to trucking (the primary transportation mode for the delivery of most beverages), **SONAR offers unparalleled access to critical freight data, analysis and intelligence** as they pertain to monitoring and forecasting load volumes, capacity, freight rates (both spot and contract), rates by individual lane, outbound tender market share, etc. SONAR even has a **rate forecasting tool**. Spending millions of dollars annually on transportation without using SONAR means that a beverage company is missing a critical tool in the toolbox.

Beverage companies in the U.S. spent over \$25 billion on transportation in 2019

Investors in the beverage space tend to divide the category at a high level into alcohol beverages (beer, wine, spirits and hard seltzers) and non-alcohol beverages (carbonated soft drinks [CSDs], isotonics [Gatorade/competitors], still water, sparkling water, juices, energy drinks and coffee).

According to Statista, the non-alcohol beverage market in the U.S. generated \$211 billion in sales in 2019. Non-alcohol beverages are a relatively fast-growing market, expected to grow to \$269 billion (or at a 6% compound annual growth rate, or CAGR) by 2023. In terms of the primary trends in non-alcohol beverages, leading U.S. beverage companies have been growing their top lines through price increases rather than volumes, which have been declining at a low-single-digit rate overall for the past several years as carbonated soft drinks increasingly lose favor with consumers. Drinks like sparkling water, coconut water, energy drinks, coffee-based beverages and other beverages perceived as healthier by consumers have become the fastest-growing categories.

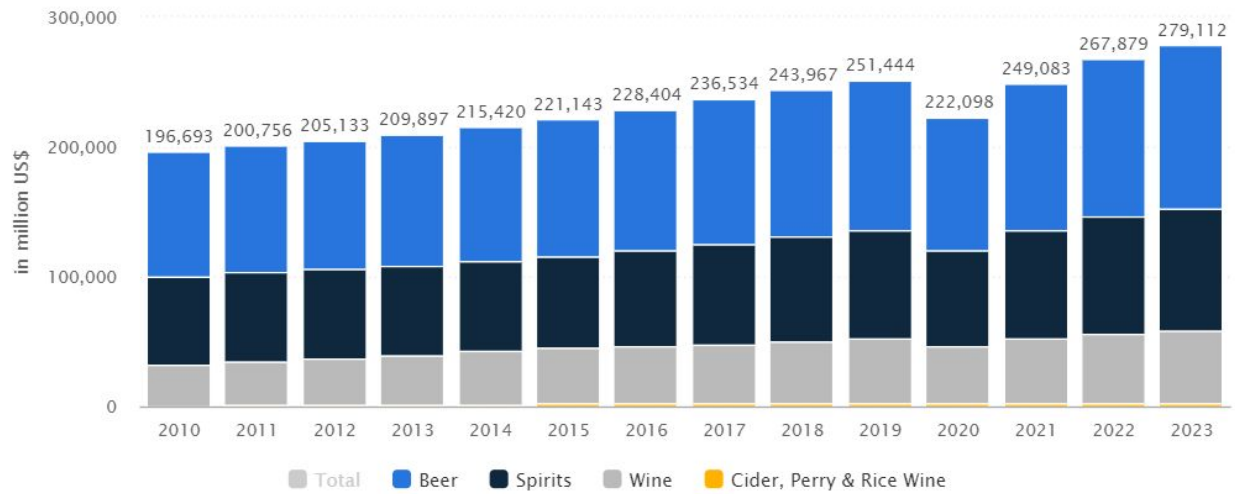
Figure 1: Non-alcohol beverage market in the U.S. (\$ billions; 2014-2025)



Source: Statista

According to Statista, the alcohol beverage market in the U.S. is \$222 billion and is expected to grow at an 8% CAGR through 2023. In terms of major trends recently in alcohol beverages, the fastest-growing segments are hard seltzers and spirits, while the Big 3 legacy beer brands in the U.S. have been losing market share to local and regional craft brewers. Overall, beer has declined in popularity, particularly with younger consumers, who tend to prefer wine, spirits and hard seltzers.

