



Brewers, Do You Know Where Your Kegs Are?

Solving the Troubling Problem
of Disappearing Cooperage

By Lew Bryson

Someone is stealing your cooperage, and chances are you don't know who, or maybe even how many kegs they're taking. At about \$100 replacement cost per keg, it touches a nerve with a lot of brewers, and there are no easy answers.

First, this is a huge monetary issue. Craft brewers typically sell a higher percentage of their output as draft than the national average of about 10 percent, so their need for kegs is a constant issue. The "float" of a brewery (the number of kegs they have) naturally varies according to the size of the brewery and the proportion of draft sales; a larger brewery will need more kegs, at an average of \$100 each (there are used, refurbished kegs available for less, but with the growth in the industry, this market has gotten very tight).



But the float also varies according to how far-flung the brewery's draft distribution is. The rule of thumb for national or large regional breweries is that for every keg currently on tap in a retail establishment, you need seven more kegs in your float to cover kegs in transit, kegs in maintenance, kegs in storage limbo at some point in the chain, and losses: eight kegs for every pouring tap. For smaller ranges, the number is smaller. Scott Isham at Harper's Restaurant & Brewpub in East Lansing, Mich. said, "I have 45 kegs just for dock sales. I keep three for every one that's out."

Say you have 1,000 accounts pouring your beer in a three-state area. You'll need about 5,000 kegs to cover the cycle, at \$100 each: \$500,000 of stainless, a hefty chunk of capital. But then factor in the rough industry standard annual loss of 10 percent, and you're buying 500 new kegs each year, \$50,000 down the drain—and you're not even sure where they're going.

Why do kegs disappear out of your return/refill cycle? There are a variety of reasons. Kegs are stolen for their scrap metal value: in some parts of the country scrap stainless steel is going for 65 cents a pound, making a half-barrel keg worth almost \$20. Kegs are sometimes simply held in a wholesaler's yard for months until enough of them accumulate to make redemption "worthwhile"—and even then they may be returned to the wrong brewery, where they sit for more months. There are a small number of kegs that became homebrewing equipment—"cheap" stainless steel brew kettles because all the homebrewer paid was a \$10 or \$15 deposit. The American Homebrewers Asso-

ciation regularly reminds members that this hurts breweries and is theft.

Sometimes kegs aren't stolen so much as simply lost or neglected. Some kegs wind up with underage drinkers and get stashed or abandoned out of the keg return cycle for years because the kids don't want anyone knowing they had them. There are an unknown number of kegs gathering dust in basements and garages around the country, left there by people who just don't know what to do with them, or who never got around to taking them back for a deposit they forfeited years ago. Many a college student's room has keg furniture just for the sake of coolness, even in these anti-alcohol policy days. And there are a number of kegs keeping boat docks afloat in lakes and rivers.

Those are the relatively benign reasons. There is also an undercurrent of anger in the craft brewing industry about competitive keg stealing. Names are not usually named, but brewers are sure that rival brewers, big or small, and rival wholesalers are "accidentally" picking up their kegs and either selling them to scrap dealers or simply holding them out of circulation to raise costs for their competition.

Keeping Track of Kegs

Adding to an already vexing problem is that kegs are so difficult to track. It's not like tracking a piece of equipment in your plant, or tracking a UPS delivery. Kegs leave your dock and enter someone else's system, essentially someone else's ownership, sometimes for months at a time. During that time, you really don't know where the kegs are: in the wholesaler's warehouse, on a delivery truck, in a bar cold-box, in a back alley, headed back to you or on a one-way trip to the scrap yard. Selling kegs is at its root a hopeful endeavor: you cast your bread upon the waters, and hope it is returned to you.

"We don't track our kegs," said Old Dominion's Jerry Bailey. Then how do you know how many you have and where they

are? "I don't really know. I just went through this with the accountants. We have purchased \$1,237,000 worth of kegs in 12 years. We've depreciated those, so now they're worth \$1,204,000. So about \$34,000 worth of kegs are not in real inventory. Divide by 80 or 75 to get the real number; it's a lot of them. At the end of each year, the accountants ask how many I have, and I don't know. So I look at our accounting program to see how much our deposits on kegs are more than our returns, and that gives me a rough idea."

Given that general uncertainty, it's hard to calculate what keg losses are in a year. Estimates range from 5 percent to 20 percent, an astonishing number given the size and cost of the items in question. Given the sturdy longevity of kegs, these losses may well be keeping keg manufacturers in business.

