



The Great Fragmentation of Beer

Industry and consumer trends

Jim Watson, Senior Beverage Analyst

James.Watson@Rabobank.com

January, 2018



Rabobank

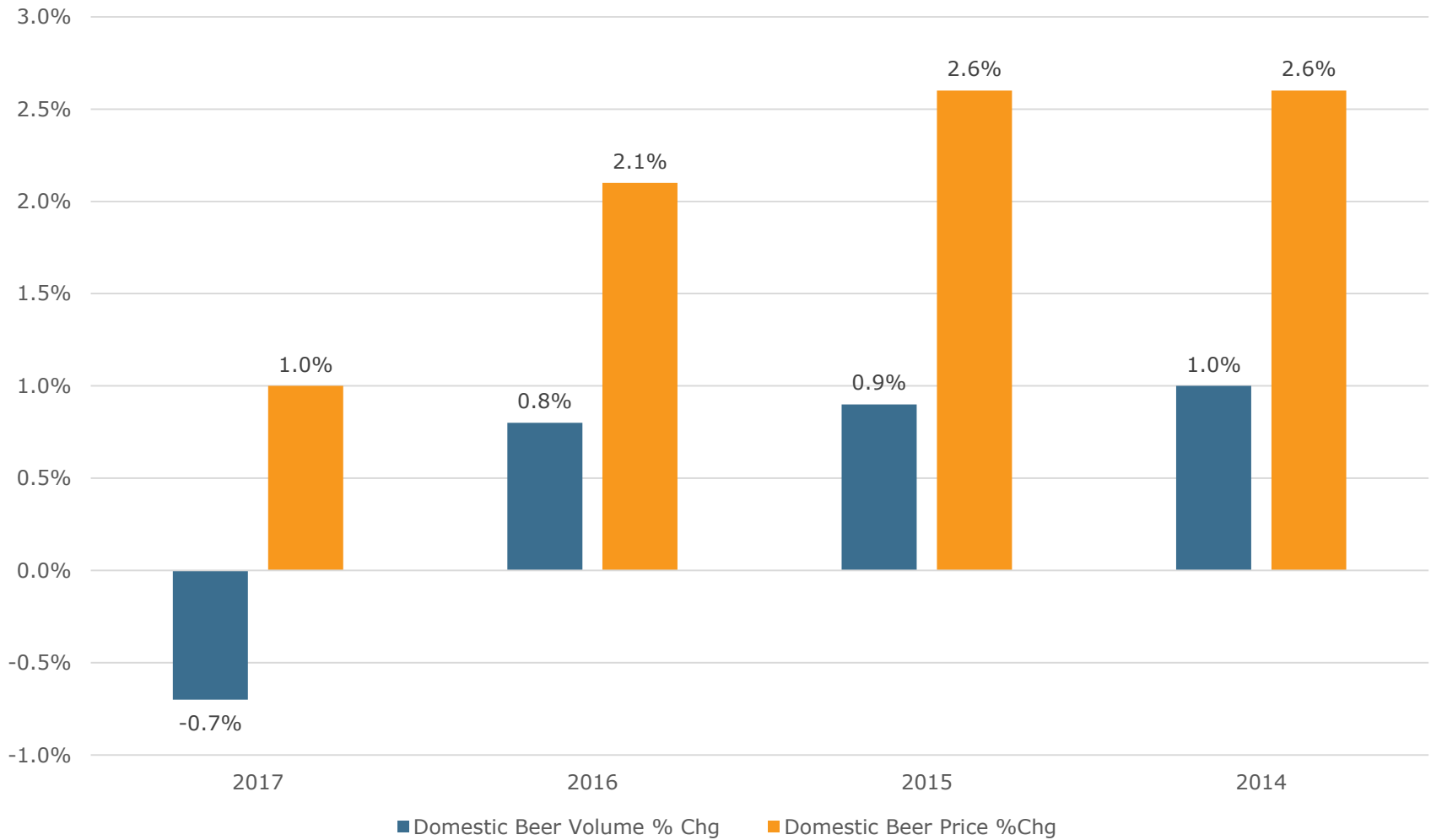
How consumers see beer is changing



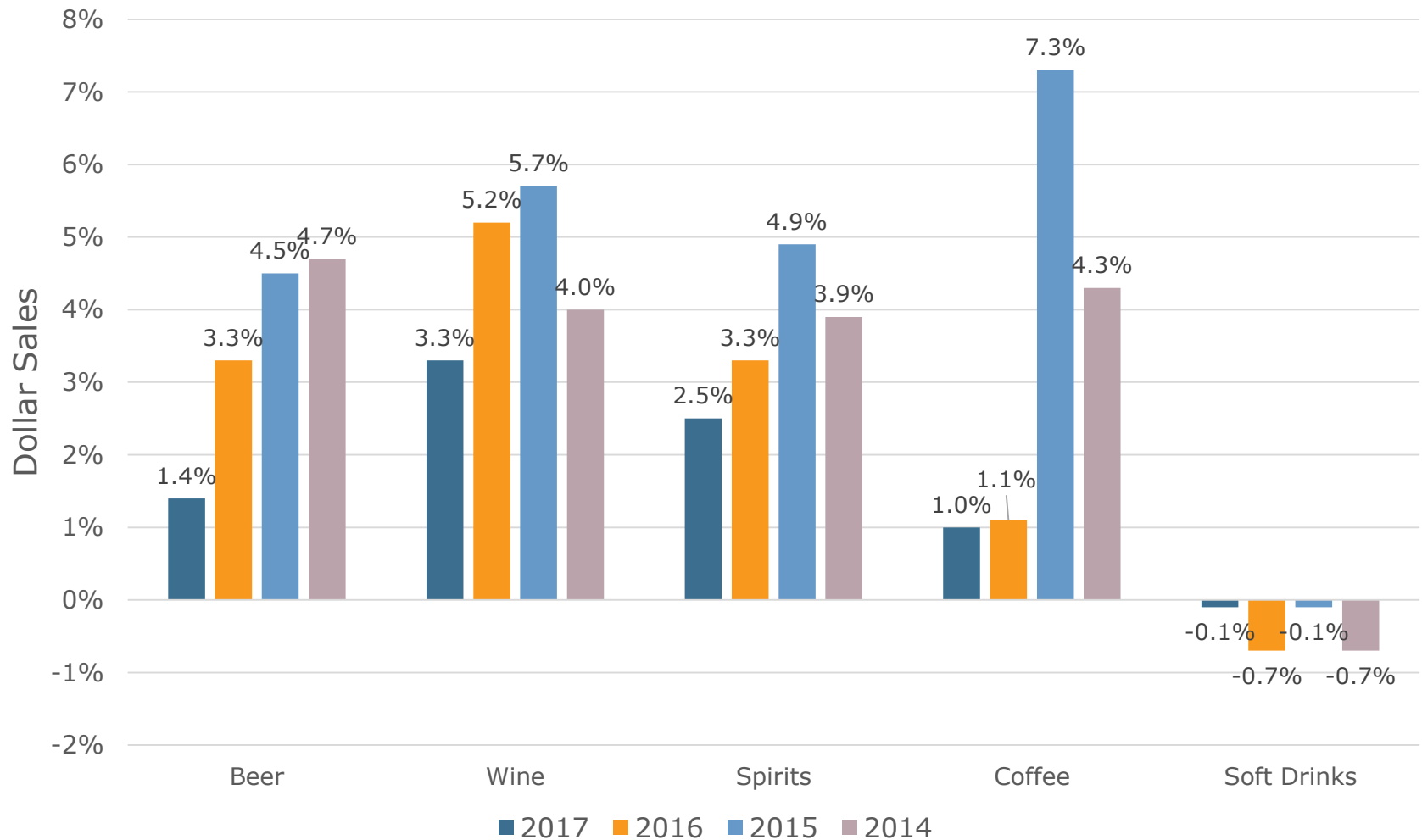
What are we talking about today?

