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Craft Beer Craze: Fad or Here to Stay?

By Kenneth Rowland

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Over the years there have been many fads come and go. Some of them are in the form of a product such as crocs, wristbands for a cause, silly bandz, and one of the most recent, fidget spinners. Some of them come in the form of actions or social events or gatherings such as flash mobs. Many of the fads I have listed here have come and gone. People may still be seen wearing crocs but not near the amount when they were first introduced. People may still be seen wearing one cause related wristband but I remember when it was cool to have five or more on one arm. Silly Bandz were popular with my daughter for about two years but I haven't seen them since. To be honest I know flash mobs were more popular in the larger cities but I have never seen one in person. Craft beer has recently exploded on the scene and it may be looked at as a fad. Craft beer is not a fad and it is here to stay.

No other current long-standing industry has seen a similar fast paced growth as that of craft beer. The craft cider making and wineries have seen a similar growth but they are in the same genre and are just as young as craft beer so they do not make a good comparison as there is not enough data to fully understand the sustainability of those industries. Small business lending has seen very rapid growth but it too is very young and difficult to determine if the growth is sustainable and the industry as a whole does not lend itself to being a "fad". The one thing all of these industries have in common is they started very small and grew at a pace that far outpaced the United States economy as a whole. They could all end up being fads or they could all continue success to some degree. However, based off data and analysis craft beer has the best chance to continue its success.

Alcohol in general has been a staple of human existence for quite some time. According to Evan Andrews the first evidence of beer being made around 5,000 years ago by the ancient Sumerians in Mesopotamia (Andrews, 2014). This evidence comes in two forms; ceramic vessels from around 3400 B.C. still containing a residue similar to beer and a song or prayer to the goddess of beer called "Hymn to Ninkasi" which details the recipe to make beer (Andrews, 2014). I have always thought, and heard through movies that beer was created by monks in Europe and it was done because it was safer to drink than the water. While the safer to drink than water may be a fact, it was not the monks. I wonder if the Sumerians thought it would be a fad?

With the history of beer out of the way where did "craft beer" come from and what is it exactly? Prior to prohibition many foreign beers could be found on the shelves in American. This is because America is a nation of immigrants. Those immigrants either brought this beer with them or brought recipes and knowledge of how to make it. In the 1970's is when things really began to change. These beer styles that had come from all over the world were quickly beginning to fade and people had a very specific taste. This taste was for a light lager style beer lower in calories (History, n.d.). Large brewing companies had perfected this style and found it to be cheaper and quicker to make. Through marketing and suggestive sales this style quickly cornered the market. In 1970 there were only 44 breweries in the United States (History, n.d.).

Around the same time these assorted styles were vanishing from the shelves at local stores homebrewing was becoming more popular. The people that wanted to drink the other

styles could not buy them so they had to make them (History, n.d.). Some of these homebrewers became very good at what they were doing and started opening very small microbreweries to share their creations with the public. In History of Craft Brewing on Brewers Association website it states that “In 1976, what some call the true renaissance of American craft brewing emerged with the founding of The New Albany Brewery in Sonoma, California”. This led to homebrewers being inspired to do the same and hundreds of microbreweries popped up in the 1980’s (History, n.d.). Craft brewing was a way to reintroduce the public to more flavor and traditions of beer that had been nearly gone for a decade but slowly vanishing for almost a generation.

The big boom in the craft beer industry occurred in the early 1990’s. In 1991 the industry grew by 35% and by 58% in 1995 but suddenly hit a wall in 1997 only increasing by 5% (History, n.d) Again in 2004 there was an acceleration of growth in the industry gaining 6%-12% growth year over year through 2008 (History, n.d.). In 1980 there were eight craft breweries in the United States. In 2013 there were over 2,800 craft breweries with another 1,500 in development in the United States alone (History, n.d.). Today there are over 5,000 breweries operating in the United States (Baker, 2016).

While the growth within the craft beer industry has been somewhat astonishing one thing that must be looked at to understand its sustainability is how craft beer is faring in the overall beer market. In 2016 craft brewers had a little more than a 12% market share in the overall beer industry (Baker, 2016). The Brewers Association set a goal in 2014 that by 2020 20% market share of the total US beer market would be craft beer (Shoup, 2017). While nearly 99% of all the United States breweries are in fact small and independent breweries, they still only hold a market share of 12.3% (Baker, 2016). Small and independent brewers saw a very large gain in market share going from 5.7% in 2011 to 11% in 2014 going (Cohen, 2017). However, since 2011 the growth in market share has only been 1.3% closing 2016 at 12.3% total market share (Cohen, 2017). While some may look at this statistic and say it’s still a gain so it’s a positive thing, I look at it and wonder why the sudden stalling of growth?