Figure 2: Alcohol beverage market in the U.S. (\$ millions; 2010-2023)



Source: Statista

The combined non-alcohol and alcohol beverage markets in the U.S. amount to \$462 billion in annual sales, and the **overall U.S. beverage market is forecast to grow at a weighted average CAGR of approximately 7% through 2023**, as can be seen in the chart below. This means that **overall transportation spend for U.S. beverage companies should grow from \$25 billion in 2019 to over \$30 billion by 2023**. If one assumes **beverage companies can potentially save 1% on their transportation spend by subscribing to FreightWaves SONAR**, the industry could potentially save \$250 million to \$300 million annually on transportation.

Figure 3: Beverage market metrics in the U.S. (2019-2023)

Beverage Market Size in the U.S. (2019-2023)						
Size (\$ Billions)	2019	2020	2021	2022	2023	CAGR (2020-2023)
Alcohol Beverage Market in the U.S.	\$ 251.4	\$ 222.1	\$ 249.1	\$ 267.9	\$ 279.1	7.9%
<i>y/y growth</i>	3.1%	-11.7%	12.2%	7.5%	4.2%	
Non-Alcohol Beverage Market in the U.S.	\$ 210.5	\$ 227.6	\$ 240.1	\$ 252.6	\$ 268.5	5.7%
<i>y/y growth</i>	3.1%	8.1%	5.5%	5.2%	6.3%	
Total	\$ 461.9	\$ 449.6	\$ 489.1	\$ 520.5	\$ 547.6	6.8%
<i>y/y growth</i>	3.1%	-2.7%	8.8%	6.4%	5.2%	
Mix Split						
Alcohol	54.4%	49.4%	50.9%	51.5%	51.0%	
Non-Alcohol	45.6%	50.6%	49.1%	48.5%	49.0%	
U.S. Beverage Industry Transportation Spend @ 5.5% of Revenue	\$ 25.4	\$ 24.7	\$ 26.9	\$ 28.6	\$ 30.1	6.8%

Theoretical SONAR U.S. Beverage Market Transportation Savings (@ 1%; \$ Millions) \$ 254.1 \$ 247.3 \$ 269.0 \$ 286.3 \$ 301.2

Source: Statista, FreightWaves calculations

As one can see above, **FreightWaves estimates that beverage companies spend about 5.5% of total revenue on transportation each year.** FreightWaves arrived at that estimate using Constellation Brands' disclosure that it spent 6.6% of total revenue on freight and logistics in 2014 and then conservatively assumed a lower 5.5% transportation spend for the overall U.S. beverage industry.

Researching this topic, it became apparent that beverage companies play their cards extremely close to the vest when it comes to transportation costs. Information regarding spending on transportation was nearly impossible to find. But FreightWaves was able to find one major beverage company that explicitly outlined its transportation and logistics spend, and FreightWaves believes it to be representative of the overall beverage industry.

Constellation Brands, according to a company presentation and Morgan Stanley, spent \$397 million on freight and logistics in 2014, or 6.6% of total revenue. As noted, although this is a fairly representative number because FreightWaves does not believe that transportation intensity differs materially across beverage companies, FreightWaves analysts chose to conservatively assume that beverage companies spend 5.5% of revenue on average for transportation annually. This was done because Constellation Brands listed its freight and logistics costs as a potential target for savings in 2014 as the company sought to bring those costs down by \$30 million over the five-year period through 2019. In FreightWaves analysts' view, this justified and validated a 5.5% assumption for the overall beverage industry's transportation spend (rather than using Constellation's 2014 percentage of 6.6%).

