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# Global Craft Beer Market

Trends and Opportunities in Developing Economies



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# Global Craft Beer Market

## Trends and Opportunities in Developing Economies

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### Introduction

Craft breweries in the United States are experiencing a renaissance and international consumers are clamoring to share in the experience. International expansion is proving to be highly successful, yet many untapped markets remain and current markets have space for both a greater diversity in beers and greater market penetration. With a growing upper-middle class, strengthening currencies, and a growing demand for luxury items, developing economies are a lucrative opportunity for American craft breweries.

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### Global Beer Market Summary

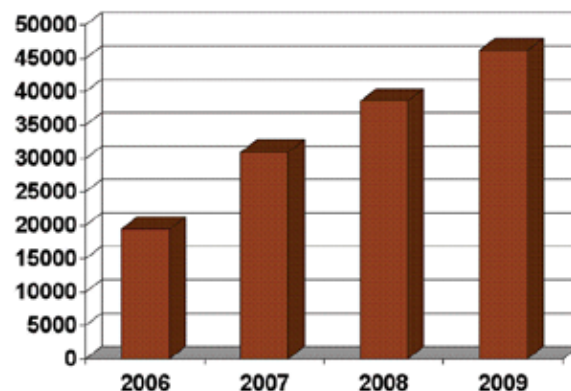
In 2008, the global beer market had volume sales of over 48 billion gallons (180 billion liters) valued at approximately \$600 billion.<sup>1</sup> Both volume and value sales grew at a rate of between 4% and 7% for the last few years, but are expected to drop to 1%-2% in 2010.<sup>2</sup> However, emerging markets are expected to be more dynamic with growth rates between 4% and 6% in terms of value.<sup>3</sup>

With 94% of global sales by volume and 90% by value in 2008, lager is by far the most common type of beer.<sup>4</sup> Within the lager category, consumption is becoming increasingly polarized between economy lagers and premium lagers.<sup>5</sup> However, given the tight competition in this category, many breweries are hoping for greater profits by pursuing niche opportunities such as wheat beers and craft beers.<sup>6</sup>

Craft beers in the U.S. have grown in popularity and market share for the last few decades. However, with hundreds of craft breweries across

the country, some experts believe the U.S. craft beer market may be reaching a point of saturation.<sup>7</sup> As is typical in these situations, companies start to look for customers in foreign markets. Although not the largest craft breweries in terms of sales volume, breweries such as Oregon's Rogue Ales, Maryland's Flying Dog Brewing Co., and California's Stone Brewing Co. have paved the way of international market expansion. Craft breweries have been exporting to Canada, Europe, and Japan for the last decade or so and have only recently entered developing markets. As shown in Figure 1, U.S. craft beer exports have consistently risen over the last few years and increased by an impressive 9% overall in 2009.<sup>8</sup>

**Figure 1: U.S. Craft Brewer Exports (barrels)<sup>9</sup>**



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Newer export markets, particularly developing economies, are even more dynamic with export growth up to 17.5%.<sup>10</sup> As an example of the potential for American craft beer in developing markets, the Russian, Chinese, and Southeast Asian markets are analyzed below.

### Analysis of the Russian Craft Beer Market

The Russian market remains one of the greatest untapped markets for American craft beer. To date, there are no major initiatives to import and distribute American craft beers in Russia despite Russia's rapidly growing economy and taste for high-quality alcoholic drinks.

Before the global recession, Russia experienced a growth rate of approximately 7-8% annually. Although the recession has slowed the economy down, many experts project a growth rate between 3.3% and 6.2% for 2010.<sup>11</sup> Russia's elite and upper middle class are passionate about Western luxury products from cars to clothing and beer is no exception.