I have a few opinions on why this growth has stalled a little. One of them is options. That may not make sense to some people. Why would having more options decrease the amount of growth in an industry? I will try to explain this using my own firsthand experiences. I am 35 years old. I have been drinking, legally, for 14 years now. When I first started drinking beer, I drank the cheapest thing I could find for a couple of reasons. Firstly, it was all I could afford and secondly, because my only goal was to get as drunk as I could as fast as I could. Things have changed quite a bit since then. As my tastes for different styles of beer broadened I began to seek out these new styles and flavors. This was ten or so years ago when there weren’t a lot of easy to get options in different beer styles. It was almost a chore to try different styles and I would try every different brand I could find. Today at least five different styles of beer from five different breweries can be found at a local grocery store.

Once I began drinking craft beer, I rarely drank the beers from the large breweries as I found they lacked flavor and complexity. Since I no longer purchase much, if any, beer from the large breweries I am now picking from the craft beers available to me. The craft beer industry has matured and has become quite large. This means the craft breweries are no longer competing with the larger breweries for market share, they are competing with each other. The gains of one craft brewery are the loss of another and barely felt by the large breweries. Instead of cutting in to the overall market share each individual craft brewery is cutting into the market share of other

craft breweries. While this may be cutting into the market share of each individual small brewery, it still keeps the idea of craft beer alive. I am not choosing large beer over craft beer.

Another item that could potentially threaten the craft beer industry is legislation. Most of the threatening legislation is at the state level so while it does not affect the entire market, it does affect the smaller markets within certain states. One particular law in Florida specifically targets smaller breweries with a taproom and brew pubs. The law is in place to limit how much breweries can sell directly to their customers (Anderson, 2015). Many breweries open taprooms within their breweries in order to sell their beer. There are still small breweries that do not have any widespread distribution and all of their sales are either through their taproom or by providing kegs to local bars. A lot of the business in these breweries come from the flights, or tastings. People come to try the particular breweries beer, find something they really like, and stay to have a few more or even order some food. In Florida, there has been a law in place for many years that manufacturers of alcohol cannot sell their products directly to its customers (Anderson, 2015). However, many of these breweries have been operating under an exemption that was put in place for Busch Gardens Theme Park called the “tourism exemption” (Anderson, 2015). Because of this distributors and retailers have been pushing the State of Florida to place restrictions on the breweries (Anderson, 2015). In 2016 a bill was passed in Florida stating that breweries could not operate more than 8 taprooms and put a cap on the amount of beer that could be transported between these taprooms without using a distributor to do so (Anderson, 2015).

More recently there was legislation in North Carolina regarding the amount of beer a brewery can produce and distribute without the use of an independent distributor (Gutierrez, 2017). The new law would mandate that if a brewery makes more than 25,000 barrels of beer it must hire an independent distributor for distribution (Gutierrez, 2017). While many breweries that are this size already choose to hire independent distributors, the outrage is over the fact it is becoming mandatory. Some breweries worry that no distributor will ever care as much about the product as the brewery that makes it and that could lead to a lower quality product reaching the customers (Gutierrez, 2017).

In Wisconsin, an anonymous group is pushing for similar legislation as what recently occurred in Florida, but is wanting it to be stricter. The proposed legislation is said to be a means of “beefing up” the “three-tier system” of manufacturer, distributor, and retailer (Rochester, 2017). The group states that by small breweries, wineries, and artisan distilleries having direct sales to customers through taprooms, tasting bars, and inside sales they are circumventing the system that is meant for each of the three tiers to be completely separate entities (Rochester, 2017). Many believe this system to be outdated and even “archaic”.

At the same time, there are some states that are passing legislature in favor of small breweries. In South Carolina Governor McMaster recently signed two bills into law (Grove, 2017). The first bill allows craft breweries to donate their products to charities and participate in nonprofit events by pouring product and providing equipment (Grove, 2017). As early as last year law prohibiting these two things were becoming much more strongly enforced (Grove, 2017). While it doesn’t sound like giving away product for charity or participating in nonprofit events is an effective way to help succeed in business, these things can be thought of as free advertising while also doing something good for the community. Events like these are how a lot of breweries are found. The second bill allow breweries to sell liquor (Grove, 2017). This has a much greater impact on brewpubs and taprooms than the brewery itself allowing for another means of revenue.