Perhaps the most common complaint about the problem is the way deposits charged to wholesalers have not kept up with the rising cost of kegs. Deposits charged on dock sales have risen abruptly in the past five years until they are roughly equivalent to replacement costs. Some states have mandated higher deposits to consumers in keg registration laws, but the forfeited deposits don't always devolve to the brewer!

But deposits to wholesalers have largely stayed at the same \$10 or \$12 that they've been for decades. "I've always had a beef with what, in my opinion, are artificially low, but traditional, keg deposit amounts," said Teri Fahrendorf of Steelhead Brewing in Eugene, Ore. "I assume the dollar values were set after Prohibition was repealed, and probably represented the replacement value of kegs in those days." It's not all tradition; some of the deposits are set by state law, along with wholesaler markup.

Changing that number represents a tough hill to climb. If you raise your keg deposit unilaterally (assuming it's not set by law in your state), making your wholesaler responsible for retailers' keg losses, the fear is that the wholesaler will simply stop carrying your kegs. After all, if they start charging retailers a higher deposit, or even just charging retailers for lost kegs, the retailers will surely take their business elsewhere. Or will they?

"We were losing kegs at a rate of over 10, maybe close to 20 percent," said Deb Carey at New Glarus Brewing in Wisconsin. "We felt pretty strongly that there was some monkey business going on. I raised the return on our kegs. It got everyone's attention, because the accounts that had our beer made sure that the kegs got back to us, instead of being picked up by someone else." Carey noted that all their distribution is in-state, which might make a difference.

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The Scrap Heap

Fahrendorf continued her “beef” with the real nut of the problem. “How much does a scrap yard get for a stainless half-barrel?” she asked. “If it is more than the deposit, we’re all in trouble.”

Scrap is where things get interesting, and murky. Most kegs are clearly noted as property of a brewery, although ownership of kegs is a bit of a mystery to most people outside the business. Still, kegs wind up in scrap yards every day, chopped, pressed and packaged for shipment to the hungry steel markets of Asia.

Boulevard Brewing in Kansas City, Mo., is working on a solution. “I have been visiting local scrap yards lately and finding that they seem to not know or care that beer kegs are stolen property,” said Neil Witte. “They just keep buying them, chopping them up and selling the metal. Some have large quantities that must be repurchased if you want your cooperage back. There are few things more frustrating than having to buy your own stolen property back. But what do you do when a scrap yard has 50 of your kegs? They have paid money for them, so they won’t just give them to you. Even if you do convince the yard to not buy the kegs, the sellers will just go to the next yard or the next town.”

Who are the sellers? Some are small-scale and desperate. “We had several instances where kegs were stolen in broad daylight by transient types, most likely meth addicts,” said Mike Jordan at Widmer Brothers, in Portland, Ore. “We had to install an automatic gate for trucks pulling into and out of the loading dock to limit theft as well as hiring night guards to watch the empty keg yard. It is a real concern as we figure we lost thousands of dollars worth of cooperage.”

Some are more methodical, and they’re making a living off your float. “I think most [kegs] are stolen from the back alleys of retailers or pilfered by unscrupulous workers within the retail industry,” said Witte. “I have heard about at least one local person who drops off a carload of kegs at a local scrap yard two to three times a week. We have already picked up about 100 of our kegs at this particular yard this year.”

As mentioned, there may be a dark side to all this as well. One brewer who wanted to remain anonymous said he had gotten back a number of kegs from his puzzled wholesaler with bullet holes punched through them. Stories circulate about breweries or wholesalers who “accidentally” pick up competitors’ kegs from retail accounts along with their own, kegs that wind up in a back lot or at the scrap yard.

Brock Wagner at Saint Arnold in Houston got specific. “What happened was that there was a [large brewery] employee who liked our beer a lot, who came on our tour a lot, and he was a bit disgruntled,” Wagner explained. The guy was disgruntled enough to talk to Wagner about a problem he’d seen at his place of employment.

“Apparently the brewery took the ‘widows and orphans’ kegs they got from their wholesalers and took them to the scrap yard,” said Wagner. “They had eight or 16 of ours, marked for death. I called over there

and didn’t get anywhere. But they also had about 100 Shiner kegs, so I called Jaime Jurado [at The Gambrinus Company, which owns Shiner] and let him know what was going on. He was frothing on the phone, and about an hour later, he called back and gave me the number of a guy: ‘Call him and you’ll get your kegs.’ And it was just like he said, we got our kegs back.”

So What’s the Solution?

The problems are multifold. Kegs are lost to scrap yards, are lost to homebrewers