



Future of US Craft Brewing Survey Results Report BeerAppreciation LLC, February 2008

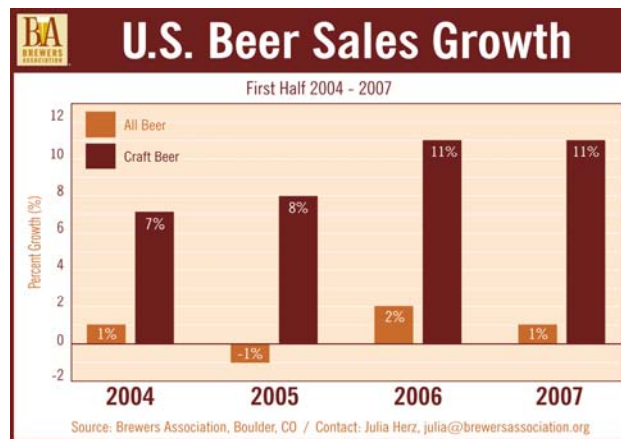
Survey Background

On January 20th, 2008 BeerAppreciation LLC sent out an unsolicited email survey on the future of craft brewing to a list of about 70 craft brewers, beer writers, distributors, promoters and material suppliers. The 40% response rate, perhaps spurred by the recent buzz over impending price hikes in craft beer, was higher than expected.

Greg Kitsock the editor of the Mid Atlantic Brewing News in his editorial in the December 2007 edition of his periodical stated: "I can't tell you how much more you'll pay for a sixpack of your favorite craft beer next year. I've heard estimates from various sources ranging from 50 cents to two dollars. But prices are heading skyward". The reasons for the anticipated cost increases are various as well - including higher prices for materials and transportation, a reduced amount of barley being harvested and a shortage of many strains of hops.

Against this backdrop of a growing shortage and higher prices for materials, the craft beer market has continued to grow at an astonishing rate. The Brewers Association, the trade association that tabulates industry data for craft brewers, reports craft beer sales and growth continue to break records. The volume of craft beer sold in the first half of 2007 rose 11% compared to this same period in 2006. For the first time ever craft beer has exceeded more than a 5% dollar share of total US beer sales.

Figure One – US Beer Sales Growth 2004 - 2007



It would appear that the craft beer industry is faced with significant drivers for change in 2008 and the near term future. BeerAppreciation LLC asked an assortment of craft beer industry insiders and promoters what they thought about the future of their industry and about the issues of major impact. What follows is an analysis of the results of that survey.

Executive Summary

It is clear from the responses throughout the survey that the craft brewing industry is going into 2008 with strength but will be facing some challenges and changes in the near term. It is one thing to know that change is coming, it's another to know what the changes will be.

The survey depicted a commonly held belief in the industry that the impending brewing material shortages will raise the cost of craft brewed beer significantly (50 cents to \$1 a draft to the consumer) in the immediate future. Even so there is a parallel belief that the cost of craft beer in comparison to other high quality consumables has long been suppressed, and that the inevitable price increases in 2008 are justifiable and should be found acceptable by the craft beer consumer. A key problem identified in the survey responses is that there is real concern in the industry that those that serve craft beer and the consumers themselves need more education about the value of their craft beer and craft brewing. Without this education, it would appear that the rise in prices for the product may well have a negative impact on the industry.

Respondents that categorized themselves as "brewers" in particular expressed concern about maintaining the quality of the craft brew so that the extra expense to the consumer could be more easily accepted. Respondents categorizing themselves as "writers/publishers" were less concerned about quality and the higher price point and instead more concerned about educating the craft beer consumer in general as critical to future success for the industry.

As one respondent explained:

"(Macro) industry beer is marketed almost exclusively based on the notion that its customers are morons. Craft beer appeals to people who consider themselves to be somewhat more advanced than morons. Knowledgeable consumers therefore are highly responsible for "pulling" demand. At the same time, educated bartenders/servers can help "push" craft beer by demonstrating how it is a sophisticated product."

In a similar vein another comment that crystallizes the common theme was:

"Good product, produced consistently, provided to knowledgeable customers will outweigh issues with the Macro breweries and hop/malt supplies."