Figure 4: Constellation Brands 2014 Analyst Day presentation – freight and logistics spend of \$397 million (or 6.6% of total revenue)

STZ Annual Cost Savings Impact	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	Cumulative
Glass Procurement							
Glass Costs Based on FY14 Vol.	\$529	\$527	\$489	\$462	\$435	\$417	
Incremental Savings		\$3	\$37	\$27	\$27	\$18	\$112
OM Impact (bps)		9	132	96	95	63	395
Freight/Logistics							
Freight/Logistics Costs Based on FY14 Vol.	\$397	\$389	\$389	\$375	\$367	\$367	
Incremental Savings		\$8	\$0	\$14	\$8	\$0	\$30
OM Impact (bps)		28	0	49	28	0	105
Labor/Overhead							
Labor/Overhead Costs Based on FY14 Vol.	\$238	\$238	\$234	\$219	\$210	\$210	
Incremental Savings		\$0	\$4	\$15	\$9	\$0	\$28
OM Impact (bps)		0	15	53	33	0	100
Total Impact (bps)	0	37	147	198	155	63	601

Source: Constellation Brands, Morgan Stanley

On a side note, FreightWaves analysts’ best guess is that the **majority of U.S. beverage companies’ transportation spend of \$25 billion is spent on trucking because beverages are often produced and packaged near end demand** and transporting them over very long distances makes little sense due to the prohibitive cost and breakage that can occur. FreightWaves acknowledges that the former statement is likely mostly true for the distribution of finished products. Beverage companies also likely spend a material amount on rail transportation, given that some percentage of ingredients and materials, cans, bottles, etc. are shipped by rail.

It also made sense to break down the non-alcohol and alcohol beverage markets into the top 10 players in the U.S. to assess their relative size, market share and transportation spend, and to determine their need for and potential savings of using SONAR. The findings below show that the **top 10 non-alcohol beverage companies in the U.S. in 2019 had combined revenue of \$127 billion, annual transportation spend of approximately \$7 billion and market share of 39%** (the latter assumes 65% of revenue is derived domestically in the U.S. as beverage companies tend to be global). The **top 10 alcohol beverage companies in the U.S. in 2019 had a combined revenue of \$84 billion, annual transportation spend of approximately \$5 billion and market share of 25%** (the latter assumes 75% of revenue is derived domestically in the U.S. as beverage companies tend to be global).

Figure 5: Top 10 non-alcohol beverage companies in the U.S. sales, transportation spend and market share

Top 10 Non-Alcohol Beverage Companies in the U.S.		
Company Name (Ticker - where applicable)	FY19 Sales (\$B)	Transp. (\$mm) @ 5.5% of Revs
1 Coca Cola (KO)	\$37.3	\$2,049.9
2 PepsiCo (PEP) [beverage sales estimated at 50%]	\$33.6	\$1,846.9
3 Starbucks (SBUX)	\$26.5	\$1,458.1
4 Keurig Dr. Pepper (DPS)	\$11.1	\$611.6
5 The Wonderful Co.* (POM, Fiji Water)	\$5.0	\$275.0
6 Monster Beverage (MNST)	\$4.2	\$231.0
7 Kraft Heinz (KHC) [beverage only - Capri Sun, Maxwell House, Kool Aid]	\$3.0	\$165.0
8 Primo Water Corp. (PRMW)	\$2.4	\$131.5
9 Niagara Bottling* (private label bottled water for Costco, Walmart)	\$2.1	\$115.5
10 J.M. Smucker (SJM) [coffee - Folgers, Café Bustello, Dunkin']	\$2.1	\$115.5
Total	\$127.3	\$6,999.9

*Private company

Total U.S. Non-Alc. Beverage Market Size	\$210.5
Top 10 U.S. Non-Alc. % of Total (assumes 65% of sales from U.S.)	39.3%

Source: Bevindustry.com, Statista, company filings, Atom Finance, FreightWaves calculations

Figure 6: Top 10 alcohol beverage companies in the U.S. sales, transportation spend and market share

Top 10 Alcohol Beverage Companies in the U.S.		
Company Name (Ticker - where applicable)	FY19 Sales (\$B)	Transp. (\$mm) @ 5.5% of Revs
1 Anheuser Busch InBev (BUD)	\$52.3	\$2,878.2
2 Molson Coors Brewing (TAP)	\$10.6	\$581.9
3 Constellation Brands (STZ)	\$8.3	\$458.7
4 E&J Gallo Winery	\$4.5	\$247.5
5 Brown Forman (BF.B)	\$3.4	\$184.8
6 Boston Beer (SAM) [Sam Adams, Truly Hard Sparkling]	\$1.3	\$68.8
7 The Wine Group* [7, Benziger, Chloe, Cupcake Vineyards, McManis]	\$1.1	\$60.5
8 Chateau Ste. Michelle* [winery]	\$0.8	\$44.0
9 Kendall-Jackson Wine Estates	\$0.7	\$38.5
10 Fifth Generation Inc.* [Tito's Vodka]	\$0.7	\$38.5
Total	\$83.7	\$4,601.3

