

HAS THE CRAFT BEER BOOM PEAKED?

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As said many times before in my editorials and other articles in the SBR, I'm firmly of the opinion that the US craft beer industry and scene is one or two decades – plus or minus a few years – ahead of our own here in the Nordic region. To the extent that we can talk about our region as a whole in this context with the very big differences from country to country in the 'maturity' of the craft beer scenes here. Thus, it's always highly encouraging for those of us who make a living in this segment of the industry to look to the US and see the extremely positive, and seemingly unstoppable, development in the craft segment there. This is always summed up once a year at the Craft Brewers Conference hosted by Brewers Association, the organization serving the small and independent (according to their own definition, mind you!) US craft brewers. Elsewhere in this issue of the SBR, you can read more about the World Beer Cup and the Craft Brewers Conference 2016 in an article by Finn Bjørn Knudsen and yours truly. The director of the BA, Paul Gatzka, and Chief Economist Dr. Bart Watson, always on opening day of the CBC give a presentation named 'The State of the Industry' where they not only present the statistics of craft beer for the previous year, but – which is at least as interesting – give an analysis and interpretation of the underlying trends and developments in the US craft industry, and this year was no exception.



But amidst the usual and expected cheers for Paul Gatzka's statement that 'craft beer sales are at an all-time high', reaching 12 percent volume share, there was a rather dramatic new development in Paul's presentation this year, as

this quote from the article on the WBC and the CBC states: *'...these overall positive figures hide some rather significant changes in the trends. The biggest of the regionals, craft breweries selling more than 50,000 bbrls ~ ca. 65.000 HL annually, has for many years been the group of craft brewers showing the biggest volume growth. But, in 2015, a stunning 75% of the 50 biggest*

regionals had seen either flat or dropping sales compared to 2014. So it seems that the enormous growth in the number of US breweries – currently there are more than 2 openings a day on a national level – is both reflecting and further pushing the current megatrend of buying local. And what the American beer drinker considers "local" is changing accordingly. A few years back "local" was anything within 50 miles from where you live, but now it's more like 5 miles!'

This is the first time since the early 1990s that there has been any significant stagnation or even decline in a major segment of the US craft industry. Our US correspondent, Finn Bjørn Knudsen, presented these figures and trends in some detail at the recent Nordic Meeting on Brewing Technology in Åland. (The first half of the article by Claes Fuglsang and myself with a short review of the meeting is published elsewhere in this issue of the SBR,

and in the next issue of the SBR we'll be bringing you the second half.) Like Paul Gatza, Finn emphasized his personal analysis of and thoughts about the development. Let me just briefly quote from Finn's presentation here: *'Craft sales are slowing down, (and some brewers' sales developments are) even in the red. Yes, you heard that correctly, craft as defined by Nielsen (which may exclude some flavoured brands included in others) showed red numbers in February, down 0.6%. Craft has been on a bit of a skid, in Nielsen especially, this new year, it's only up 2.9% YTD...'*

The "battle of the brewers" between local profitable independent and large international brewers started a couple of years ago and is intensifying with competitive pricing and (fight for) retail space in the market place. (Craft brewers') taproom sales take about 25% of the MillerCoors and ABI sales to on-premise accounts.'

Finn's interpretation of the sociological/demographic reasons for this development is closely linked to his observations of the consumer behaviour of the so-called 'Millennials', youngsters growing up during the first few years of the new millennium. These people do not drink a lot of craft beer, and Finn sees

little chance of them picking up this habit later. This pessimistic forecast is bad news for not just the craft segment but for the brewing industry as a whole. Whether it's because I do not want to believe this, or because I get my inputs from different places than Finn's sources, or just because I'm fundamentally a more optimistic person than Finn, I don't know, but I do not share his pessimism. I believe in the ability of craft beer to always be eye-to-eye with the consumers and thus present itself as relevant to them, and that this will also with time include the Millennials.