There is also a consensus that beer styles will change in the near term and more lower gravity beer styles likely to emerge. Over 80% of the respondents thought that there would be some changes in styles.

As one brewer put it *"It's still cheaper than wine or coffee. Craft beer drinkers have been getting an incredible bargain for a long time"*, while another "non-brewer" respondent warned: *"Stop with the price increases. You are going to kill your industry, it is a recession"*.

The bottom line conclusions of the survey appear to be that as craft beer is becoming more of a "luxury" due to price increases, unless consumers are educated to the value of craft beer problems for the industry may emerge. Without consistency and quality craft beer can't be expected to be perceived as a luxury item. Servers and bartenders are some of the best resources to help in consumer education, and it would appear that the craft industry would be well served to rapidly create a process and tools to help educate them as near term changes in the industry occur.



Survey Methodology and Demographics

Please Note: *This survey is not intended to represent an authoritative voice for the entire craft beer industry, or even a scientific sample of opinion. Instead this survey is intended to help inform those interested in craft brewing in general about a consensus regarding what is going on in craft brewing today based on the input of selected brewers, writers and others with a direct interest in the industry.*

The email survey was sent to a list of craft beer industry email addresses culled from business cards and emails collected by BeerAppreciation LLC over the past two years from beer events (including the GABF, Philly Beer Fest and Brewtopia in NYC) and other beer related educational activities. Recipients of the survey included writers from craft beer periodicals and books, distributors, brewers, material suppliers and tavern owners. The survey could be responded to anonymously, though two thirds of those responding gave their email address for a copy of the results.

Respondents to the survey categorized themselves as follows:

Answer Options	Response Percent
Brewer	25.9%
Brewery/Brew Pub Manager/Owner	0.0%
Writer/Publisher	33.3%
Beer Distributor/Sales	11.1%
Bar Owner/Manager	11.1%
Other	18.5%

Some of the "others" described themselves as: Beer History and Appreciation lecturer, Advertising and Promotional, material provider, promoter of beer events.

Questionnaire Responses and Analysis

Question One: "As I look at the Craft Brewing Industry now (2008) I think it's near term future is:"

Responses:

Answer Options	Response Percent
Great - Growing and gaining respect	42.9%
Good – Growing	33.3%
OK – Stable	0.0%
Mixed - Some good and bad	19.0%
Weakening - Signs to worry about	4.8%
Not Good - About to see decline	4.8%

Comments Included:

"If the only cost factor on the beer market were rising commodities costs -- hops, malts, and glass -- I'd say it looked rough for craft. But imports are dealing with a weak dollar; they're looking expensive beside craft, so people will probably shift in their direction: overall gain for craft."

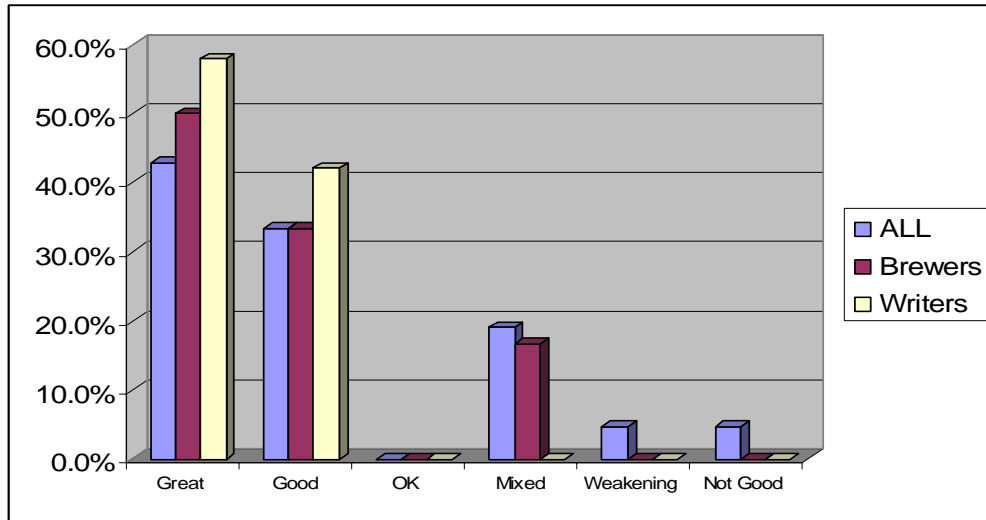
"Prices will temper new customers. Added costs to bar owners will slow acceptance"