- A quick look at beer data – domestic and global
- What are the big beverage trends
- What are consumers looking for?
- Transparency becoming more important across all beverages
- Single-origin, unique varieties and the farm-to-table connection
- Beer growth is local and targeted

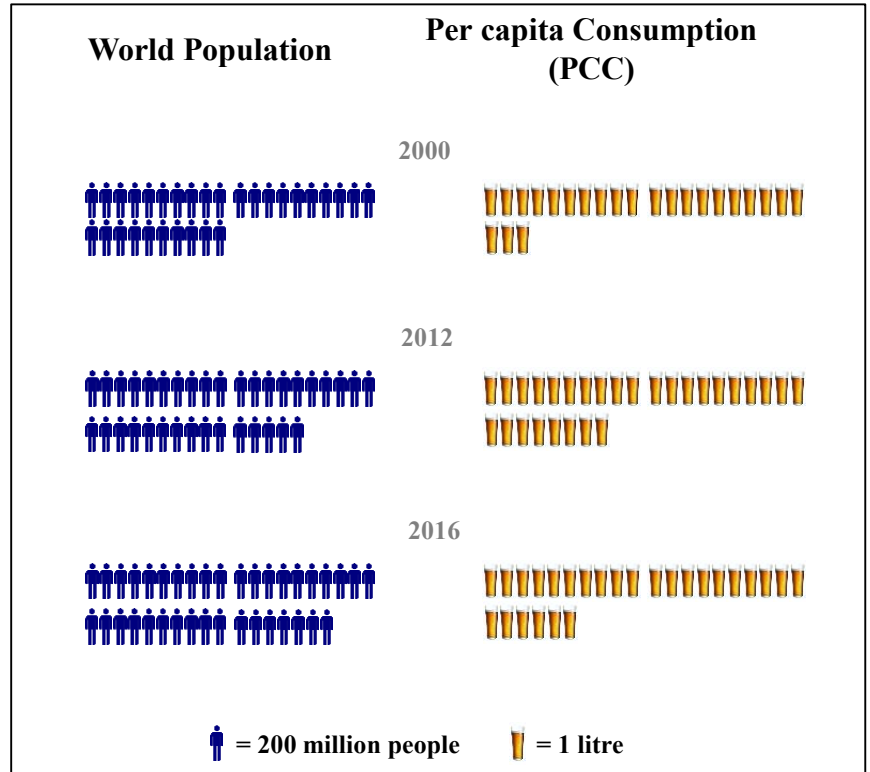
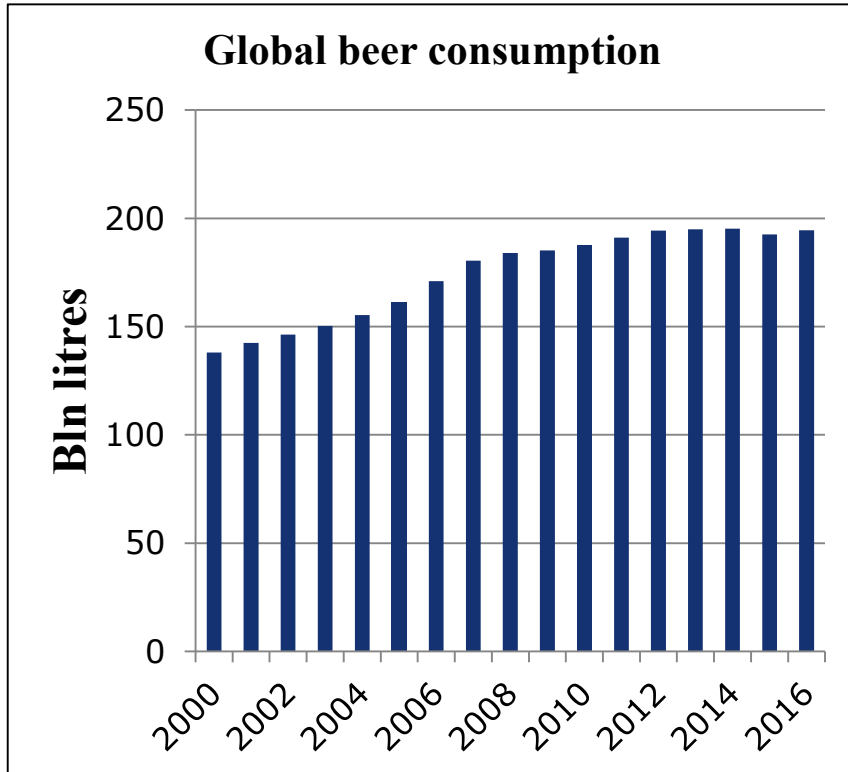
2017 - A tough year for domestic beer



