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L'evoluzione del mercato artigianale in Italia, 1988-2017

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e

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- Member of the Executive Committee of the Beeronomics Society: an international non-profit association of scholars and professionals analyzing the economics of beer and brewing (http://www.beeronomics.org)

The Beeronomics Society
The International Association for the Economics of Beer and Brewing

- Editor of the book “Economic Perspectives on Craft Beer. A Revolution in the Global Beer Industry”, 2018, Palgrave MacMillan

Sources

- Garavaglia and Swinnen (2018)
- Personal research
- Beeronomics Society
- Unionbirrai
- Assobirra
- Mondobirra.org
- Beverfood

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A) LEARN FROM THE PAST:
Evolution of craf beer in Italy from 1988

B) LEARN FROM OTHERS:
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A)

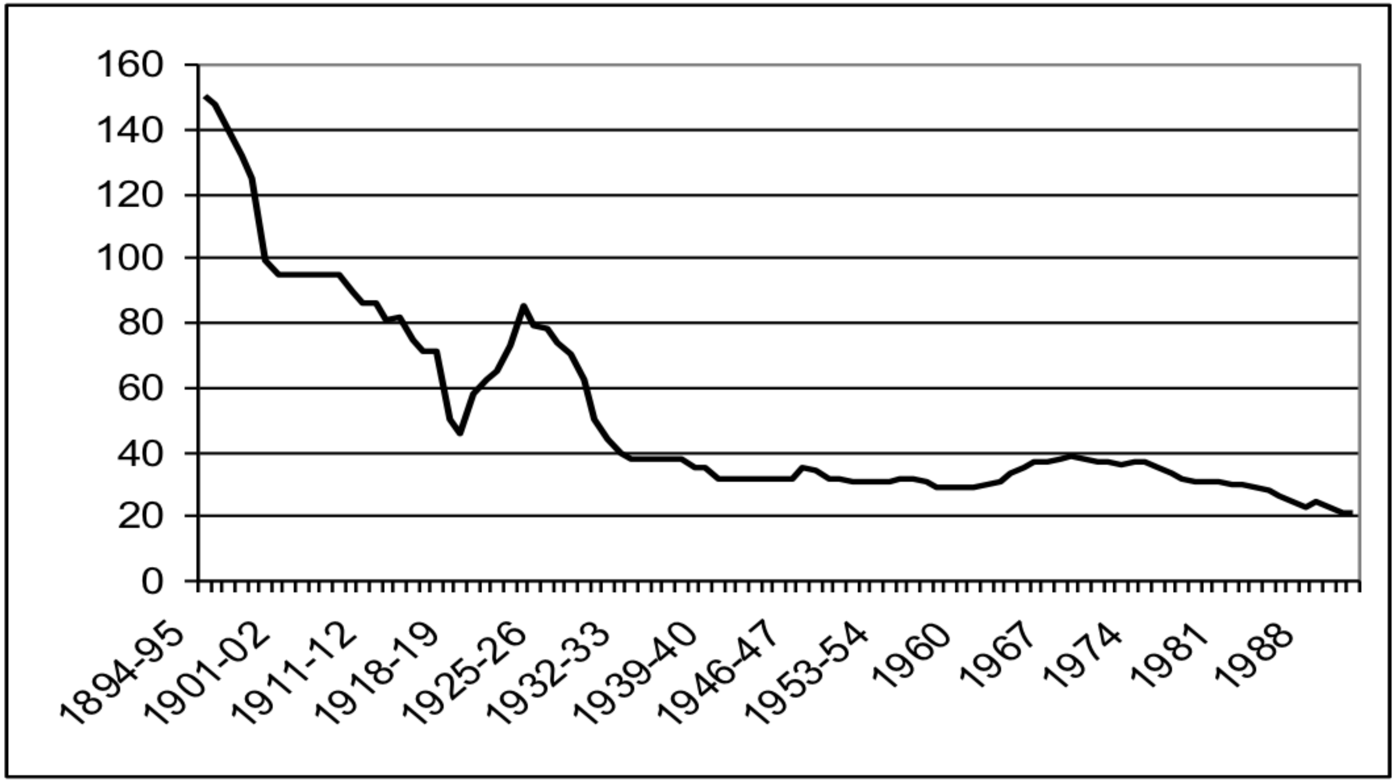
LEARN FROM THE PAST:

Evolution of craft beer in Italy from 1988

THE NUMBER OF FIRMS

The number of firms (and production plants) declined up to the beginning of the ‘90s (in 1991 only 6 groups)

Number of beer production plants, 1894-1991



Consequence: dramatic increase of industry concentration

Some recent data, 1950-2010: concentration indexes C4, C10 and H

Year	*Number of plants*	*Average plant production*	*C4*	*H*
1950	31	49,961.35	61.78%	0.131
1960	29	85,722.65	66.34%	0.152
1970	38	156,575.10	68.99%	0.257
1980	31	276,422.47	68%	n.a.
1990	21	507,926.64	84.75%	0.257
2000	17	739,705.882	97.38%	0.344
2010	14	915,285.714	89.37%	0.298

Producer	*1973 (%)*	*Producer*	*1983 (%)*	*Producer*	*1993 (%)*
Peroni 100% IT	29.71	Peroni 100% IT	28.9	Peroni 75.50% IT – 24.50% IT & FR	30.09
Wuhrer 100% IT	12.65	Wuhrer 70% IT - 30% FR	11.3	Acquired by Peroni	
Gruppo Luciani (Pedavena-Dreher) 100% IT	18.06	Heineken 100% HOL	17.3	Heineken 100% HOL	23.29
SPAI (Ichnusa) 100% IT	1.70	SPAI 100% IT	2.2	Acquired by Heineken	
Messina 100% IT	5.05	Messina 100% IT	8.8	Acquired by Heineken	
SIB 100% IT	2.02	Acquired by Messina			
Moretti 100% IT	4.12	Moretti 100% CAN	2.9	Moretti 100% CAN	7.78
Wunster 100% IT	2.88	Wunster 100% IT	6.4	Wunster 100% BEL	4.67
Industrie Poretti 100% IT	8.25	Industrie Poretti 50% IT - 50% DAN	8.1	Carlsberg Italia 100% DAN	8.90
Forst 100% IT	6.21	Forst 100% IT	7.2	Forst-Menabrea 100% IT	4.86
Menabrea 100% IT	0.24	Menabrea 100% IT	0.3	Merged with Forst	
Prinz Brau 100% GER	9.06	Prinz Brau 100% GER	6.6	Castelberg 100% IT	0.95
Held Brau 100% IT	0.08				
Total	100.00	Total	100.00	Total	100.00

Conclusions

- Concentration ↑
- Internationalization ↑

LESSONS #1

The Italian beer market:

I. lost of national producers/ownership

II. lost of product (and brand) variety

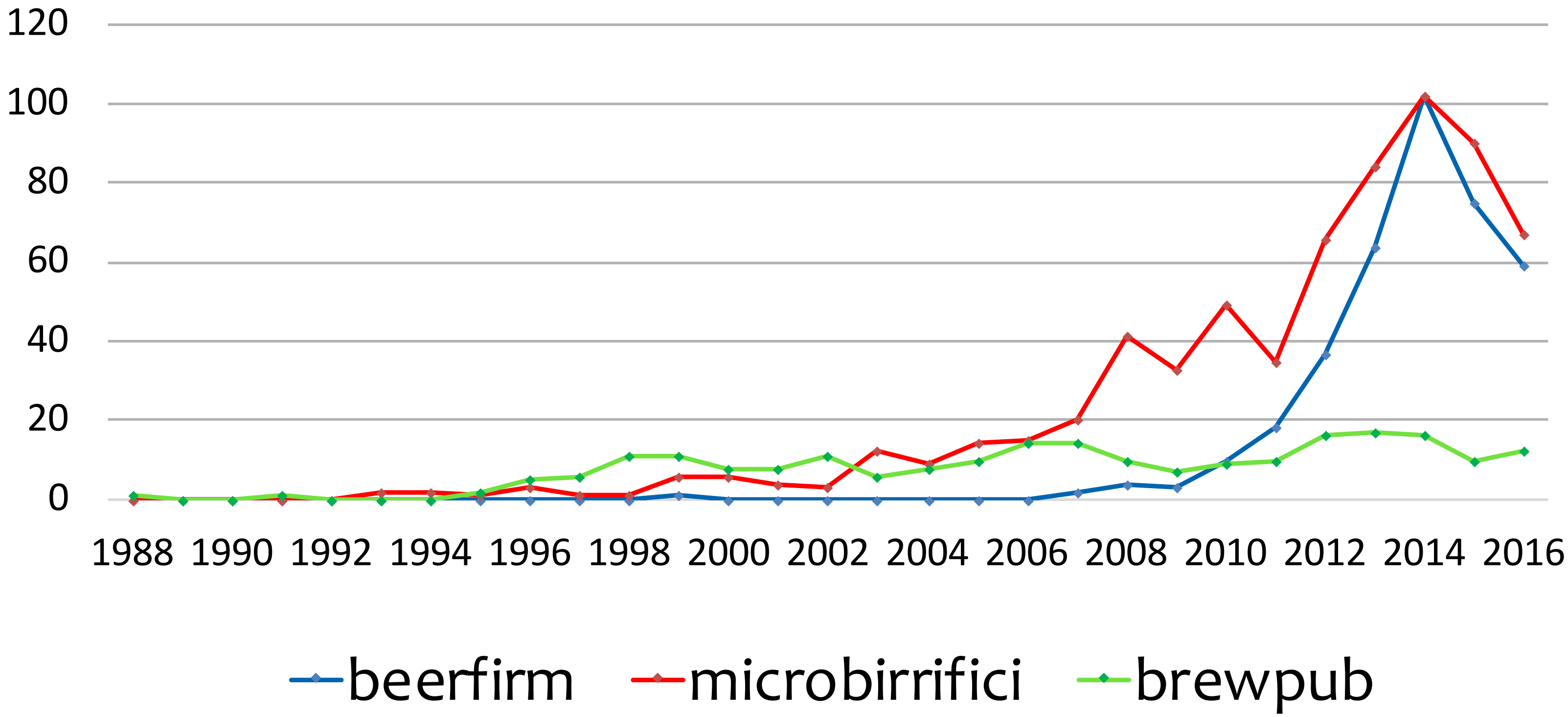
III. lost focus and creativity on products (because innovation mainly focused on cost savings)

