Breweries

Industry Snapshot

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Industry Segments

The brewing industry is broken into two primary categories – large-scale breweries and smaller-scale breweries. The industry segments generally recognized are defined below:

To be a "craft brewery," a brewery must meet the following criteria[1]:

> **Small:** Annual production of beer less than 2 million barrels. Flavored malt beverages are not considered beer for purposes of this definition.
> **Independent:** Less than 25% of the craft brewery is owned or controlled (or equivalent economic interest) by an alcoholic beverage industry member who is not themselves a craft brewer.
> **Traditional:** A brewer who has either an all malt flagship (the beer which represents the greatest volume among that brewer's brands) or has at least 50% of its volume in either all malt beers or in beers which use adjuncts to enhance rather than lighten flavor.

A "microbrewery" is a subsection of the craft brewing segment. A microbrewery is defined as[1]:

> A brewery that produces less than 15,000 barrels (17,600 hectoliters) of beer per year with 75% or more of its beer sold off site. Microbreweries sell to the public by one or more of the following methods: the traditional three-tier system (brewer to wholesaler to retailer to consumer); the two-tier system (brewer acting as wholesaler to retailer to consumer); and, directly to the consumer through carry-outs and/or on-site taproom or restaurant sales.

All other breweries would be classified simply as "breweries."

Industry Data

Craft Brewing Figures[1]:

- Craft brewing is a $6.3 billion dollar industry annually
- The craft brewing segment of the industry grew 5% by volume and 9% by dollars in the first half of 2009.
- In 2008, growth of this segment was 5.9% by volume and 10.1% by dollars.
- The industry produced 8.6 million barrels of craft beer in the US in 2008
- Craft brewing's share of beer sales as of December 2008 was 4% by volume and 6.3% by dollars.

Craft beer production for 2008 was as follows[1]:

2008 Craft Beer Industry Production Volume	
Regional craft breweries	5,749,556 bbl up 12.5%
Microbreweries	886,494 bbl down 8.4%
Brewpubs	696,132 bbl down 2.9%

[1] Brewers Association. www.beertown.org. Accessed November 30, 2009.

General Industry Figures[2]:

- Overall US beer sales are down 1.3% in the first half of 2009 compared to 2008
- Imported beer sales are down 9.5% over the same period
- The overall US beer market in 2008 was approximately $101 billion, or 210,619,000 barrels of beer

Establishments[2]:

1,525 Total US Breweries
1,482 Craft Breweries
    962 Brewpubs
    456 Microbreweries
    64 Regional craft breweries
20 Large Breweries
23 Other Breweries

As of data available for 2009, Washington had 123 breweries total, an increase of 14 from 2008[3].

Success Factors

Examples of Successful Microbreweries[4]:

- The Flying Dog Brewery, established in Aspen, Colorado in 1990, was one of the first brewpubs in the Rocky Mountain region. It has an estimated market share of 0.5% and over the years has increased production to more than 52,000 barrels per year.
- The Redhook Ale Brewery began in Seattle, Washington in 1981. Demand for the product expanded, and to keep pace with demand, Redhook built a second brewery in Woodinville. Its sales of $33.4 million represent 0.2% of the domestic brewing market.
- The Alaskan Brewing Company opened in 1986, and its brands became popular very quickly. The company invested in a 100-barrel brewhouse in 1995, and is able to serve the entire Pacific Northwest. Its estimated market share is 0.5%.

Industry Turnover Rates[5]:

2008 US Openings	**2008 US Closings**
48 Brewpubs	35 Brewpubs
46 Microbreweries	16 Microbreweries
1 Regional Brewery	
1 Large Brewery	

[2] Brewers Association. www.beertown.org. Accessed November 30, 2009.
[3] The Beer Institute. www.beerinstitute.org. Accessed December 1, 2009.
[4] IBISWorld. *Beer Production in the U.S.* October 12, 2009.
[5] Brewers Association. www.beertown.org. Accessed December 1, 2009.

Risks and Challenges

In the current economic climate, domestic beers have been favored over imported beers. Domestic demand is estimated to have fallen in 2008 but is rising in 2009. It is forecasted to grow by 2.3% at year end, compared to the previous year. The industry is also being boosted by the reversal of a previous shift away from beer towards wine and spirits. Alcoholic beverage consumption has been following a long-term upward trend. Craft breweries continue to compete on their uniqueness and the quality of their product. Some large brewers are trying to compete with specialty brews[6].

The brewing industry is highly regulated – including regulations pertaining to brewing, marketing, sales, distributor relationships, transportation and environmental protection. Brewers typically require numerous licenses and permits from a variety of agencies. In addition, a considerable amount of liability insurance is required to cover litigation risks. States regulate retail sales, distribution, and alcohol content levels[7].

Trends

The biggest-selling brews are light beers, constituting about 50% of sales. In addition, more women are drinking beer. Growth of more costly beer segments is largely supported by consumers with incomes over $50,000, who spend 50% more on beer annually than do lower earners[6].

