

## **Craft Beer Industry – The New Market Opportunity**

When business prognosticators start talking about market bubbles it does not take long to get around to the granddaddy of them all: the tulip and bulb craze in Holland in the 1630s. But in the beer brewing business these days the only thing optimistic craft brewers want to hear from flowers is what combination of rose buds, nasturtium and hibiscus pedals to mix into their summer ales.

Craft brewing is indeed booming in the United States. It is a \$20 billion market and there are more than 3,400 craft brewers in the United States (defined as producing less than 6 million barrels of beer per year) and the fraternity is growing by more than one brewery per day. There have not been this many brewmasters plying their trade in America since Chester A. Arthur was in the White House.

The specter of an impending burst bubble to deflate this aggressive growth pattern hovers over the craft brewing industry for very good reasons. This is not the first craft brewing explosion in recent memory. In the early 1990s, when beer drinkers were introduced to the concept of more spirited small batch brewing by the likes of Boston Beer and Pete's Wicked Ale, hundreds of brewers with home recipes flooded into the market. By the dawn of the 21st century; however, more breweries were closing each day than were opening.

**Why is it different this time around?**

This is not the 1990s for many reasons. For one thing, the demand for more flavorful beers is much higher. Today's craft breweries are opening into a beer culture that did not exist twenty years ago. The beer drinker of 2015 is more knowledgeable, more adventurous, more sophisticated and does not blink at paying premium prices for a premium product.

Any honest evaluation of the earlier craft brewing boom has to conclude that much of the beer being foisted on the drinking public just was not that good. In this competitive climate there is no opportunity for brewers to learn on the job, they must enter the business with the expertise to deliver an outstanding beer when the doors swing open for the first time. Collectively, American craft beers are the finest in the world.

These new players are different than their predecessors. Much of the 1990s boom was fueled by microbreweries looking to sell product on site. Modern craft brewers enter the arena with distribution as a goal. Just being well-placed regionally is enough to maintain a local brewery as a going concern, but craft breweries in 2015 are casting a more ambitious eye.

### **What do the numbers say?**

By sheer numbers the Brewers Association, the marketing and promotional arm of the craft brewing industry, likes to point out that on a per capita basis the United States is still

underserved by its armada of existing craft brewers. If the country more closely resembled Germany, for instance, there would be room for over 5,000 breweries - almost twice the number operating now. There are more than 7,000 wineries in America and far more beer drinkers than wine cognoscenti.

In recent years the beer market has been flat. Consumption has flat-lined and any growth at all, is found in the craft brewing sector. However, even though the days when Anheuser Busch spilled more beer than craft brewers sold are long gone, craft brews still account for only a small fraction of total beer sales. Buoyed by double-digit year over year sales increases, market share has just recently inched above the 10 percent mark and industry insiders point to double that as a realistic level in the future.

That rise in craft beer consumption is witnessed across the United States. In some regions of the country where craft brewers are just arriving it has not been unusual in recent years to see growth rates of 1,000%. In 2012, there were only two states where less craft beer flowed than the previous year, and one of those was Vermont, which has more breweries per capita than any other state.

## **The consumer is king**

In the heady days of the 1990s, brewmasters went into business to pursue a dream. In 2015, the dream is to satisfy the demand of the beer drinker for new

experiences. The average craft beer drinker pulls down an income about \$75,000 and has tastes that have graduated beyond light lagers. When these folks go out for the evening they are seeking a pub with 50 beers on tap, not just a handful.

Beer drinkers in their 20s and 30s drive the market and today's millennials are chasing flavor and variety, which are the province of craft brewers. This forces current brewers to constant innovation and leaves open space for new craft brewers with fresh ideas to join the taproom. Consumers are not just content to hunt down new brews but are eager to share their experience with other members of the craft brewing community.

### **New brews for new and not-so new markets**

With their new-found thirst for distribution, traditional craft brewers are beginning to resemble the big conglomerates on whose heels they have long been nipping. Big-name Western crafters like Oskar Blues, New Belgium and Sierra Nevada have moved into areas of the South where the craft beer movement has been slow to ignite. As these virgin territories become fewer and fewer these ambitious brewers are also becoming bolder in filling glasses in previously closed regions.

One of those regions is New England, the home of such formidable competitors as Boston Beer and Narragansett. These established brands have fended off incubating brewers in the past, with Massachusetts spawning only

1.2 breweries per 100,000 people. But between 2011 and 2013 the number of breweries in the Bay State has expanded from 45 to 57. Recently, D.G. Yuengling and Son muscled into the region with enough barrels to infiltrate 6,000 liquor stores, alehouses and restaurants.

New England not only boasts thirsty residents but attracts millions of visitors each year who look to partake in the local flavor, including craft beers. The region also is home to some of the largest and most influential craft beer events in America which, offer local brewers the opportunity to win converts and spread their brands.

### **What is the view from Wall Street?**

In 2006, when Chipotle Mexican Grill went public it registered the first triple-digit opening-day pop that had been seen on the markets in the restaurant industry. In the decade since, the public's preference for an upgrade over standard-issue fast food fare has only grown. In the past couple years Potbelly Corp and Habit Burger both exceeded even Chipotle's reach, rising 119.8 percent and 119.7 percent, respectively, on their first days. In January of this year the New York-based Shake Shack, despite a regional base of only 63 stores, burst from its IPO starting blocks with a 130 percent rise on opening day.

Clearly investors are willing to unleash the purse strings to follow companies who provide an upgrade on the traditional American dining experience. Craft beers deliver that same punch against Big Beer. Boston Beer went

through the IPO process in the 1990s to not wholly satisfactory results. But with the industry hopping, and the prime players eyeing expansion, cash is going to be needed to fund those plans in this fast-moving market. It seems this time around - investors may have the same taste for a premium product as the consuming public.