IV. lost the connection to local communities

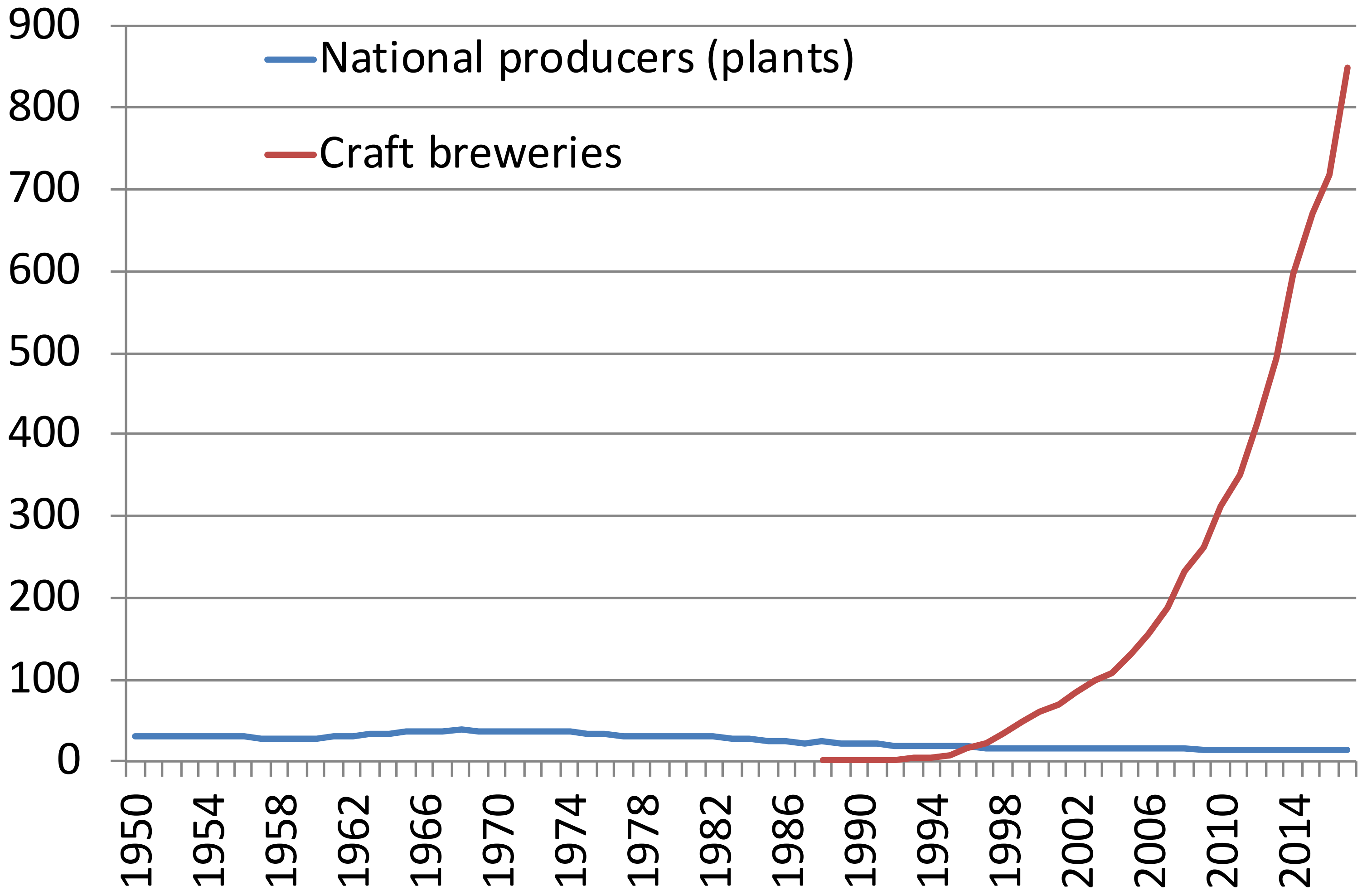
THE ADVENT OF CREFT BREWERIES

In the late ‘80s - early ‘90s we registered a wave of new producers (microbreweries and brewpubs → craft beer)

Number of new entrants, 1988–2016



Number of breweries (national producers - plants - and craft breweries), 1950-2017



- I personally interviewed almost all the entrepreneurs 1988-1997 (pioneers)

	MICROBREWERY/BREWPUB	YEAR OF ENTRY
1	Senso Unico (Orabrau)	1988
2	St. Josef	1991
3	Aramini Brauerei	1992
4	Montevecchio - IBS	1993
5	Brew Mood Ale House	1994
6	Il Mastro Birraio	1994
7	Greiterhof	1995
8	Turbacci	1995
9	Beba	1995
10	Titanic	1996
11	Birrificio Italiano	1996
12	Lambrate	1996
13	Amarcord	1996
14	Baladin	1996
15	Centrale della Birra	1996
16	St. Johannes Brau	1996
17	La Locanda di Cecchet	1997
18	Hops! Riccione	1997
19	Befed - Aviano	1997
20	Tre Fontane	1997
21	San Gabriel	1997
22	Vecchio Birraio	1997

Fist entrant 1988:
Gianfranco Oradini

Biggest micro:
Teo Musso,
entered in 1996


MOTOR OIL
TORO
MOLTO MALTO


BIRRIFICIO LAMBRATE

LESSONS #2

3 main motives behind entry among first entrants (1988-1997)