Like vodka, beer is a strong facet of Russian culture. In 2009, Russia consumed over 2.7 billion gallons (10.3 billion liters) of beer.<sup>12</sup> Russia's beer culture is strongest in St. Petersburg, which holds a beer festival every summer and is home to Russia's most recognized beer brand, Baltika. In terms of value, Russia's beer market increased by 11% in 2009 despite a decline in terms of volume.<sup>13</sup> This paradox reflects Russia's rising affluence, increasing palate sophistication, and movement away from standard and economy offerings towards more premium-end products.<sup>14</sup>

Like most markets, lager is the most common beer, but dark beer is expected to perform well in the coming years with a volume growth of 3% annually to 2014.<sup>15</sup> Premium beer represents approximately 50% of the Russian beer market (by value).<sup>16</sup> Baltika and Sun Interbrew, two of the largest Russian brewers, each produce premium lagers in addition to their standard lagers. Several major international premium brands, such as Hoegaarden, Beck's, Stella Artois, and Asahi have had a presence in Russia for many years.<sup>17</sup>

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One by one, each major international brand has partnered with or acquired domestic breweries to reduce costs by producing domestically.<sup>18</sup>

With an existing beer culture, growing demand for premium beer, and fascination with Western luxury products, the Russian market seems ripe for introducing American craft beer. In a market devoid of American craft beer, a brewery with the right market entry strategy would be aptly rewarded with brand recognition as the first American craft beer in Russia.

### Analysis of the Chinese Craft Beer Market

American craft breweries have established a stronger hold in China than in Russia, but have barely scratched the surface when considering the size of China's beer market. China is the world's largest producer and consumer of beer with 43 billion liters (11.3 billion gallons) in 2009.<sup>19</sup> With a growth rate of 6% by volume in 2009 and an expected growth rate of 7% in 2010, China is likely to maintain its position as the

largest beer consumer for many years to come.<sup>20</sup>

Domestic economy lager, such as Tsingtao, Snow, and Harbin, control over 90% of the Chinese beer market. Premium beer has a small market share but is growing by 7.5-8% per year and is estimated to be 980 million liters (259 million gallons).<sup>21</sup> The market for premium beer is dominated by foreign brands such as Heineken, Carlsberg, and Tiger. Several of these foreign brands have begun to produce in China to reduce costs.

Imports of American craft beer have been steadily rising and craft beer is becoming more widely available across the country. Distributors claim that sales of American craft beer have increased by over 100% in the last three years and expect sales to increase by 50% annually for the next three years.<sup>22</sup> This is not surprising given the fact that China is the second largest economy in the world and is expected to be the largest consumer of luxury goods in the next five years.<sup>23</sup> Shanghai, China's largest and most developed city, is the prime location for craft

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beer with several microbreweries producing craft beer and a plethora of bars, restaurants, and retailers serving American craft beer.<sup>24</sup>

Nonetheless, craft beer in China is still in its early stages and highly dependent on the initiatives of expats living in China. Expats, who make up approximately half of the consumers for craft beer in Beijing<sup>25</sup>, tend to initiate the demand for craft beer and arrange the distribution and importing. According to Rudy Wimmer, who owns several Belgian beer bars in Shanghai, “selling beer here is like working in the Wild West... everything you do you have to do from the ground up.”<sup>26</sup> To succeed in this young and rapidly expanding market, a craft brewery should be prepared for a long-term commitment.

### Analysis of the Southeast Asian Craft Beer Market

Major cities in Southeast Asia have been exposed to American craft beers for several years now, but opportunity remains for further

market penetration. The region consumes approximately 4.7 billion liters (1.2 billion gallons of beer) annually.<sup>27</sup> The market share of premium lagers varies throughout the region from 3%<sup>28</sup> to 18%<sup>29</sup>. The region is dominated by domestically produced lagers focused on their local market such as San Miguel in the Philippines, Singha in Thailand, or Tiger in Malaysia and Singapore. Major international brands, such as Carlsberg and Guinness, are also produced domestically.<sup>30</sup>

Young consumers with rising disposable incomes and a taste for fine beer are seeking to diversify their palates. The major cities of Southeast Asia, Kuala Lumpur, Singapore, Bangkok, and Manila, each have a vibrant nightlife where young and affluent men and women enjoy luxury drinks. Like in China, expats initiated the demand for craft beer, but its popularity has grown considerably among local consumers. From conversations with the leading craft beer distributors in the region, it appears that consumers have been responding very well to the new tastes of American craft beers. The success is partially due to a number of consumers trading down