“Need to continue expanding beyond the core young male beer drinker market”

Analysis:

While more the 75% of all respondents felt that the near term future was “Good” or better, there was a significant minority that felt that there were things to worry about. Interestingly all but one of the respondents that categorized themselves as a “Brewer” or “Writer/publisher” responded that the future looked “Good” or “Great”.

Figure Two: Overall Future View based on Respondent Category



Question Two: “Please rank your opinion of the impact of the following issues on the Craft Brewing Industry in the near term:”

Respondents were offered a list of issues and asked to rate the impact of each issue from severe to none. They were also encouraged to explain their choices.

Responses (with top three in each category in Bold):

Answer Options	Severe	High	Medium	Low	None
Educated consumers	9.5%	71.4%	14.3%	0.0%	4.8%
Product accessibility	19.0%	52.4%	23.8%	0.0%	4.8%
Publicity	4.8%	38.1%	38.1%	14.3%	4.8%
Revision of laws/restrictions	4.8%	23.8%	52.4%	14.3%	4.8%
Competition within Craft Brewing	0.0%	28.6%	42.9%	23.8%	4.8%
Quality and consistency of product	28.6%	33.3%	14.3%	19.0%	4.8%
Price point	23.8%	42.9%	19.0%	14.3%	0.0%
Diversity of styles	0.0%	33.3%	33.3%	23.8%	9.5%
Competition by Macro Brewers	4.8%	33.3%	23.8%	28.6%	9.5%
Material shortages (Hops/Barley)	52.4%	28.6%	14.3%	0.0%	4.8%
Competition from other alcoholic beverages	4.8%	14.3%	28.6%	38.1%	14.3%
Knowledgeable Servers/Bartenders	19.0%	61.9%	14.3%	0.0%	4.8%



Comments Included:

"The biggest thing holding craft sales back is accessibility. People want to buy craft beer, but it's not available at bars and restaurants, it's not available in stores. If it's there, they'll buy it. The hops shortage is real, it's severe, and it probably won't get better in 2008, and it will put some small production brewers out of business."

"Craft ID's need to distribute craft beers. Do you think any craft stout will replace Guinness by a salesman who distributes Guinness?"

"Quality and consistency is paramount. Consumers don't want to pay a premium price for a case of beer that is good one day and not the next time."

"The hop and barley shortage is a big deal, hops in particular. Some breweries that didn't contract for their hops will not get any. Brewers will have to change the way that they approach things, and you will see a reduction in the amount of over hopped beers."

"Carryover stocks are almost non-existent. Hop business take several years to come into full production and most of the new acreage is in high alpha hops vs. aroma hops. This is going to cause major price increases and changes in brewing styles... There are greater opportunities in places like restaurants where pairing beer with food is one of the hottest items, according to a restaurant survey."