The data shows that this industry is not a fad. Even with some states looking to add legislation making it more difficult to brew beer in a small brewery, IBISWorld has a very strong outlook for the craft beer industry. According to Nick Petrillo, “IBISWorld anticipates the industry to experience even further growth of the next five years and projects industry revenue to grow at an annualized rate of 4.4%” (Petrillo, 2016). This is obviously good news for the industry, but there is a bit of caution as well. IBISWorld expects that the industry will begin seeing large challenges from other alcoholic beverage industries, particularly domestic and foreign wine (Petrillo, 2016). Since IBISWorld also forecasts the wine industry to have a significant increase over the next four years there could be some trading of market share between the two.

According to the industry life cycle map on IBISWorld the craft beer industry is still in its growing phase (Petrillo, 2016). Not only is it growing, it is growing at a rate much faster than the overall economy (Petrillo, 2016). This too is a good sign for the industry as a whole, but I also see it as a sign that it is not likely sustainable. Things tend to flatten out over time.

One thing that I did not consider when thinking about this project was the impact of international appeals and sales. According to IBISWorld, many of the world’s largest brewers no longer even consider North America an area of significant interest due to the increased popularity of craft beer (Petrillo, 2016). As far as exports of craft beer, IBISWorld expects a continued climb growing at an annualized rate of nearly 24% but also expect imports to global craft beers to increase by 16.1% (Petrillo, 2016). Having the ability to not only sell your product locally but also branch out into exporting will help the industry stay relevant for many years.

So far all of the statistics I have provided have shown growth through the end of 2016. The growth started out at an extremely high rate in the 1990’s, cooled down in the late 90’s early 2000’s and the skyrocketed again in 2004. With that being said the market has slowed down a bit leading some to believe it may be a fad and will eventually end. According to Chris Morris, writer for Fortune, “the days of explosive growth may be over” (Morris, 2017). The mid-year production volumes for 2017 show an increase of 5% while the same number in 2016 was 8% and in 2015 was 15% (Morris, 2017). Experts say, the growth pace for small and independent brewers has stabilized at a rate that still reflects progress, but in a more mature market (Morris, 2017). Market analysts are a bit more conservative than this even. In early August Goldman Sachs downgraded Boston Beer Co., makers of Sam Adams, to “sell” citing concerns about slowing U.S. beer volumes (Morris, 2017). This may also be tied to the fact that “big beer” is buying out craft breweries across the nation. The largest beer conglomerate in the world, ABInBev, has recently procured several of the larger craft breweries. Some see this as a better way to market the craft beer while some worry ABInBev will eventually close them and continue to focus on their more profitable beers such as Anheuser Busch, Heineken, and MillerCoors. I believe the popularity of craft beer will keep the smaller brands afloat amongst the acquisitions.

Another impact on the craft beer industry that I had not thought of is the U.S. Economy. Andrew Floan, one of my peers, had a very good observation. He stated, “often times the quality of beer I drink is affected by gas prices”. Stating “if gas is \$1.85/gallon I drink craft beer. If gas is \$2.65 a gallon I’m drinking PBR (Pabst Blue Ribbon, a well know “cheap” beer)”. While I was not able to find any hard data discussing this point I did find one article on Investopedia that somewhat discussed this thought. The author, Brent Radcliffe states that “the overall beer industry is often considered “recession proof” but that each individual market within the industry may react differently to economic cycles” (Radcliffe, n.d.). With all of this being said logic

would lead to the “buy what you can afford” ideology. I would fully expect the craft beer market to see a decrease in sales, production, and market share if the economy were to turn for the worse.

While there is a portion of the population that will always stick to there Bud Light or Miller Lite and never adventure into the world of craft beer , millions of people have already taken the plunge. The vast majority of these people will continue to drink craft beer and introduce the industry and its products to people. This is what keeps an industry going. Craft beer is not something that will become boring. It is a staple of society at this point. People will always drink beer and a segment of the population will always seek out new flavors and complexity that cannot be found in “big beer”. Craft beer will always be relevant. Craft breweries will continue to pop up daily even if its at the expense of a failed craft brewery. Craft beer is, in fact, no fad and I for one am happy to be a part of its growing success.

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