I. Standardization of industrial production

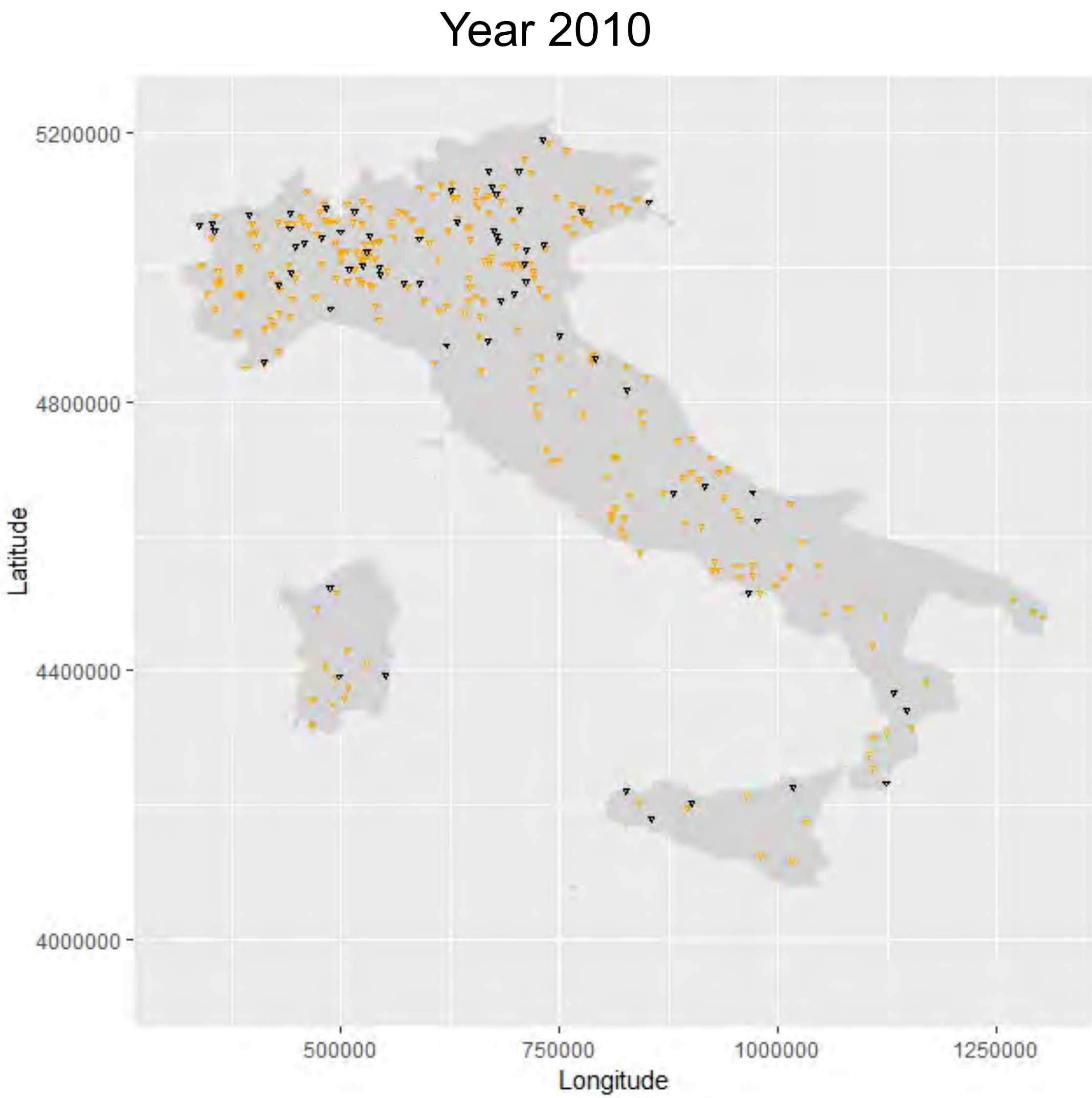
II. Change in consumers' preferences: consumers asked for something different