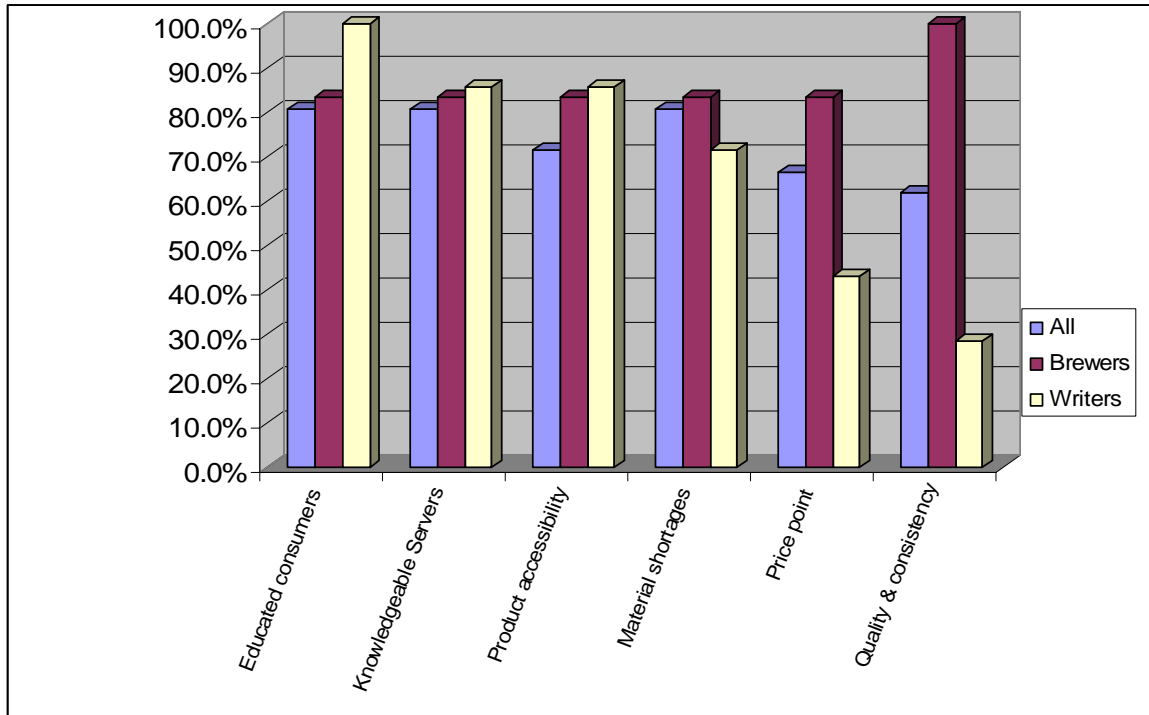
"I am still amazed by the number of upscale restaurants that have no beer program. You can get a \$200 bottle of wine, but you cannot find anything beyond a Heineken at many of these places. And bartenders can be poor sources of info. It is the exception to the rule to find bartenders who know anything -- even the basics -- about the beers they stock"

"Good product, produced consistently, provided to knowledgeable customers will outweigh issues with the Macro breweries and hop/malt supplies."

Analysis:

Based on all respondents, the areas of most concern (selected as of severe or high impact on the industry's future) were: Material Shortages, Educated Consumers and Knowledgeable Servers and Bartenders. These issues were followed by Product Accessibility and Price Point. Brewers in particular expressed concern over Quality and Consistency of Product (which they listed as of highest impact). Those respondents that considered themselves Writers/Publishers selected Educated Consumers and Product Accessibility as top concerns.

Figure Three: Percentage of Respondents Indicating the Issue as of Severe or High Impact, by Respondent Category



It would appear that the industry feels that while well craft beer is generally well positioned, the public – consumers and potential consumers need a have a better understanding of the value of their product. The impending material shortages and linked price increases are of significant concern, but the following comment would seem to summarize the issues:

"The consumer needs to understand why they should get a better experience, at a higher price. They need to value what makes craft beer different and better."

Based on comments like these, it seems clear that the industry needs to invest more time and resources in education of the craft beer consumer and their contact points: bartenders and servers on the value of craft beer.

Question Three: "I think that the downturn in malt production and the hops shortage will have a major impact on the Craft Brewing Industry:"

Responses:

Answer Options	Response Percent
Yes	61.9%
No	28.6%
Not Sure	9.5%

Comments Included:

"A brewery that makes a significant number of imperial type beers will probably need to raise the price of it's entire line to make up for the cost increases."