Also, in one of the latest versions of 'BRAUWELT International News' (2016, May, No. 2, 'Boston Beer draws shareholders' scorn' Source: Beer Marketer's Insights), my beer industry analyst idol, Ina Verstl, takes a look at some disturbing news for the world's largest craft beer company, Boston Beer Company:

'It's a cruel world out there. Boston Beer, once the darling of the financial markets, is about to turn into its pariah. Why? Because its growth rates have disappointed. The volume shipped by Boston Beer, the maker of Sam Adams beer, last year rose just 3.6 percent after enjoying double digit increases for years.' →

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Mind you, Boston Beer continued to grow but obviously not enough – whatever enough is. This slowdown has been reflected by its share price. Since reaching a record high of USD 324 a share in January 2015, its stock price has dropped by more than half to USD 154 in early May 2016.

Several analysts have advised Boston Beer's shareholders to sell their stock, especially when in April 2016 the company reported a 47 percent decline in first-quarter earnings and gave a depressing forecast for the year. Boston Beer expects beer volume to decline in 2016.

The company is now valued at less than 11 times this year's estimated EBITDA, which is a lower multiple than for the majority of its peers. Its market capitalisation still stands at USD 1.9 billion, though.

The founder of Boston Beer, Jim Koch, who has been around the industry longer than most, has been in and out of favour with the financial guys before. But these days, even he will have to concede that the craft beer boom he helped kick off is turning against him. His brand is neither big enough to compete with the Big Brewers, nor is it small enough to be considered an upstart and hence sexy.

Craft breweries are springing up at a rate of nearly two a day, according to the Brewers Association. There are currently over 4,000 in operation. The newcomers are taking tap handles, shelf space and sales, making it harder for Sam Adams to stand out from the crowd.

Mr Koch, who nowadays serves as Boston Beer's chairman, believes the consumer trends driving today's craft beer boom aren't permanent. "We are going through a period of a lot of experimentation and trial," said Mr Koch. The enthusiasm for new craft beers will wane, he predicts, and when it does, drinkers will buy Sam Adams again.

With craft beer's market share projected to rise to 20 percent by 2020 from 12 percent in 2015, he foresees a downturn in craft-beer quality because more people are opening breweries to cash in on the trend than make great beer. Mr Koch remains upbeat: "If we give drinkers better tasting beer, they'll drink more of it."

Apart from a very thought-provoking 'déjà vu' feeling when reading Jim Koch's interpretations of the slowing down in the growth of his beer brand, does this not sound a whole lot like what's been said in the board rooms of the big, international brewers when they've been faced with decline in their sales

compared to the growth of craft beer? What should we conclude based on all of this? Should we either start preparing for a dramatic downturn in craft beer sales, or should we simply run away from our current jobs and breweries looking for a safer industry to provide us with our income?

No, is my answer! We should just be jolly, optimistic and embrace the inevitable! The fact that the biggest of the craft brewers are reaching saturation as far as their sales are concerned is simply a consequence of their sizes combined with the mega-trend of buying and acting local (re: the first quote in this editorial from the article on the WBC and the CBC). Consumers are not only being increasingly focused on 'local', but their definitions of 'local' are becoming more and more narrow. Craft brewers simply cannot be ever bigger and still be considered truly local by their consumers in states or countries thousands of kilometres away from where they are located.

The topic of the sociological reasons for the boom in craft beer in the past 3 decades is one that has interested me more and more in recent years (and it was the topic of my talk at the NMBT, which was focused on craft beer and the consumer – so there will be some basic coverage of this in the next issue of the SBR, where we'll be bringing the second half of the NMBT article).

So, again, my answer to the rhetorical question in the headline of this editorial is another very loud 'NO!' There's absolutely no risk of craft beer being on the retreat anytime within the next couple of decades. Craft beer will, on the contrary, be an integral part of the consumers' perception of what's local and thereby what they can relate to. But the craft brewing industry will adapt and change with the changes in consumer behaviour and preferences. No craft brewing company will be able to grow to the size of the big international brewers, because they will then lose the 'local' part of their identity. Implicitly, these views also mean that my view of the serious concerns of many observers when looking at the crazy boom in the number of new craft breweries is much less pessimistic. Because the new breweries are small and very local, and this is precisely what craft beer consumers today and in the foreseeable future will be asking for.

As usual, drop me a line at anders@kissmeyer.dk if you have comments on or opinions about this editorial – or any other suggestions for or thoughts about the SBR. ☺

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