Putting US beer sales in context

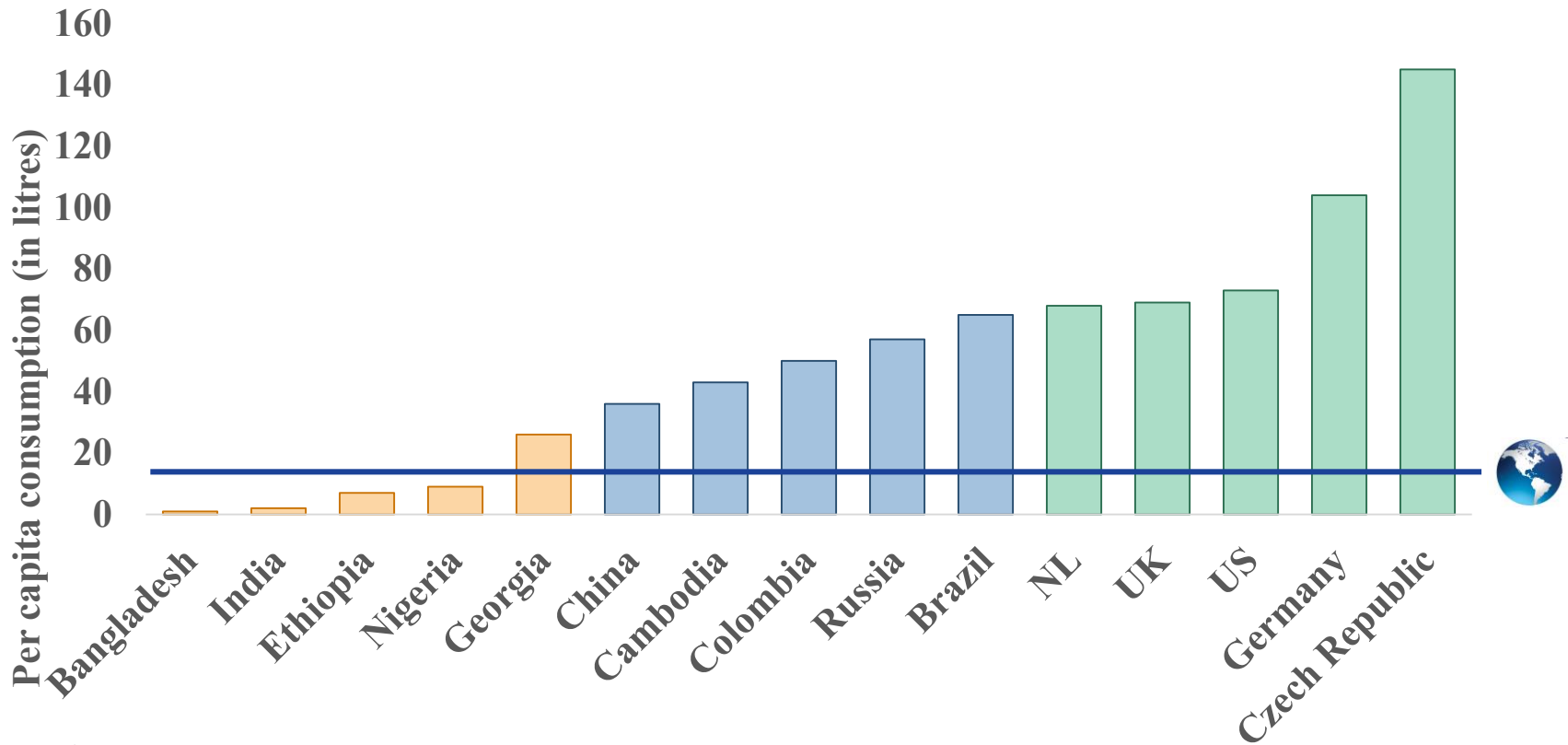


Globally: more people are drinking more beer



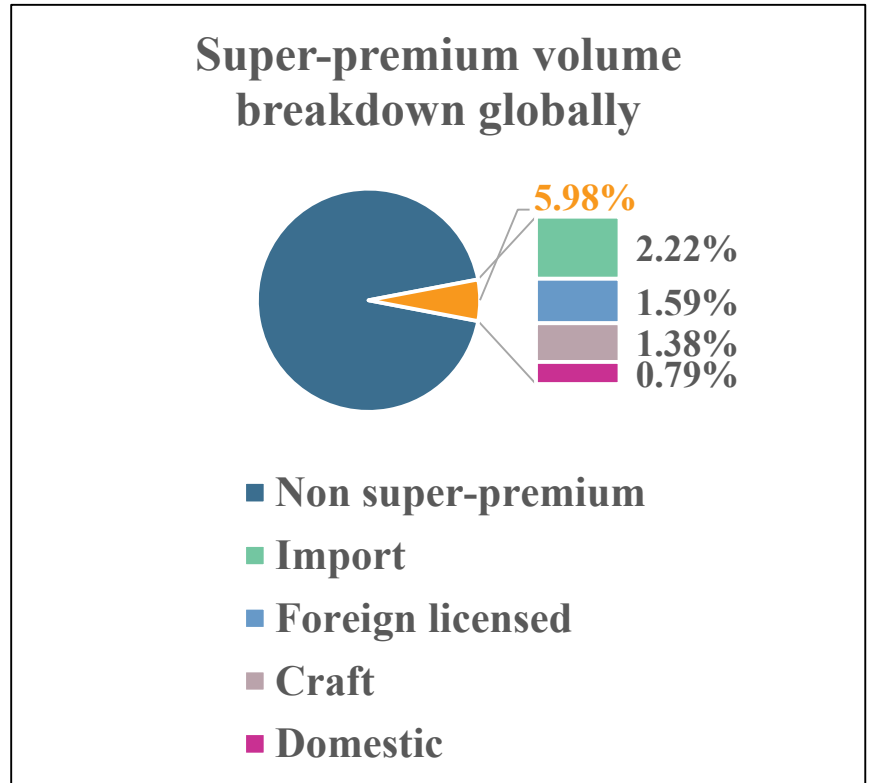
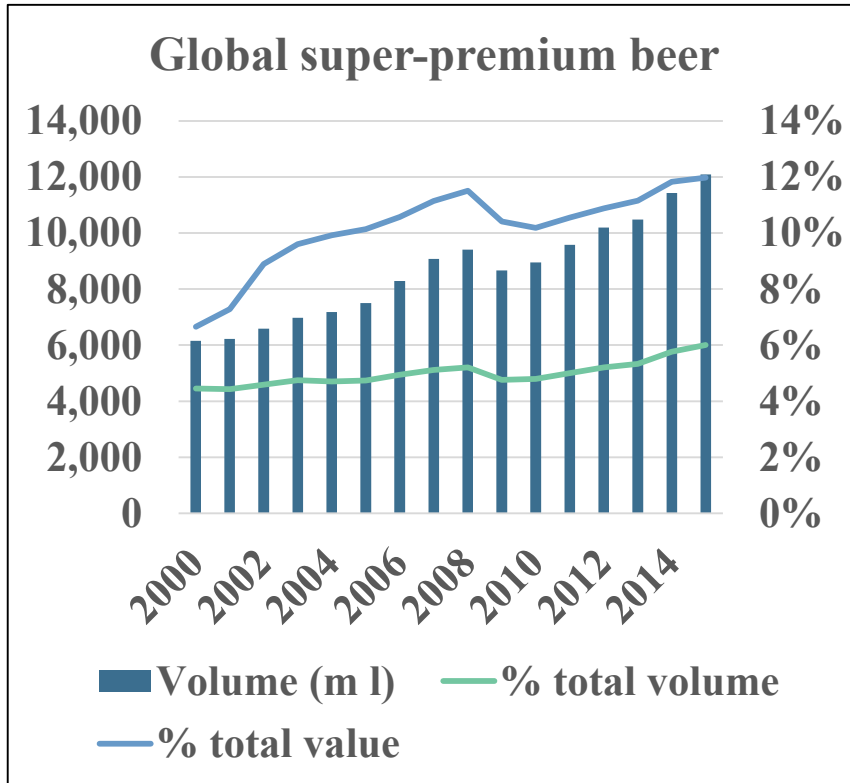
Source: Euromonitor 2017

