

The Future of the Craft Beer Industry

By Shoshanna Delventhal | Updated November 06, 2015



In the 1970s, the number of breweries across the U.S. stayed stagnant, just below 100. Since then, beer's popularity has bounced back as a mass of microbreweries are consistently opening in the U.S. These breweries are changing the essence of being a brewery and often serve a dual-purpose as a neighborhood hang out and production site.

According to the Brewers Association, the number of craft breweries in the U.S. passed 4,000 in the fall of 2015. The current number of craft breweries approaches America's historical high of 4,131 breweries over a century ago in 1873. This growth stretches from coast to coast, and now three-quarters of legal



drinking aged adults live within 10 miles of a local brewery—meaning there's a 75% chance that if you want, you can to walk to happy hour.

The Brewers Association stores a database of information on the closings and the openings of breweries. Due to the widespread local support of these local breweries, approximately two are opening daily. Factoring in closings, approximately 1.9 breweries across the U.S. open their doors for the first time per day.

Beer Connoisseurs: The New Wine Snobs

America's beer culture has spread like wildfire, as local pubs shine the light on unique tasting beers with diverse flavours. Most of us know that beer can be light and heavy. But how would you handle yourself if you were asked to describe the body, head, and finish of your (hopefully) cold one?

A growing number of beer connoisseurs demand innovative beers such as sour beers, jalapeno beers, double IPAs, chocolate peanut butter porters, and other creative combinations.

Market Saturation vs. Growth Potential

The rise of American craft beer is surely not losing momentum. As the demand for local breweries grows, new players enter the market. For these breweries, production generally stays local and does not scale, making room for new breweries to become their neighborhoods' go-to restaurant and bar. The trend is towards obtaining a multi-purpose status as a local joint that serves homemade beer and food.

Take Two Roads Brewing Co., based out of a renovated brick factory building in Stratford, Conn. The brewery has several celebrations throughout the year like its "Road Jam Fest" in the summer. This less in-your-face type of marketing involves



local businesses and restaurants, and local musicians who invite friends and perform at the brewery's grounds. Many breweries have this capacity since breweries are generally large enough to host big events.

Bart Watson, chief economist for the Brewers Association, suggests that although “a return to the per capita ratio of 1873 seems unlikely (that would mean for than 30,000 breweries), the resurgence of American brewing is far from over.” He supports the prospect for immense and continual industry growth with the fact that over 1,000 cities with populations over 10,000, and other neighborhoods within bigger cities, do not have a local brewpub or taproom. We're likely to see more innovative, local entrances that capitalize on this supply vacancy.

Challenges For the Future

Despite the upside prospects, challenges exist for craft breweries to differentiate themselves from the competition. Breweries develop competitive advantage best by appealing to specific local markets. Producers should conduct thorough market research to gauge the population and decipher key competitors' market hold.

Many also argue over the future of the craft brew business model. Is it the right call to buy up smaller competitors and scale or stay true to the local ethos? Rich Doyle, Harpoon Brewery's co-founder, recently held the former view and decided to cash out his approximate 40% ownership of the company when fellow leaders rejected his proposition to buy out smaller players. According to the Boston Globe, co-founder Dan Kenary now holds the role of CEO, supporting the decision to sell former owner's stock to an employee stock ownership plan (ESOP). Kenary says an employee-owned model is a great fit for the craft beer industry, which embraces a culture of inclusion and community.



The Competition's Response

Whether the competition's response has been successful or not is very subjective. During the 2015 Super Bowl, Budweiser ran controversial advertisements mocking the American craft brewery scene. Well-warranted criticism and confusion ensued, as Bud had recently acquired craft breweries who sell varieties that they mock. (To read more, see: *Anheuser-Busch InBev Still Thirsty for Craft Beer.*)

Many breweries fought back against this blatant insult, creating their own video parodies of Bud's commercial. A video ironically named "Brewed the Easy Way?" by Ninkasi Craft Brewery in Eugene, Oregon, takes a jab at Bud's attempt to belittle the craft brew market.

The Bottom Line

The volume of craft breweries across the U.S. skyrocketed from less than 100 in the 1970s to more than 4,000 in 2015. Craft breweries aren't just producing new varieties of quality beer; they're attempting to revolutionise the nature of consumption. If business conditions return to what they were at the peak of craft brew's success, then growth prospects for new players in neighborhoods and cities across the U.S. looks promising. Bottoms up.

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