

BY CHARLIE PAPA ZIAN

The Big Picture of Small Brewers

By the time you read this, the number of brick and mortar breweries in the U.S. will probably surpass 2,700. That's a "wow" number for sure, and in the minds of everyone who assesses this indicator there are thousands of ways to imagine what it means now and for the future.

Earlier this year I received an invitation from Sen. Max Baucus (D-Mont), chair of the Senate Committee on Finance, to participate in the Economic Development Summit in Montana in mid-September. I accepted the opportunity to lead a panel discussion titled "Exploring Growth in Montana's Craft Beer Industry." With the help of the Senator's staff and Montana Brewers Association executive director Tony Herbert, we put together a panel that included Jim Devine of Wibaux's Beaver Creek Brewery, Max Pigman from Helena's Lewis and Clark Brewing Company, and Neal Leathers from Missoula's Big Sky Brewing Company. Also invited to participate were Ed Brandt of Bozeman's Cardinal Distributing (Anheuser-Busch In-Bev, MillerCoors, and craft house) and Mark Black, field manager for Malteurop's Great Falls malthouse.

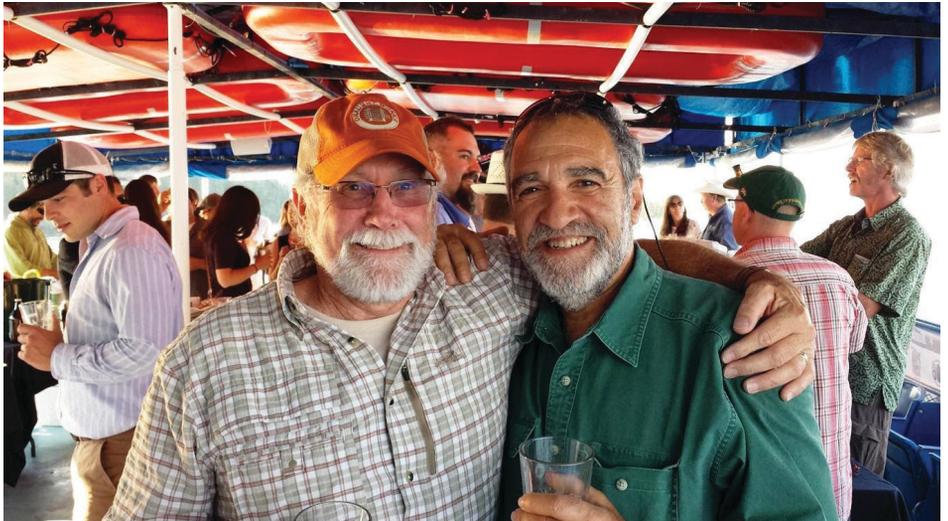
Here is a snapshot of my introduction of the panel.

I've been at this Association business since 1978. For 35 years, every year I hear soothsayers warn that small brewing is doomed to failure, collapse, or has a gnat's ass chance of succeeding. One of these years

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they'll get it right and they'll gloat and tell us, "I told you so." Meanwhile...

There are many reasons small businesses fail. Most of them have to do with the management, or rather mismanagement, of growth, employees/people/workplace, cash, debt, expectations, quality, customer loyalty,



Montana Brewers Association executive director Tony Herbert and Charlie Papazian.

and relations. This is the case for small brewers as well as all small companies.

But the odds for small breweries succeeding as a business are much better than your average small business. Why? My thoughts on this aren't new. One of the most important reasons is the development of a craft beer and brewers' community. The collaborative spirit of the American small brewing community is the envy of the entire world of small brewers. Nowhere else in the world does the competitive spirit of the marketplace co-exist so positively with the

world do you see marketing directors from different breweries discussing strategies and tactics together in a panel discussion. Nowhere else in the world are brewers as welcome in competing breweries.

Small, but Big Enough

The differences in economies of scale between the 100-million-barrel international brewing corporations and small brewers are so immense as to be incomprehensible. If individual small companies were adrift with no tangible community to represent their best national and regional interests, small business breweries would be overwhelmed. I have no doubt about this, having observed what has happened to other small business sectors that have been swallowed or compromised; having no collaborative community to help make a stand and lend moral and practical support.

Small brewers have developed an effective system of collaboration and communication. At the same time, they remain competitive with each other and have a great deal of respect, awareness, and "street smart intelligence" of the dynamics of the marketplace's horizontal tier and vertical tier.

communal spirit of concern for others. For the vast majority of small breweries, there is a spirit of collaboration, helpfulness, assistance, sharing of wisdom, and concern for quality and presentation. This spirit is admired abroad but does not exist to the extent it does in the U.S. Nowhere else in the



A standing-room-only crowd attended the panel discussion in Montana.