Affordability and per capita consumption are closely related



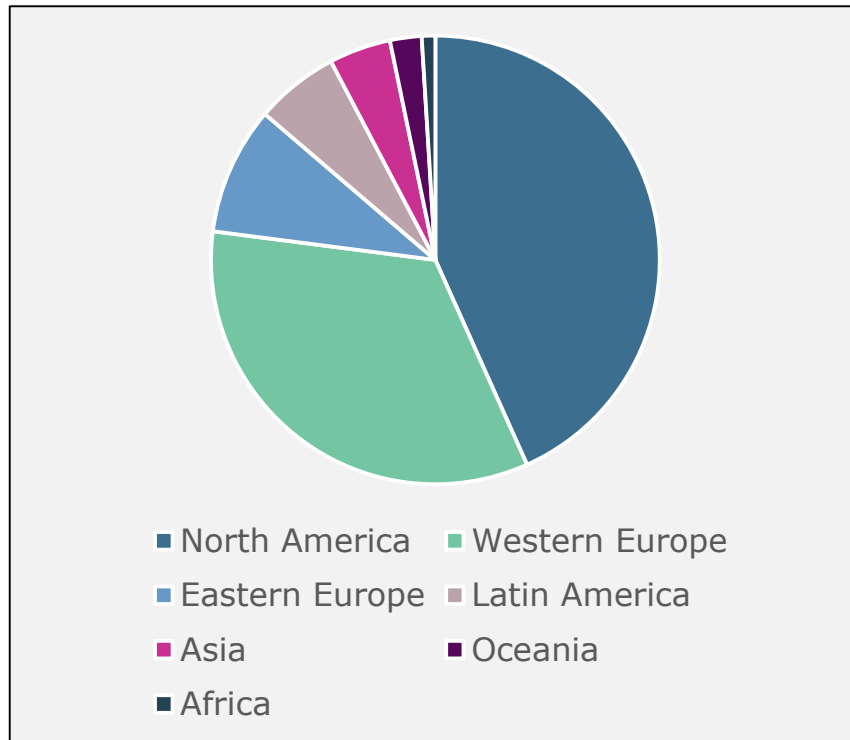
Source: Canadean 2017

'Less-but-better' beer slowly going global

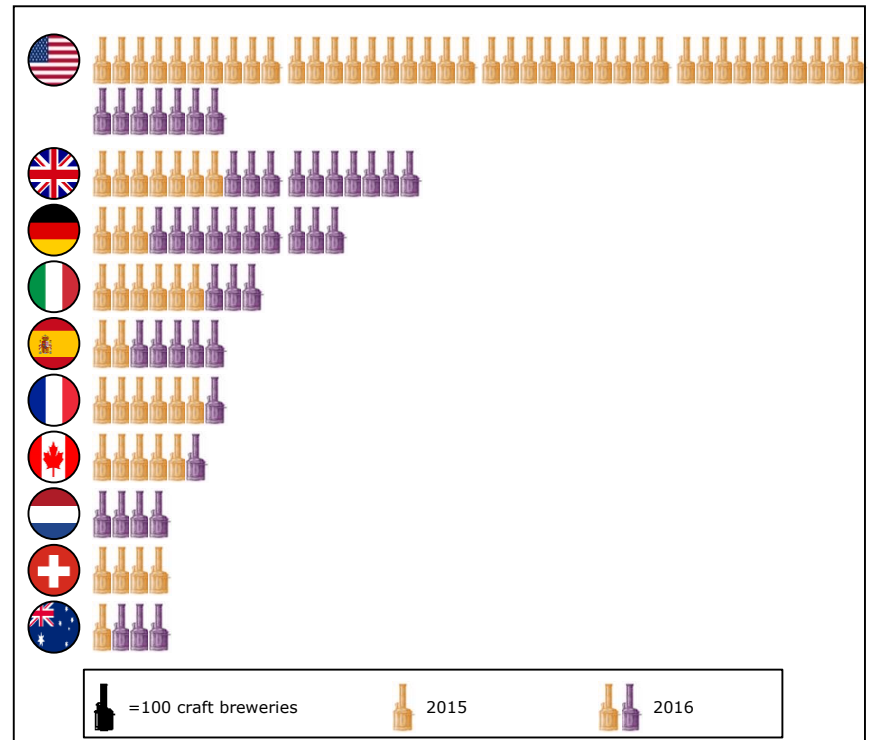


Craft beer has become a global phenomenon

of craft breweries by continent, 2015

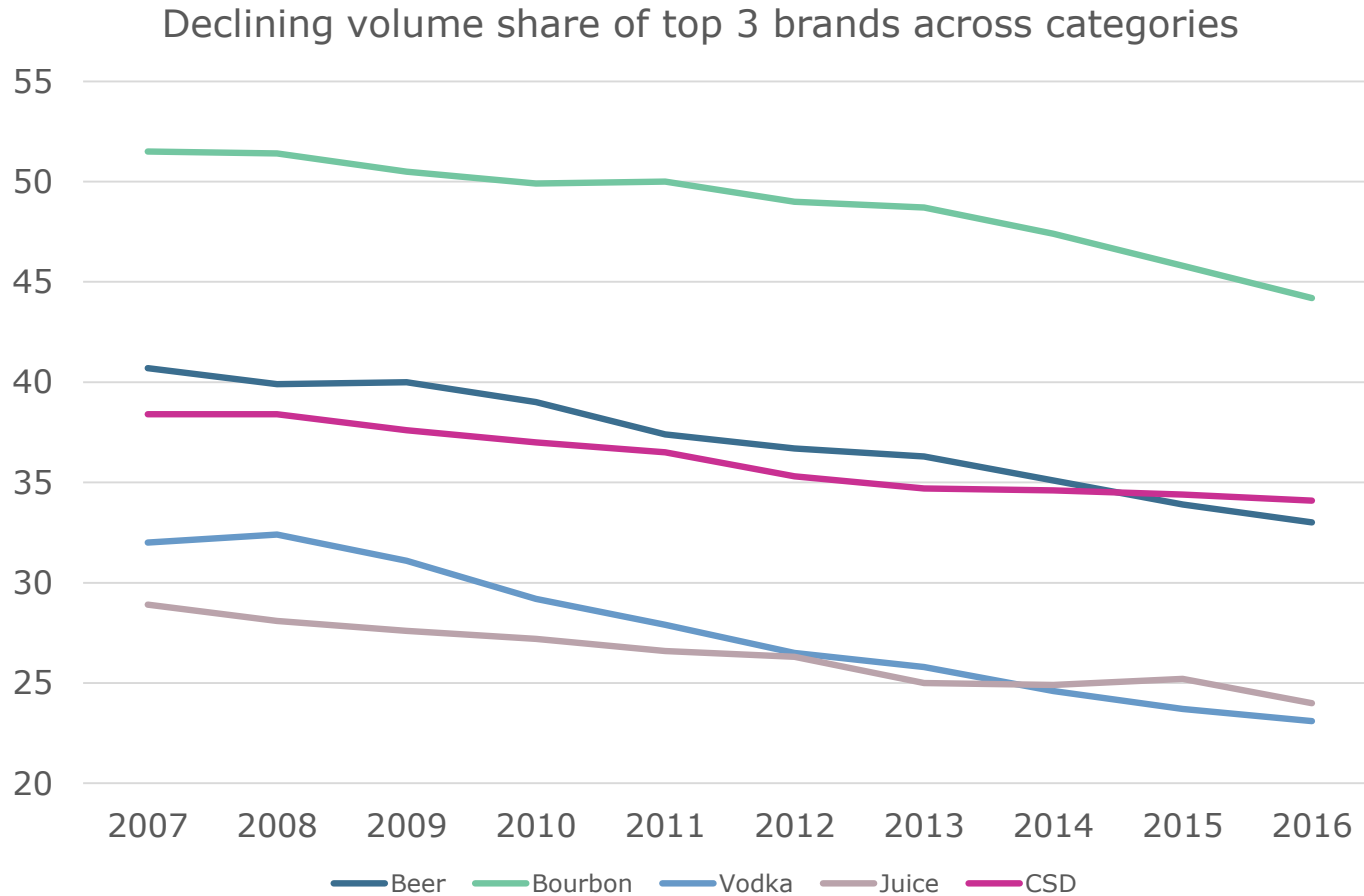


Top-10 countries by # of craft breweries, 2015/2016



Source: Alltech 2017

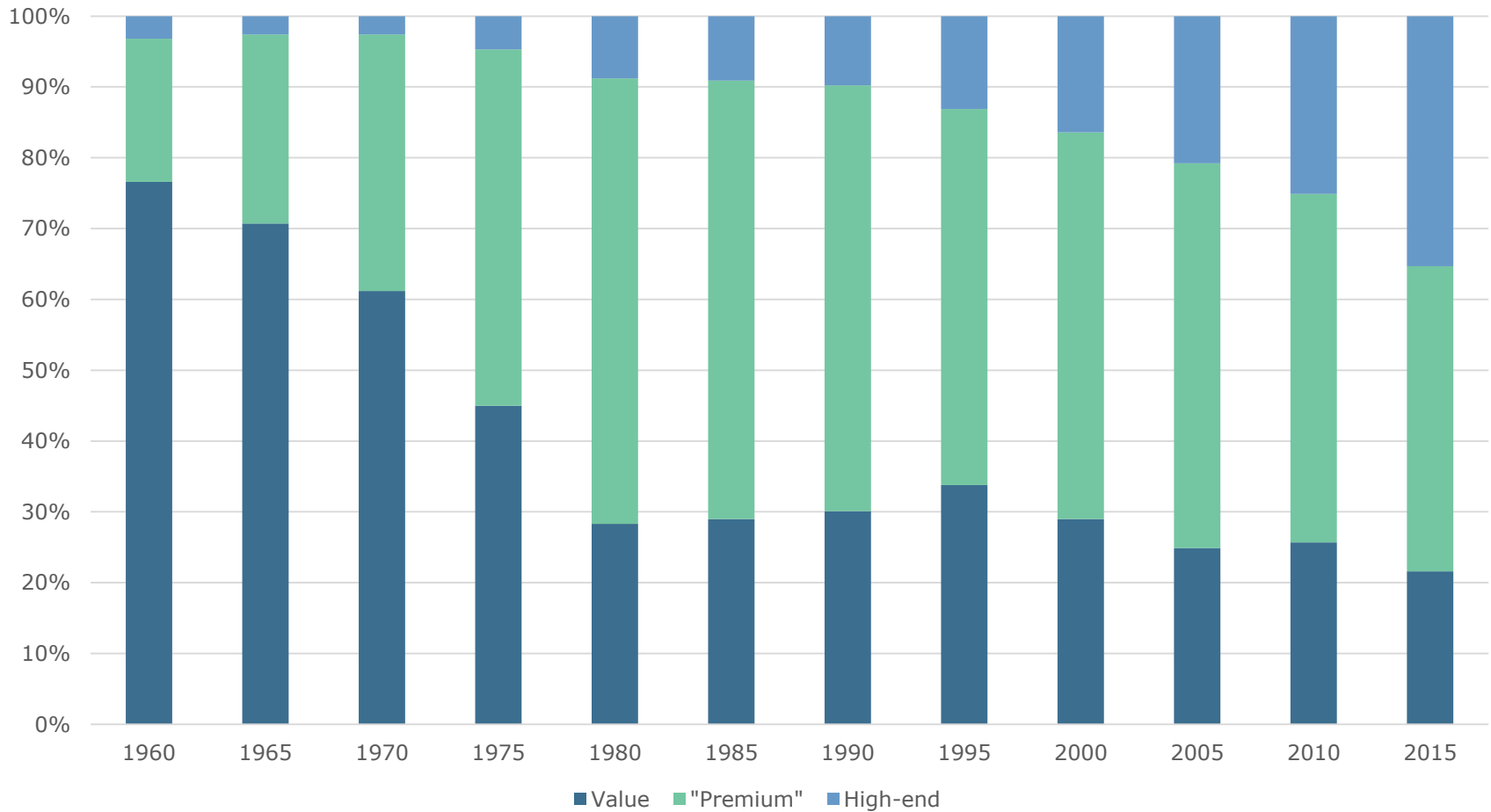
Start-ups are taking share from beverage mega-brands



Source: Euromonitor

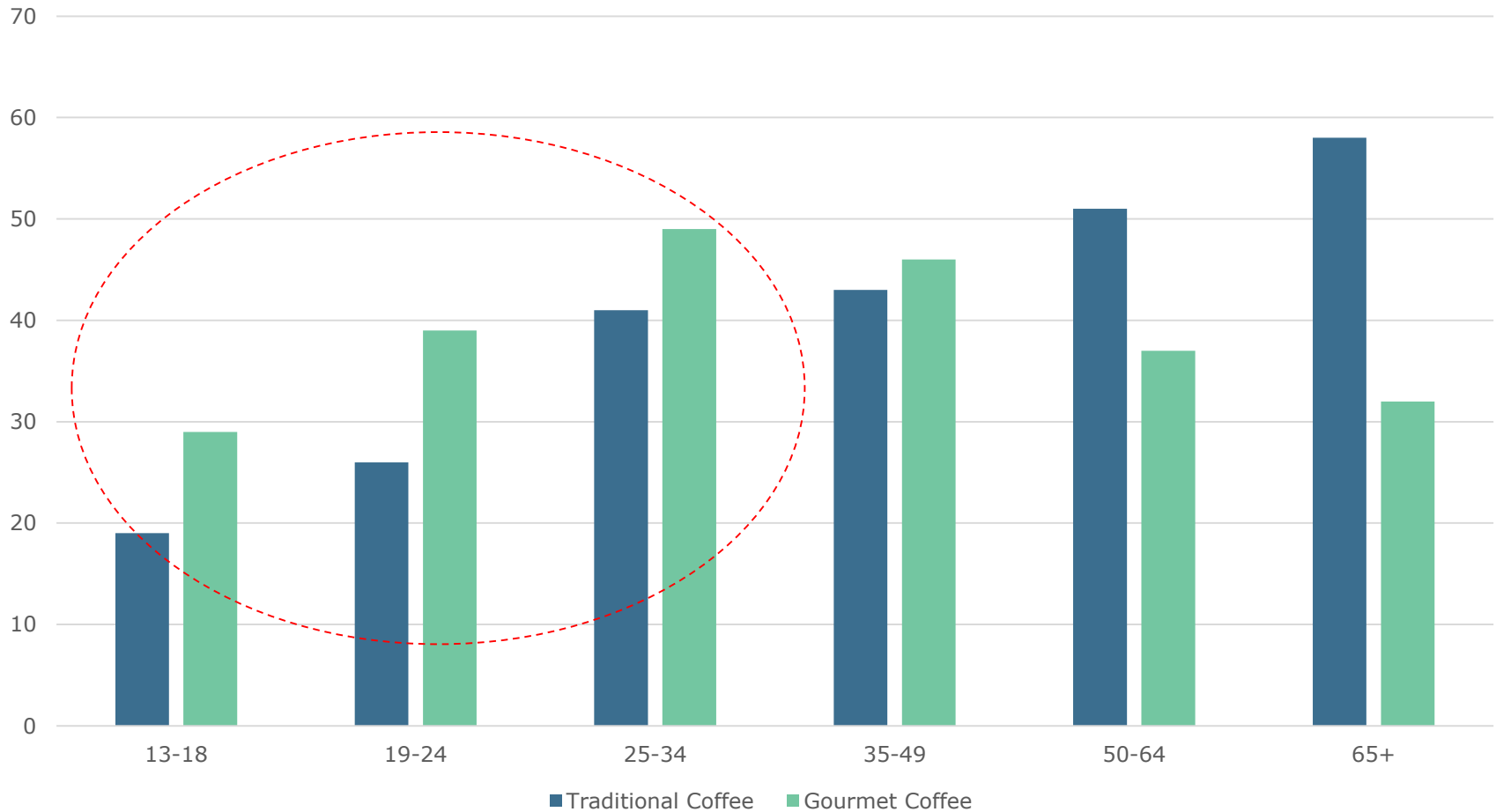
Premiumization is a long-term consumer trend

Volume share by beer segment



Premiumization is driven by the younger consumer

Past Day Coffee Consumption



Change is coming: a vision of premiumisation in coffee



Premium looks similar across beverages



Epiphanie Mukashyaka and her family have been indispensable partners in Rwanda for many years. They own the Remera washing station and are constantly improving their processes with innovative and creative ideas not seen anywhere else. It is no wonder that their coffee is recognized for quality throughout Rwanda and the world. Look for bright notes of cranberry, brown sugar, and mandarin orange.

SAISON/FARMHOUSE ALE

When our brewers were experimenting with variations on a traditional Belgian-style farmhouse ale, the perfect combination of elements came together in fermenter number seven. You could call it fate, but they called it Tank 7, and so it is. Beginning with a big surge of fruity aromatics and grapefruit-hoppy notes, the flavor of this complex, straw-colored ale tapers off to a peppery, dry finish.