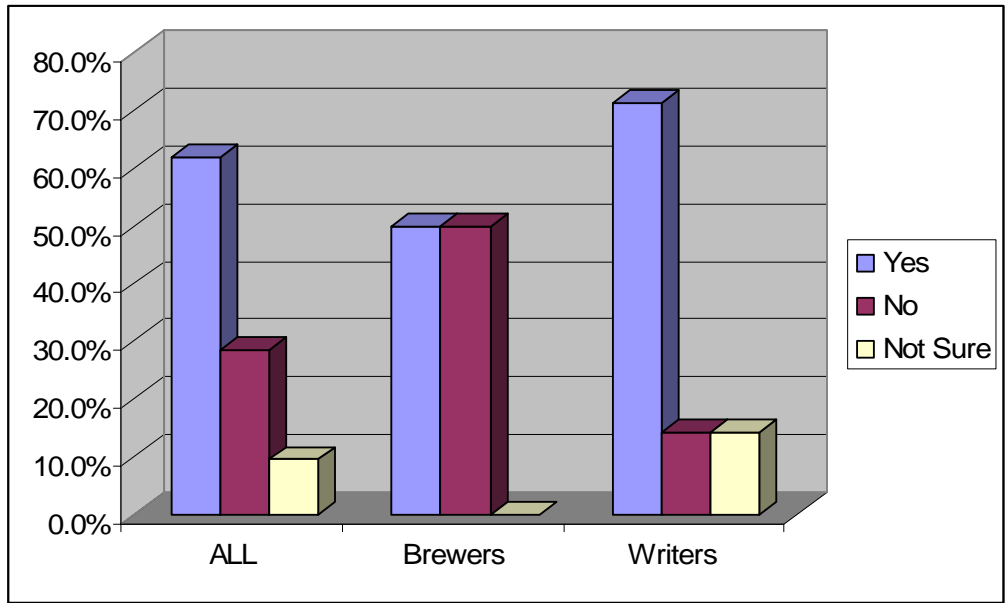
“It will force costs up, especially among high gravity and hop bomb beers. This will be a problem for some brewers. It might also offer a chance for more profits.”

“Some companies will not have the buying power to stay open”

Analysis:

Brewers appeared to not be so sure that the material shortages will have a major impact – with a 50/50 split of those responding. The writers group, on the other hand, were much more convinced of the severity of the issue with about 70% believing that the impact will be severe.

Figure Four – Will Material Shortages have a Severe Impact on Craft Brewing? By Respondent Category



Question Five: “On average, I believe that a craft brew draft at a bar/brewpub will increase in price this year by”:

Responses:

Answer Options	Response Percent
50 Cents or Less	19.0%
50 Cents to 1 Dollar	57.1%
1 Dollar to \$1.50	23.8%
More than \$1.50	0.0%

Analysis:

All of the respondents that answered the question feel that prices will go up, with the majority expecting 50 cents to a \$1.00 a draft. The majority of the brewers group (67%) thought that the price increase would be in the 50 cents to \$1.00 range while the majority (57%) of the writers group expected a larger increase of \$1.00 to \$1.50 a draft.



Question Six: "In your opinion, will the downturn of ingredient availability change Craft Beer by increasing production in any of the following styles?"

Respondents could select as many choices as desired.

Response:

Answer Options	Response Percent
Big Malty Beers	15.8%
Session Beers	63.2%
Lagers	15.8%
Other/New Styles	21.1%
No significant changes	15.8%

Comments Included:

"Maltier, less hoppy styles. Smaller beers."

"Balanced beers..... nominal gravity, flavorful but not over the top"

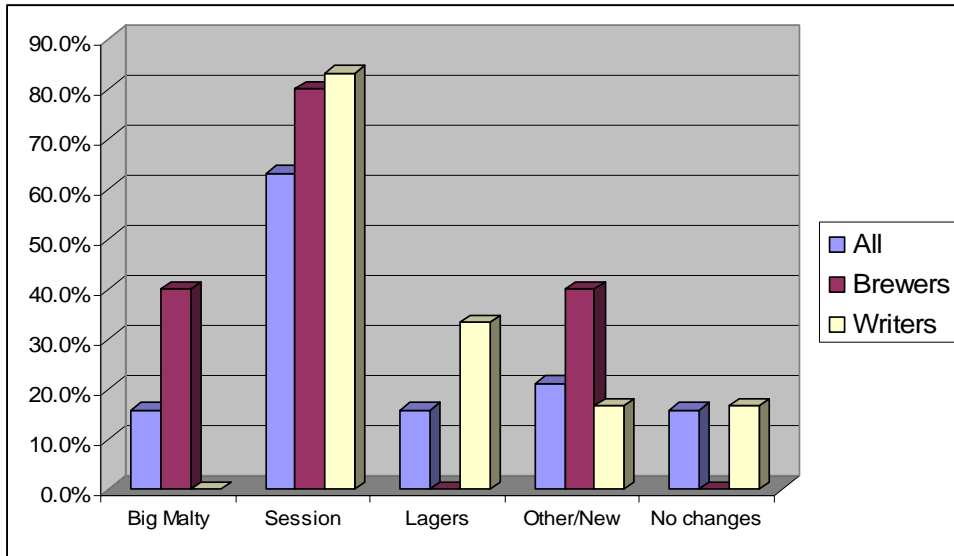
"May create new styles by necessity"