*Private company

Total U.S. Alc. Beverage Market Size	\$251.4
Top 10 U.S. Alc. % of Total (assumes 75% of sales from U.S.)	25.0%

Source: Bevindustry.com, Statista, company filings, Atom Finance, FreightWaves calculations

If the top 10 alcohol and non-alcohol beverage companies in the U.S. were to become SONAR customers, they could potentially save nearly \$120 million annually on a cumulative basis on their transportation spend (assuming 1%

transportation savings from using SONAR on their \$12 billion in annual transportation spend).

Lastly, FreightWaves looked at the potential transportation savings from using SONAR for the single largest alcohol and non-alcohol beverage companies in the U.S. In this analysis, analysts ran base, bear and bull case scenarios of 1%, 0.5% and 1.5% theoretical transportation savings, respectively, with the findings presented below.

Figure 7: Potential transportation savings from using SONAR for the top alcohol beverage company in the U.S.

#1 Alcohol Beverage Company in the U.S.		
Base	2020 Estimated Trans. Spend	\$2,878,000,000
	Trans Eff. Savings (theoretical) with SONAR	1.0%
	Potential Trans. Savings Annually	\$ 28,780,000
	2020 Adjusted Net Income Estimate (Consensus)	\$2,900,000,000
	Potential Boost to Net Income from SONAR	1.0%
Bear	2020 Estimated Trans. Spend	\$2,878,000,000
	Trans Eff. Savings (theoretical) with SONAR	0.5%
	Potential Trans. Savings Annually	\$ 14,390,000
	2020 Adjusted Net Income Estimate (BofA Secs.)	\$2,900,000,000
	Potential Boost to Net Income from SONAR	0.5%
Bull	2020 Estimated Trans. Spend	\$2,878,000,000
	Trans Eff. Savings (theoretical) with SONAR	1.5%
	Potential Trans. Savings Annually	\$ 43,170,000
	2020 Adjusted Net Income Estimate (BofA Secs.)	\$2,900,000,000
	Potential Boost to Net Income from SONAR	1.5%

Source: FreightWaves calculations, consensus estimates from Atom Finance

Figure 8: Potential transportation savings from using SONAR for the top non-alcohol beverage company in the U.S.

#1 Non-Alcohol Beverage Company in the U.S.		
Base	2020 Estimated Trans. Spend	\$ 2,050,000,000
	Trans Eff. Savings (theoretical) with SONAR	1.0%
	Potential Trans. Savings Annually	\$ 20,500,000
	2020 Adjusted Net Income Estimate (Consensus)	\$ 8,110,000,000
	Potential Boost to Net Income from SONAR	0.3%
Bear	2020 Estimated Trans. Spend	\$ 2,050,000,000
	Trans Eff. Savings (theoretical) with SONAR	0.5%
	Potential Trans. Savings Annually	\$ 10,250,000
	2020 Adjusted Net Income Estimate (Consensus)	\$ 8,110,000,000
	Potential Boost to Net Income from SONAR	0.1%
Bull	2020 Estimated Trans. Spend	\$ 2,050,000,000
	Trans Eff. Savings (theoretical) with SONAR	1.5%
	Potential Trans. Savings Annually	\$ 30,750,000
	2020 Adjusted Net Income Estimate (Consensus)	\$ 8,110,000,000
	Potential Boost to Net Income from SONAR	0.4%

Source: FreightWaves calculations, consensus estimates from Atom Finance

How beverage companies can use SONAR

Beverage freight has two primary characteristics. First, beverage demand tends to be relatively predictable due to its recurring replacement demand – after consumers buy the beverages, grocery stores, package stores, restaurants and bars must be restocked at regular intervals. This predictable demand pattern and regular use of specific transportation lanes make beverage freight conducive to contract carriers (or dedicated and private fleets) rather than the spot market. Second, beverage demand tends to be highly seasonal, with peak demand in the hot summer months.