2012 ROBERT MONDAVI WINERY RESERVE TO KALON VINEYARD CABERNET SAUVIGNON OAKVILLE NAPA VALLEY

A powerful wine with spicy blackberry and blueberry fruit, cinnamon, sage, coriander and tobacco flavors. Elegantly structured with fresh acidity and fine tannins.

Consumers are looking for FUN beverages



- **Functional** is added benefits to the consumer. Think about beverages that make claims around energy, rehydration, low/no calorie and add various “healthy” ingredients (antioxidants, vitamins, probiotics, etc...)

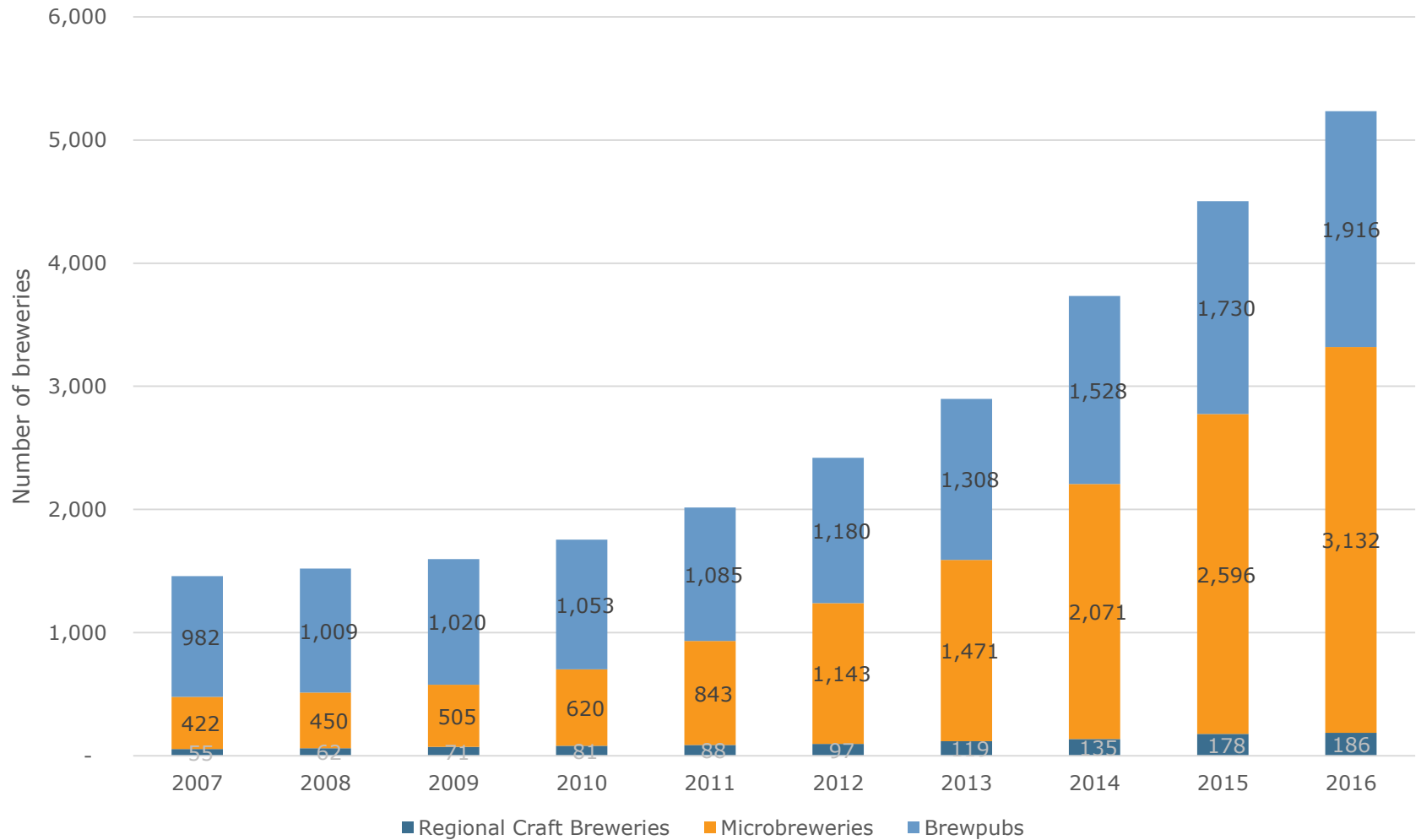


- **Unique** is consumers moving away from megabrands and searching out discovery brands. Products with interesting backstories and charismatic founders win over brands attached to a large multinational



- **Natural** is both about the literal makeup of the product, the aesthetic/branding and transparency. Ingredients matter, and branding as artisanal and sustainable is key to creating a positive image

Brewery openings just won't stop



New categories are “niche” ... until they are not

Energy: an \$11bn segment – could grow 3.5-4bn in next 5 years

Kombucha: a \$1bn segment that can double in 5 years



RTD Coffee: rapid innovation to add \$2bn in value by 2021

Plant based water could reach \$1.5bn in value by 2021



Coca-Cola: the least transparent beverage



A more literal view of transparency...



whetstonewinecellars We have already had the best day tasting the 2016 Single Vineyard Viognier and Pinot Noirs! That year had low yields but a lot to offer!!! Bright and luscious with kick ass acidity and well integrated tannins! What more could we ask for?! #HotDayumn #TastyJuice #StayTuned #SpringRelease #WhetstoneWineCellars mrs.avz Oh my goodness heaven!!! Can't wait to try the new releases :)



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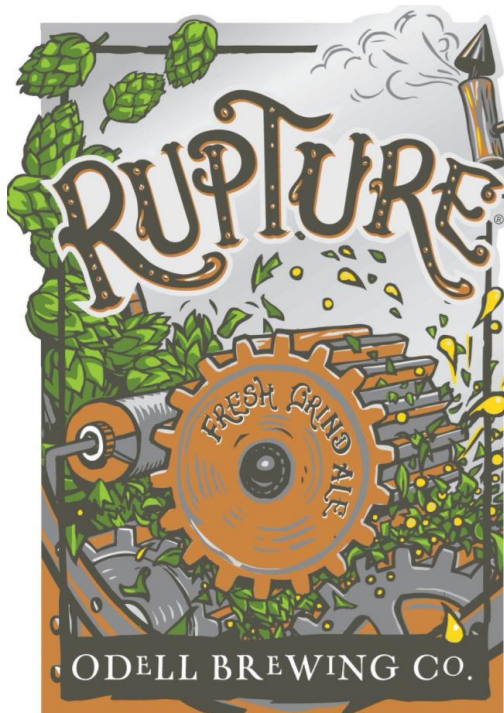


▶ 8,614 views

stumptowncoffee Greetings from David, founder of Huye Mountain Coffee! David brings a discerning eye and processes only perfectly ripe beans, leading to year after year of incredible coffee. Follow the link in our bio to learn more about David and Huye Mountain.