The influence of craft brewers has increased the prevalence of smaller quantity brews with unique flavorings, quality ingredients and strong branding. In addition, seasonal brews are increasingly popular, with summer, winter and Oktoberfest varieties turning up on the shelves[6].

Breweries per Capita

At the end of this letter, you will find a report titled, "Breweries per Capita." This list, produced by the Brewers Association, includes the top states by the number of breweries per capita. The top five states are below[8]:

1. Vermont 1 brewery for every 32,698 people
2. Montana 1 brewery for every 35,831 people
3. Oregon 1 brewery for every 40,753 people
4. Maine 1 brewery for every 42,466 people
5. Colorado 1 brewery for every 47,956 people

Washington ranks 8th, with 100 breweries, or one for every 65,492 people.

[6] IBISWorld. *Beer Production in the US*. October 12, 2009.
[7] First Research. *Breweries.* September 14, 2009.
[8] Brewers Association. www.beertown.org. Accessed December 1, 2009.

Over the last five years, consumption per capita has fluctuated, but it is estimated to have increased overall, at least since 2007[9].

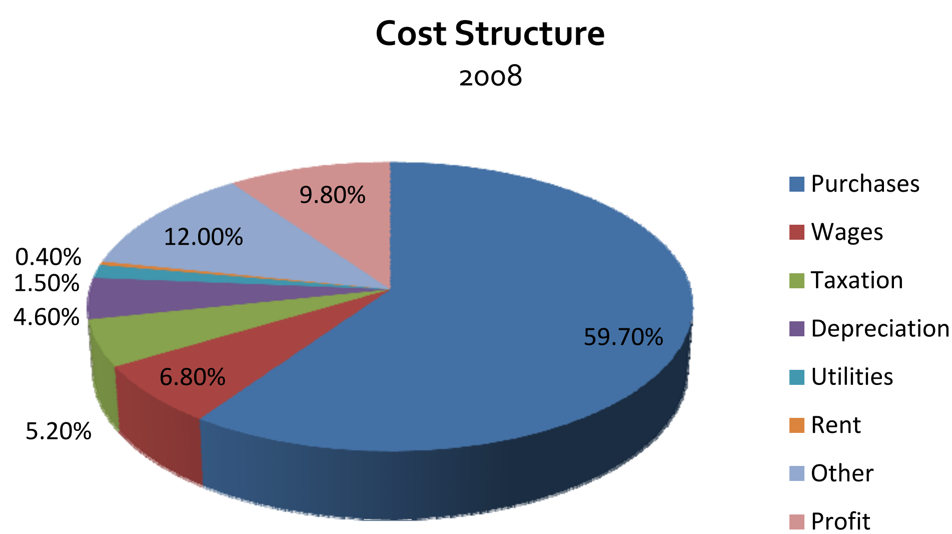
Consumption of beer by state, for the top five states is as follows[10]:

1. California
2. Texas
3. Florida
4. New York
5. Illinois

Washington ranks 16th in the US, with per capita consumption of 28.7 gallons (per person over the age of 21).

Financial Information

There are few benchmarks available to smaller breweries. Below is the cost structure for brewers, on average[11]:



[9] IBISWorld. *Beer Production in the US.* October 12, 2009.
[10] The Beer Institute. www.beerinstitute.org. Accessed December 1, 2009.
[11] IBISWorld. *Beer Production in the US.* October 12, 2009.

Breweries Per Capita 2008

Breweries Per Capita Rank	Total Breweries	State	Breweries Per Capita
1	19	Vermont	32,698
2	27	Montana	35,831
3	93	Oregon	40,753
4	31	Maine	42,466
5	103	Colorado	47,956
6	14	Alaska	49,021
7	10	Wyoming	53,267
8	100	Washington	65,492
9	7	Delaware	84,548
10	66	Wisconsin	85,272
11	15	New Hampshire	87,721
12	16	Idaho	95,239
13	15	Nebraska	118,895
14	16	New Mexico	124,022
15	70	Michigan	142,906
16	5	South Dakota	160,839
17	8	Hawaii	161,025
18	16	Nevada	162,510
19	17	Kansas	164,831
20	75	Pennsylvania	165,977
21	221	California	166,320
22	18	Iowa	166,809
23	38	Massachusetts	170,999
24	14	Utah	195,459
25	29	Missouri	203,848
26	5	Rhode Island	210,158
27	16	Connecticut	218,828
28	28	Indiana	227,743
29	22	Minnesota	237,291
30	32	Virginia	242,784
31	26	Arizona	250,007
32	21	Maryland	268,267
33	42	Ohio	273,474
34	33	North Carolina	279,467
35	3	DC	291,031
36	6	West Virginia	302,411
37	41	Illinois	314,672
38	14	South Carolina	319,986
39	56	New York	348,041
40	14	Tennessee	443,921
41	39	Florida	469,957
42	18	New Jersey	482,370
43	7	Oklahoma	520,337
44	16	Georgia	605,359
45	7	Kentucky	609,892
46	1	North Dakota	641,481
47	36	Texas	675,749
48	4	Arkansas	713,848
49	5	Alabama	932,380
50	4	Louisiana	1,102,699
51	1	Mississippi	2,938,618