Because of this, trucking capacity for beverages tends to get tight in the summer months (and for trucking overall).

Traditionally, beverage companies bid out their freight to contract carriers and brokers using 12-month “paper” (or contract) rates. These rates tend to be honored as long as the spot market does not deviate too far from the published rates.

However, given the seasonal characteristics of beverages outlined above, the traditional, legacy annual bidding process for contract freight may not be cost-effective for beverage companies going forward. For example, rather than contracting freight on a long-term basis, **SONAR could help beverage companies save money on their transportation costs through the newly popular strategy of mini-bids.**

Instead of sending out requests for proposals (RFPs) for annual contract rates for each lane, beverage companies could choose to allocate some of their freight into four three-month rolling mini-bids. This way a beverage company will pay higher rates in the summer months and secure adequate capacity, but can potentially also take advantage of lower rates when capacity is more plentiful in the remaining nine months of the year.

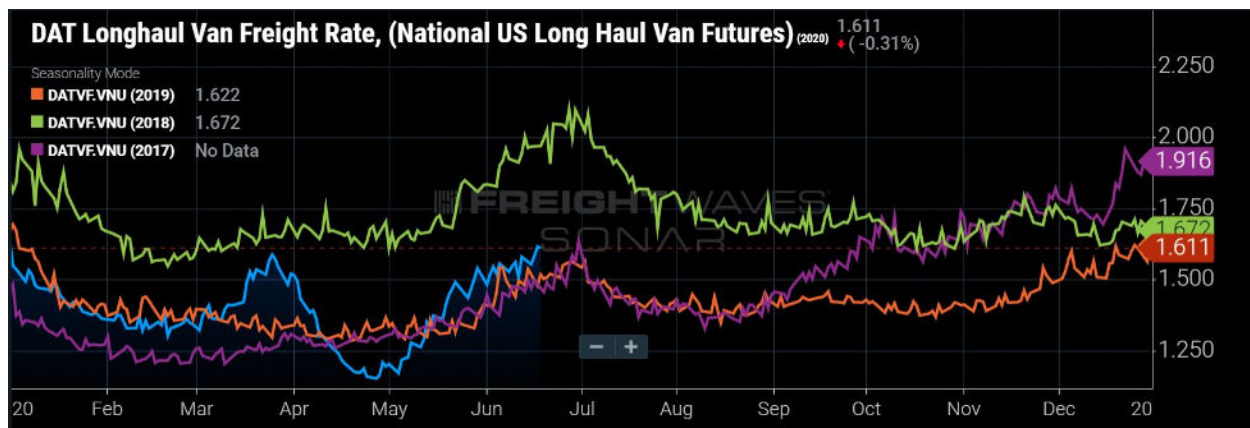
The seasonality of beverages can be observed in the two charts below of outbound tender rejections in Atlanta and DAT national dry van spot rates for the past three years. As one can see, tender rejections, and therefore rates, tend to peak around April (produce season), July (beverage season) and near year-end during the holiday shopping season – but languish for the majority of the year. The same is true of spot rates (in the second chart below). Spot rates tend to peak in the spring, summer and at year-end around the holidays. **SONAR can help beverage companies stay on top of all transportation trends on a daily basis in close to real-time using its proprietary data.**

Figure 9: Outbound tender rejections in Atlanta (2020 – Blue; 2019 – Green; 2018 – Orange; 2017 – Purple)



SONAR: OTRI.ATL (outbound tender rejections – Atlanta)