View all 19 comments

...And more figurative



SIERRA NEVADA BREWING CO.
DOMESTIC BOTTLE 12oz. & 24oz.
DATE CODE

Packaged on date & time when **labeled**

PKGD 03/25/14 15:15
0, we created a beer highlight

PKGD 03/25/14 15:15
PKGD = Packaged

PKGD 03/25/14 15:15
03/25/14 = MM/DD/YY

PKGD 03/25/14 15:15
15:15 = 24-Hour Time Clock

SIERRA NEVADA BREWING CO. CHICO, CA & MILLS RIVER, NC



cornerstoneranches
Sixpoint



Like

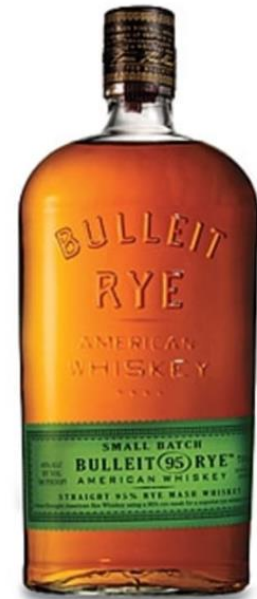
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Liked by sixpoint, tomin5b and 62 others

cornerstoneranches "A connection to the farmer is an intimacy with the hop. One grower relationship @sixpoint has established is with Cornerstone Ranches in Toppenish, Washington." // Great story on the @sixpoint Toppen-Ish #farmtopint beer from our friends over @rootedyakimavalley Give it a read 🍷 Link in bio!

But wait - is it about transparency, or telling stories?



And what does this mean for hops in beer production going forward?

Single origin coffee drives third wave coffee growth...

Fifteen US Coffee Roasters Win Good Food Awards with All Ethiopian Coffees

Nick Brown | January 22, 2018

- Blueprint Coffee**, Ethiopia Hambela, *Missouri*
- Compelling Coffee**, Ethiopia Banko Gotiti Coffee, *California*
- Intelligentsia Coffee & Tea**, Organic Ethiopia Tikur Anbessa, *California*
- JBC Coffee Roasters**, Gedeb Lot 83 Ethiopia Natural, *Wisconsin*
- Mudhouse Coffee Roasters**, Limu Dabesa, Ethiopia, *Virginia*
- Noble Coffee Roasting**, Ethiopian 'Bishan Fugu', *Oregon*
- Noble Coyote Coffee Roasters**, Ethiopian Guji - Organic - Natural Process, *Texas*
- OQ Coffee Co.**, Kayon Mountain Estate, Ethiopia, *New Jersey*
- Ozo Coffee Roasters**, Ethiopia Hambela Kirite, *Colorado*
- Pachamama Coffee Cooperative**, Organic Ethiopia Kossa Geshe & Organic Ethiopia Natural Amaro, *California*
- Per'La Specialty Roasters**, Ethiopia Shakiso, *Florida*
- Revel Coffee**, Ethiopia Kayon Mountain Guji Dry, *Montana*
- Royal Mile Coffee**, Ethiopia Shakiso Mormora Farm, *New Jersey*
- Square One Coffee**, Ethiopia Shakiso Mormora, *Pennsylvania*
- Vashon Coffee Company**, Ethiopia Yirgacheffe Natural Daniel Miju, *Washington*



...And this market can get very serious

Klatch Coffee Selling Esmeralda Geisha 601 At \$55 Per Cup

by ZAC CADWALADER • OCTOBER 19 2017 • WIRE



Carmenère Rediscovered

The Lost Key To Bordeaux's Great 19th Century Wines Unlocks a New Future In Chile

12 Wine Grapes Worth Discovering



Eric Asimov

THE POUR MARCH 24, 2017

In the wine world, obscurity's meaning can change quickly. In 2012, I wrote about a [dozen esoteric grapes](#) that were worth seeking out. That list included [assyrtiko](#) from Santorini and [frappato](#) from Sicily. Five years later, these grapes, if not yet household words, are at least firmly established.

Famoso di Cesena According to Ian D'Agata's superb book "Native Wine Grapes of Italy," the famoso di Cesena grape, long grown in the Emilia-Romagna section of Italy, was considered extinct when, in 2000, two rows of old vines were discovered. A small number of producers have since worked to revive it, including Villa Venti, whose Serena Bianco is the only famoso I've encountered. It's intensely aromatic and exotic, with flavors of apricots and herbs.