By horizontal tier, I mean other breweries large and small with whom small brewers compete. By vertical tier, I mean the incoming supply chain of materials, technology, and services, and the downstream tiers of distribution, retail, and the customer/beer drinker.

The Extended Economic Impact

American small brewers have created more than 110,000 jobs in the U.S. Beer in America is a \$99 billion business. In 2012, American craft brewers produced 6.5 percent of the 200 million barrels of beer enjoyed in the U.S. They generated 10.2 percent of the dollars, or \$10.1 billion of the \$99 billion.

The Montana Brewers Association reports from 2011 data that the state's brewers created (mostly directly) 434 jobs, and brewery-related output accounted for about \$50 million to the Montana economy.

But the extended economic impact is far greater than the direct impact—consider merchandise manufacturers, mobile cooks at events, T-shirt and merchandise printing, glassware, tap handles, beer snacks, order fulfillment, software development, hardware, vehicles, restaurant success, hop farms, barley farms, harvesting equipment, brewery tour companies, the lunch shop next door, etc.

More recent data and assessment by the Brewers Association indicates that Montana's small breweries had a much larger impact. In 2012, the impact was more than \$300 million for the state, creating more than 3,500 jobs and generating around \$100 million in wages. This impact is calculated by looking at direct contribution of craft brewers, beer distributors, and retail sales. Also included is the indirect supplier and induced impacts of the direct contributions, both in-state and out-of-state influences (for example 70 grain farming jobs in Montana created by craft brewers in other states).

Numbers are simply indicators. They do not reveal why small brewers are succeeding. For every brewery location in the U.S., there is a unique set of circumstances that helps brewers set their course. The extent of their success is how well they navigate those circumstances, challenges, and opportunities.

Snapshot of Small Brewery Businesses

To put things in a more accurate and local perspective, if you take the top 50 small and independent brewers out of the statistics:

- The average production of an American brewpub is 769 barrels a year.
- The average production of a small American packaging brewery is 1,704 barrels a year.

Principally there are two different kinds of small brewery business models:

1. Breweries that aspire to grow.
2. Breweries that aspire to simply make a living.

Every brewery must make the decision at some point: to export or not to export. There are varying degrees of exporting beer:

1. Exporting beer in growlers for take-home enjoyment from the brewery.
2. Exporting a keg out of the brewery to the restaurant or bar across the street.
3. Exporting beer into the immediate community's retail opportunities.
4. Exporting beer to other points within the state.
5. Exporting beer to other states.
6. Exporting beer to other countries.

In 2012, American craft brewers exported 189,000 barrels of beer outside of the U.S. That represented \$94.5 million and about 75-percent growth over 2011.

Whether a brewery exports their beer across the street or to another continent, both the brewing company and the brew-

master must succeed in addressing dramatic challenges in order to maintain quality and succeed in continued sales of their beer. These challenges cannot be overlooked or minimized.

Brand Development

Almost all breweries export to some degree. The importance of brand development is important. There are several kinds of brands that are important to develop:

1. The brewing company's own brand.
2. The town/city brand (I've often heard that Missoula is the craft beer center of Montana, for example.)
3. The brand of Montana beer and Montana craft brewers—"brewed in Montana."
4. The brand of "American craft beer" from American craft brewers.

Branding is a necessity at all levels. Companies have their own brand strategy. American craft brewers have successfully collaborated to attract regional, state, and national recognition. The development of various brand recognition has an economic impact on city, state, and national tourism; think brewery tours and thematic craft beer tastings. With developed regional pride, other extended businesses are aided: small scale hop farming, barley growing, malting, extended tap handles at retail, packaging, promotion and advertising, and distribution.

Revitalizing America

Five recent headlines highlight the role craft brewers have in revitalizing Main Street America.

1. "Six cities breweries helped transform." (AP)
2. "Build a craft brewery, urban revival will come." (*USA Today*)
3. "Craft breweries help transform cities across the country." (*Huffington Post*)
4. "Small Batch Beer Co.: Revitalizing 5th Street, Winston-Salem." (Kickstarter)
5. "Oakland: Craft beer trend helps rebuild neighborhoods." (*Mercury News*)

Montana brewers had plenty of their own community revival/transformational stories that they shared with the standing-room-only attendees during the "Exploring Growth in Montana's Craft Beer Industry" panel discussion.

The panel of three brewers, a beer distributor, a malting company, and Herbert continued the discussion, providing unique real-life experiences and insight about how small brewers as small businesses are manufacturing economic development and jobs in their state of Montana.

Charlie Papazian is president of the Brewers Association. ■