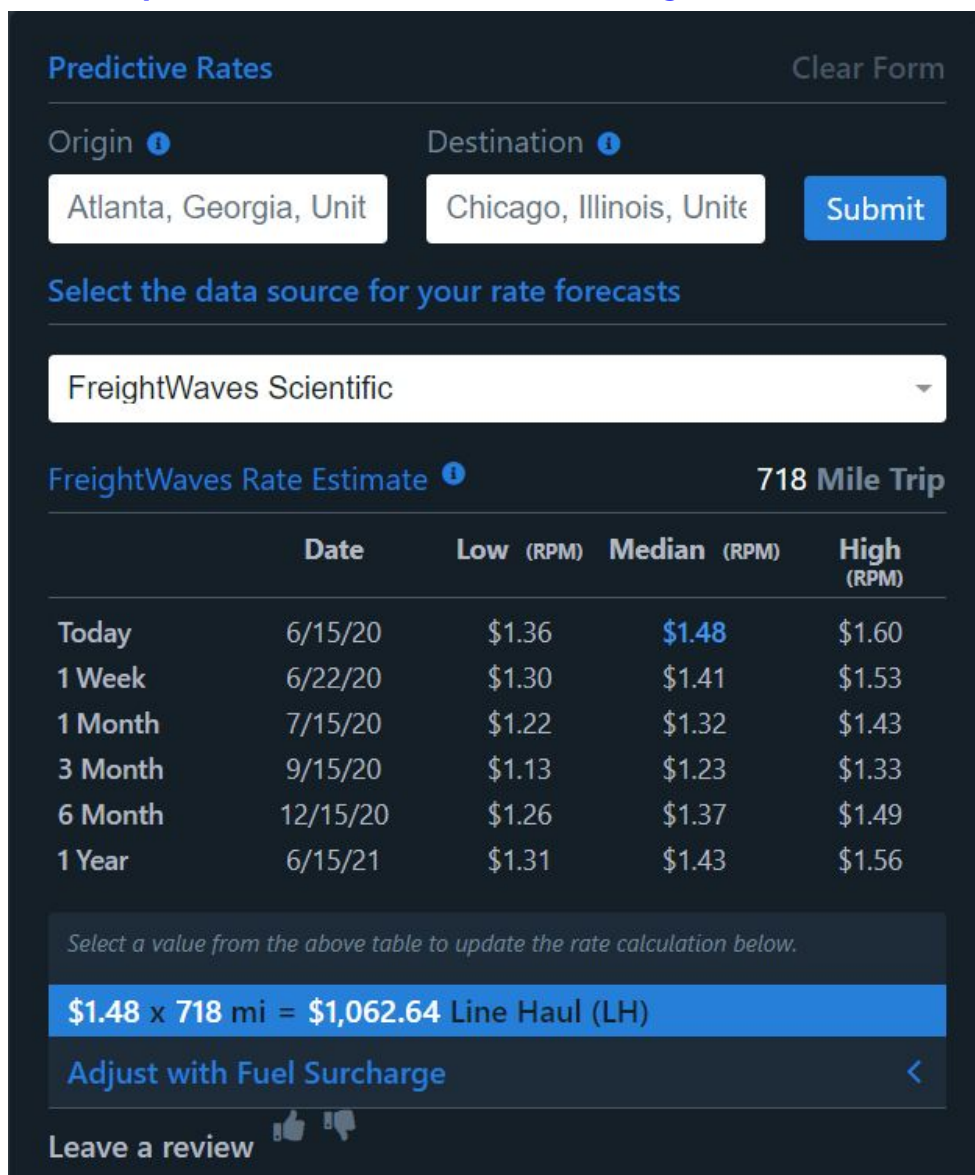
Figure 10: DAT national dry van spot rates (2020 – Blue; 2019 – Orange; 2018 – Green; 2017 – Purple)