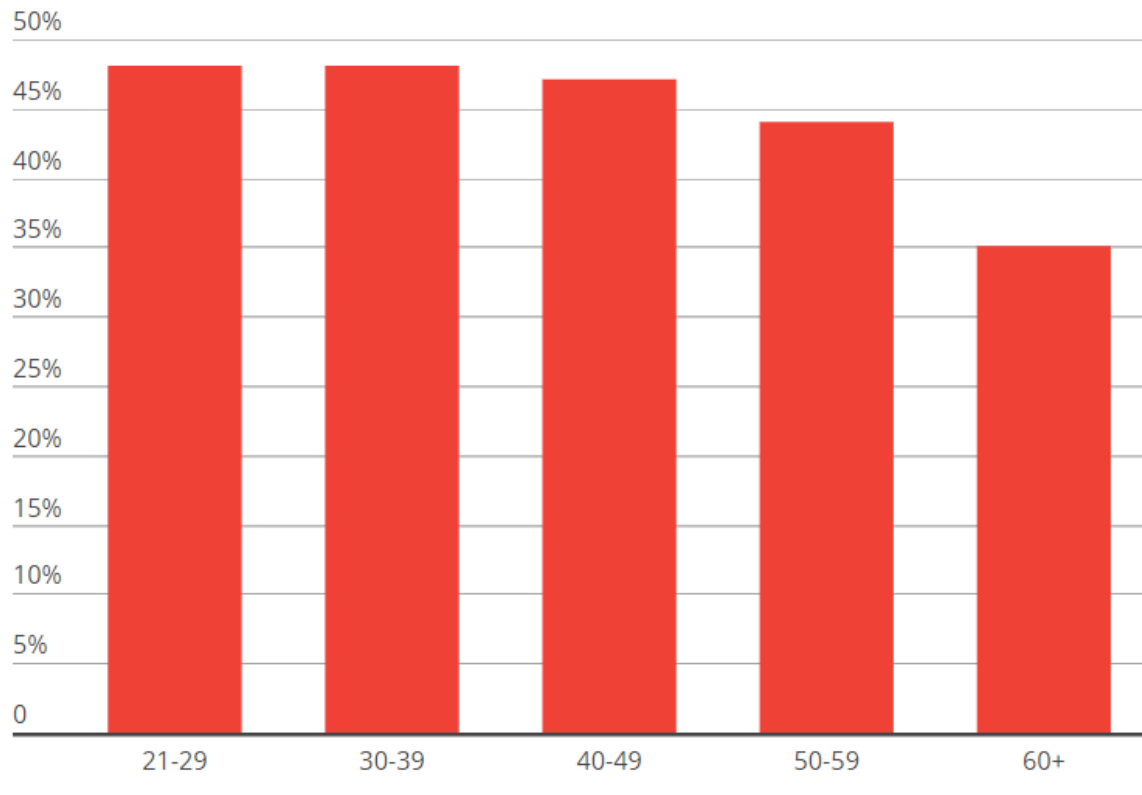
A story of Apple Juice in four bottles

From less to more transparent and local



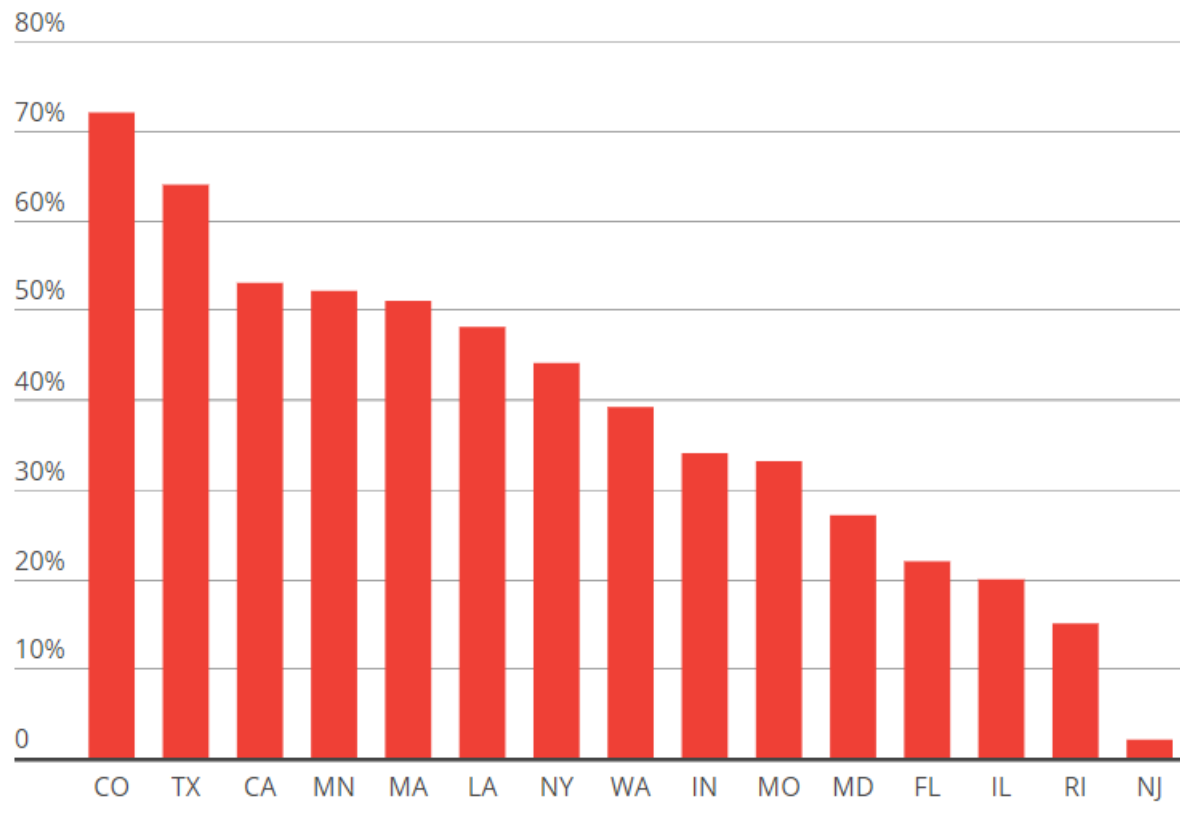
Beer is already very local

Local Beer Sales as Percent of Domestic Craft Beer Sales by Age



More breweries = more local consumption

Local Beer Sales as Percent of Domestic Craft Beer Sales by State



Going local and targeted

FOOD & DRINK

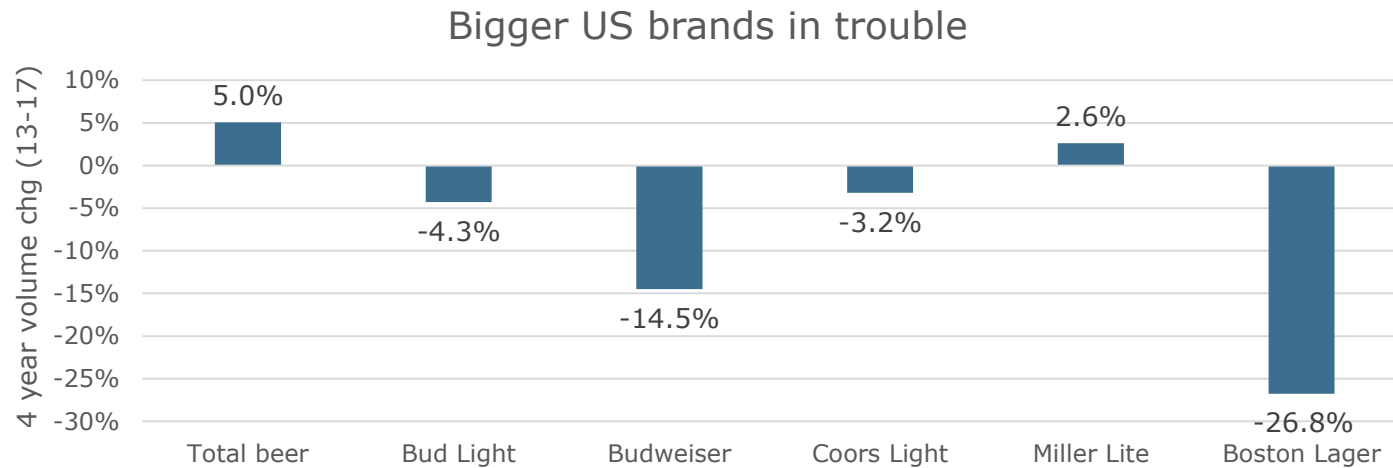
Viceland's Beerland winner Jessica Fierro buys Great Storm Brewing

POSTED BY GRIFFIN SWARTZELL ON MON, JAN 22, 2018 AT 4:39 PM

Gretchen Foster, Kelly Bugbee and Ian Steele will be staying on. Long-term, Fierro plans to change the name and refocus the lineup to emphasize Latin flavors, honoring her heritage as she did with Doña Neta. She will, of note, be paying homage to Great Storm's beers as



National brands are dying... Dilly Dilly!

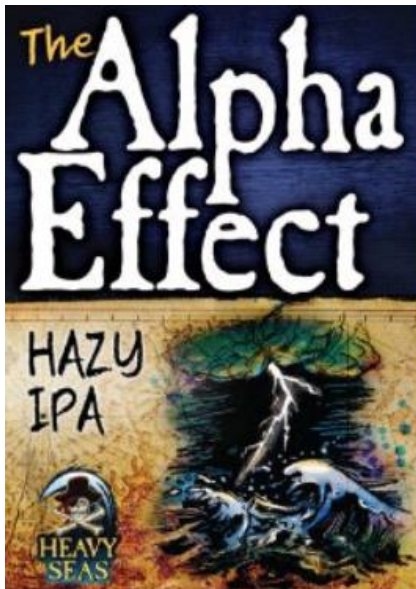


Source: IRI, 2018



What does innovation look like in US beer?

A long history of going bigger and bolder





But also a push to reclaim the center

Founders surpasses Bell's as largest Michigan brewery

Robert Allen, Detroit Free Press Published 5:16 p.m. ET Jan. 19, 2018 | Updated 5:52 p.m. ET Jan. 19, 2018

All Day IPA (4.7% alcohol by volume) is 62% of Founders' output.



"We're the largest craft brewery in Michigan," Bell said, on hearing the numbers on Founders. "Mahou (San Miguel) has always been a bigger brewer than us."

A thought on IPA and the future of craft beer

There's a running joke among brewers that whatever a beer ends up being, just call it an IPA and it'll sell better. Put IPA on the label and it's good to go."

— Steve Luke, Cloudburst Brewing

Do consumers really understand what an IPA is – or has the name just become synonymous with craft?

Craft beer has successfully captured the market looking for bigger and bolder.

The next major development will be learning how to speak to the consumer looking for more than light lager – something flavorful/innovative/authentic but still easily accessible

Parting thoughts

The beer industry (and all beverage segments) change slowly on a year to year basis – but massively on a 10-15 year time horizon.

The shakeout really is happening in craft beer – it is a difficult time to be caught in the middle.

Expect more partnerships – industry consolidation will continue

Price competition will only intensify in the craft beer space

For the biggest brewers, cost cutting will continue to be core to earnings growth

Within the next several years I will be intensely debating a completely new style of beer – and have a six-pack (four-pack?) in my fridge. Innovation won't stop.