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from expensive wines and spirits.<sup>31</sup> Unlike the weak reputation of larger American beer brands<sup>32</sup>, American craft beers are developing a strong reputation for quality and taste. After only two years of operations, one distributor we interviewed is seeking to double his imports from 6 to 12 containers in a year (240,000 bottles or approximately 730 barrels) and significantly expand his portfolio of American craft beers. In Singapore, a small but mature market, interest in craft beer has been so dynamic that several American-style microbreweries have been established such as Beerwerkz, Red Dot Brewhouse, and Archipelago Brewery.

The vast majority of imported craft beer in this region is distributed to high-end restaurants, bars, and pubs in the form of 12oz (335ml) bottles. Maintaining the quality of the beer is of the utmost concern to distributors and retailers given the region's tropical climate and the length of time required for transportation. Most distributors have their beer shipped from the U.S. in refrigerated containers and store the beer in refrigerated warehouses.

According to several experts in the craft beer industry and Southeast Asian distributors, an American craft brewery could do well to avoid transportation costs and customs fees by establishing a brewery in South East Asia.

## The Challenges of Exporting Craft Beer

Exporting products is no simple matter. Being an alcoholic beverage, exporting craft beer often has the added challenge of stringent customs clearance processes and import taxes. Additionally, the transportation of the beer has the potential to damage its quality. For these reasons, a craft brewery must be sure to partner with a distributor with extensive knowledge and expertise in the legal procedure and logistics of high-quality alcoholic beverages.

From conversations with several leading craft beer distributors, marketing and consumer awareness are the greatest challenges for craft beers in new markets. In markets accustomed to the idea of beer as a cheap, low-quality product,

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justifying the price premium for an imported American craft beer requires experience and knowledge of the product. Marketing strategies such as advertising, promotions, beer festivals, and tastings have proven to be an effective method of introducing craft beer to new consumers.

### Sources of Support

The U.S. government supports several programs to help U.S. exporters overcome the challenges of international business. Two are described below:

The USDA's Emerging Markets Program (EMP) provides grants to both for-profit and non-profit organizations to promote the export of agricultural commodities. In 2009, the Brewer's Association used a grant from the EMP to conduct comprehensive market research on the Brazilian market for Craft beer.<sup>33</sup> In the fiscal year of 2009, the EMP provided \$30,000 to conduct seminars on craft beer in Brazil, \$35,000 to educate beer distributors in China, and \$60,000 to the Northwest Wine Promotion Coalition for worldwide market development.<sup>34</sup>

The minimum requirements for a grant from the EMP are some level of cost sharing between the EMP and the institution receiving the grant and justification for the necessity of the grant.

Offering credit to distributors can be an expensive and risky decision for small to mid-size exporters. On the other hand, credit is exactly what distributors in developing markets need to initiate importing a new product. The Export-Import Bank of the United States (Ex-Im Bank) solves this issue by assisting in financing the export of U.S. goods and services to international markets. By operating through recognized lenders, Ex-Im will provide the exporter with the majority of the payment at the time of export (typically 90% or more). The buyer would only be required to pay Ex-Im after a few months of receiving the export, allowing some time for the distributor to sell his beer to retailers.

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### Conclusion

With rising disposable income and increasing sophistication in culinary taste in developing markets, the time is right for craft breweries to increase or initiate their international market expansion. With the right partners, extensive knowledge of the market, and the right market entry strategy, a craft brewery could easily overcome the challenges of introducing a new product into a foreign market. As a pioneer in a new market, a craft brewery could find itself in a rapidly growing market with relatively little competition.

This summary report contains general information about the potential for the Russian, Chinese, and Southeast Asian markets for American Craft Beer. For additional information about the global craft beer market, please contact Aginsky Consulting Group ([www.aginskyconsulting.com](http://www.aginskyconsulting.com)) at [info@aginskyconsulting.com](mailto:info@aginskyconsulting.com) or by telephone at 877-WITH-ACG.

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