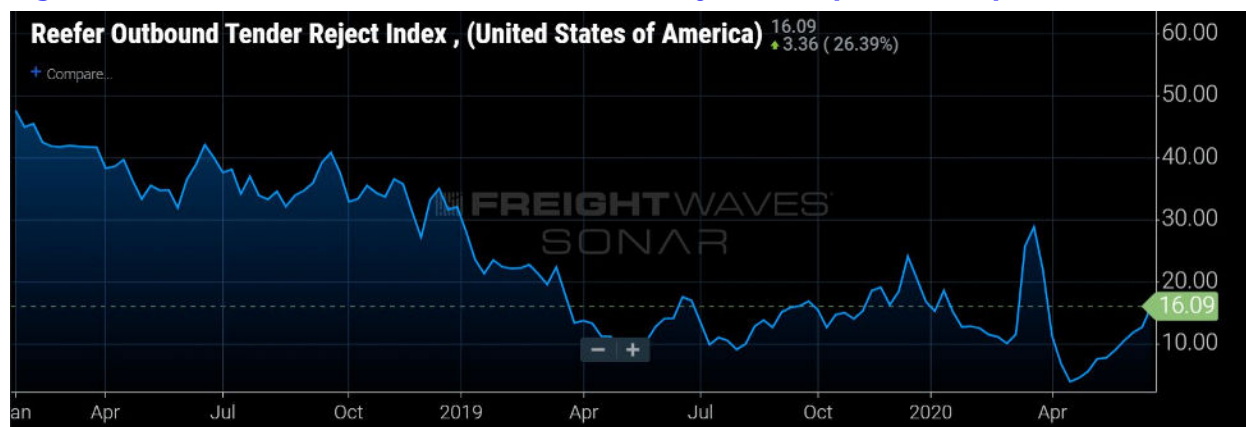
SONAR: DATVF.VNU (DAT national dry van spot rates)

Therefore, in the freight sector, technology like SONAR will be increasingly utilized to save shippers money and arm them with sophisticated data, load planning and the timing of bids will likely become more fact- and data-based. Rather than relying on certain individuals' intuition or sticking with how things have always been done at a company, transportation needs will be data-driven.

Figure 11: SONAR predictive rates – Atlanta to Chicago



There are several other unique characteristics of beverage companies that make them ideal SONAR clients. If a beverage company’s products are cold-shipped, SONAR offers granularity at the reefer level and for several trailer types. For example, some alcohol beverages and many juices and milk-based beverages require safe temperature control throughout their transportation journey. Reefer capacity can be harder to come by, especially during produce season and summer beverage season as elevated volumes vie for a fixed supply of trucks. In the chart below, one can see that reefer tender rejections tend to run consistently much higher on average than dry vans and exhibit seasonality. Using SONAR can help beverage companies adeptly manage through the volatility and stay on top of trends.

Figure 12: National reefer outbound tender rejections (2018-2020)

[SONAR: ROTRI.USA](https://sonar.freightwaves.com)

SONAR data and analytical insights (as well as FreightWaves market experts) can not only help beverage companies save on transportation costs, but can also help them utilize internal and external capacity and buy transportation more efficiently and intelligently. Further, for large beverage companies, SONAR can help drive higher asset utilization of their private fleets and reduce deadhead miles.

COVID-19 has been an accelerator for freight technology, and we do not believe the supply chain can turn back the dial on an increase in **deploying technology to drive transportation efficiencies. Utilizing freight tech such as SONAR is quickly becoming table stakes for any company with a vested interest in transportation. Those who do not employ freight tech risk being left behind.**

The vice president of logistics at the world's leading alcohol beverage manufacturer recently spoke with FreightWaves analysts regarding accelerating freight tech adoption in the aftermath of COVID-19. She stated, "The whole industry was forced very quickly to take on more technology adoption that won't reverse now. This crisis accelerated the digitization of freight and made it come faster." She went on to say that, as the leading alcohol beverage manufacturer in the U.S. and the world, her company does 800,000 annual shipments (or about 2,200 per day) across 12,000 unique lanes in the U.S. In FreightWaves view, **it makes sense for beverage companies to use SONAR to help handle this level of logistical complexity and challenges.**

Lastly, most beverage companies are fairly mature enterprises in which revenue growth is driven by GDP-like volume growth plus pricing. Therefore, **given that transportation accounts for about 5.5% of revenues on average at beverage companies, optimizing transportation costs and driving the most efficient**

supply chain possible is a concrete, measurable way to improve **bottom-line profitability** for the beverage industry.