"(Hop) substitutions will be occurring with brewers altering their hop profiles especially for smaller-volume brands"

Analysis:

The clear consensus is that we will see some beer style changes in 2008, with lower gravity beers likely to emerge. Only 16% of the respondents thought that there would be no significant changes. More from the brewers group suggested that there may be more Big Malty beers, and 40% suggested that some new styles will evolve.

Figure Five: Changes in Beer Styles by Respondent Category





Question Seven: "If you could get one simple message out to the Craft Brewing consumer right now, what would it be and why?"

Responses/Comments:

Brewers:

"Hold on while we go through some adjustments- we are here to stay!"

"Savor the beer"

"Drink local beers. Stay away from imports, we have enough good, and tasty beers here in the states. If you want to drink a German lager, go to Germany."

"It's still cheaper than wine or coffee. Craft beer drinkers have been getting an incredible bargain for a long time"

"Enjoy good beer and pairings with food. Quality counts. Don't accept poor beer."

Writers:

"Support the brands and the establishments that know good beer, serve it right and treat beer drinkers with respect. Too many outlets and even some brands survive and prosper because consumers tend to be creatures of habit and like to follow the leader. Reward the people that earn the business."

"Be willing to pay for a higher quality product and experience."

"Beer is the affordable luxury. While prices are going up, it is still relatively inexpensive and pairs better with food than any other beverage. Enjoy the vastness and greatness of American brewing and appreciate how inexpensive this great drink is."

"Hang in!"

"You keep drinking craft beer... Let the pros worry about the ingredient shortages..."

"Craft beer is worth more than you've been paying for it. The price increases you're seeing are reality catching up to you."

Others:

"Embrace a standardized dating system to ensure that customers get fresh beer!"

"Craft beer is worth more than you've been paying for it. The price increases you're seeing are reality catching up to you."

"Stop with the price increases. You are going to kill your industry, it is a recession"

"Maintain your capacity, do not take on new debt. Do what you can to to minimize price increases."

"Buy the hoppy beers and store them as prices will go up until more hop farms come on line like in New York."

"Support your local brewery!"



"Learn about why craft beer is better, and how local brewing in general is important to the local economy and ecology."

Analysis:

A common theme regardless of respondent category is that while the cost of craft beer will rise, it is worth it, and the higher prices are justified by the quality of the product and consumer experience. Common sense would suggest that the message of "craft beer drinkers have been getting an incredible bargain for a long time" and "the price increases you're seeing are reality catching up to you" may not be as well received by casual, less knowledgeable beer drinkers - or those on a budget.

As respondents believe that the future of craft brewing is considered generally strong it would suggest that the industry feels that the message of craft beer as an affordable luxury will become more important in 2008 and beyond. The consensus around the need for educated consumers, bartenders and servers seems to indicate that in order for the craft brewing industry to continue to grow with a higher price point, in 2008 more than ever the public needs to know why drinking craft beer is a worthwhile and valuable experience. At the same time brewers are clear that the quality and consistency of the craft beer product must stay at a high level for the new message to be believed.

About BeerAppreciation LLC

BeerAppreciation LLC was created in 2002 with the mission of promoting craft beer through education and events like beer tastings and dinners. Managing Director Peter Cherpack teaches classes in BeerAppreciation for adult and night schools in the greater Philadelphia Pennsylvania area, and performs beer tasting and dinner events for institutions, individuals and charities.

Information about BeerAppreciation and BeerAppreciation activities can be found at www.beerappreciation.com and Peter Cherpack can be reached via email by Peter@beerappreciation.com.