III. Influence from abroad

Towns with at least 1 craft brewery from 1995 to 2010

1995 **2000** **2005** **2010**

Focus on 2010-2016:
Towns with at least 1 craft brewery



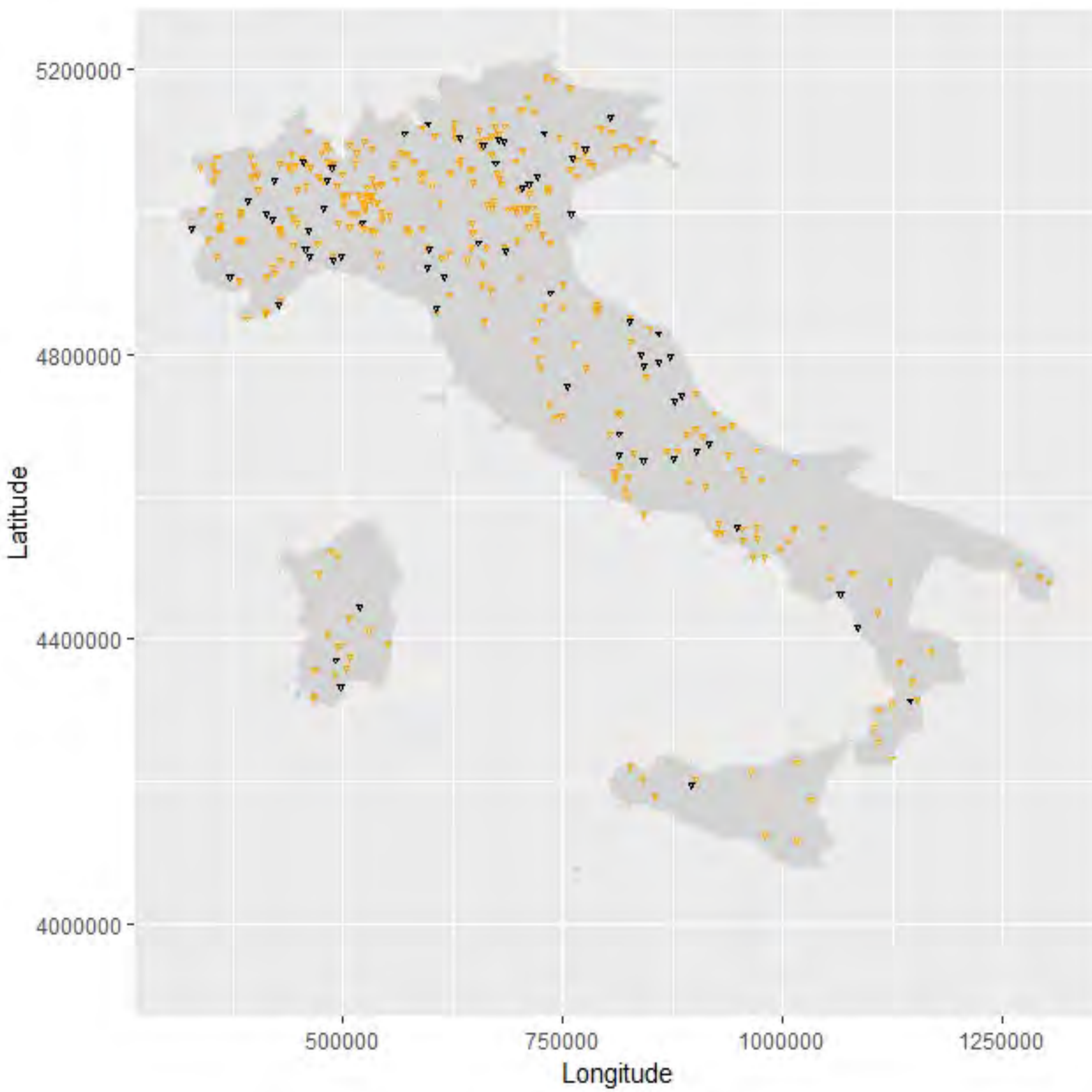
Legend:

In **YELLOW** = incumbent firms

In **BLACK** = new entrants

Focus on 2010-2016:
Towns with at least 1 craft brewery

Year 2011



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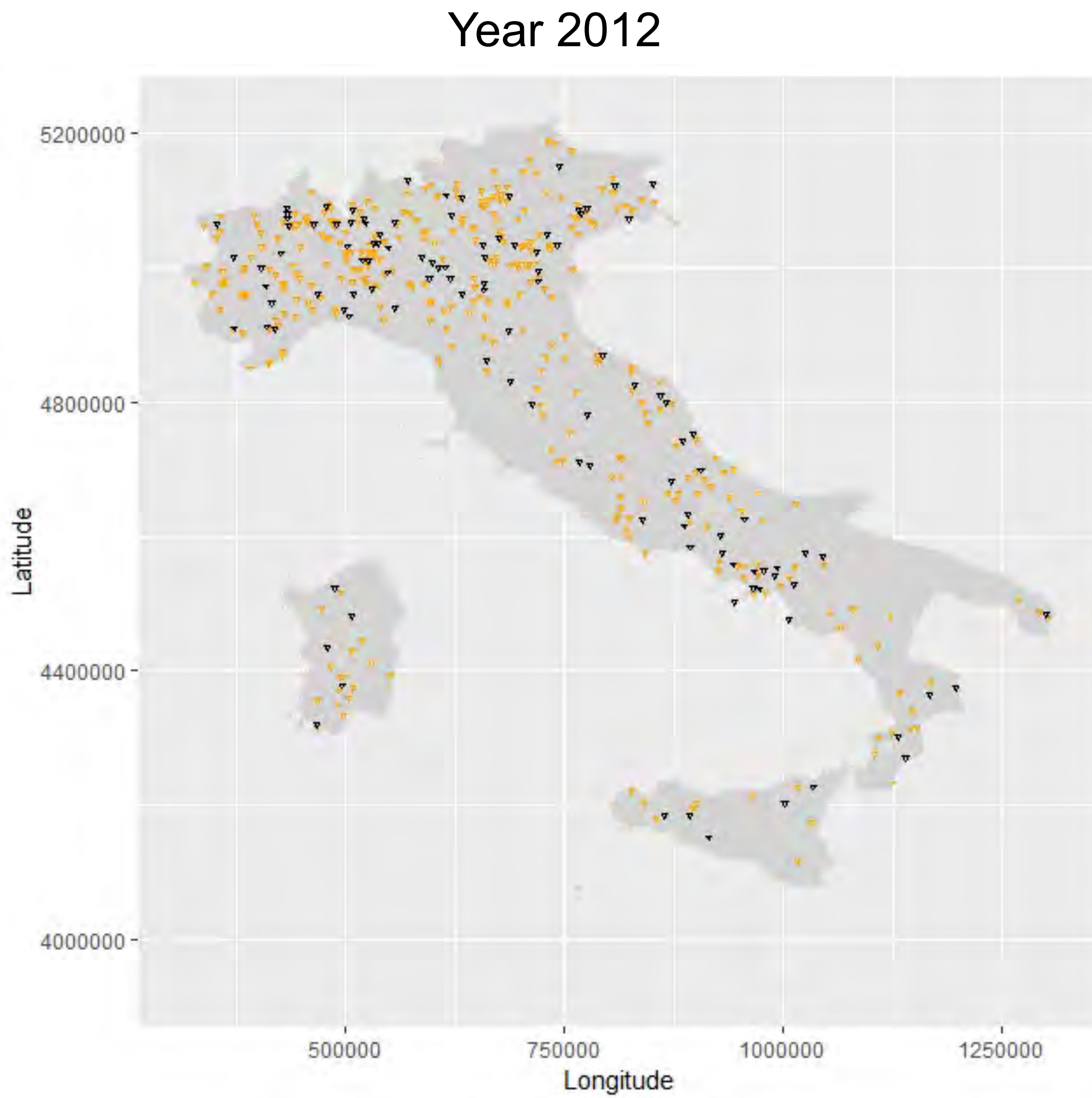
Towns with at least 1 craft brewery



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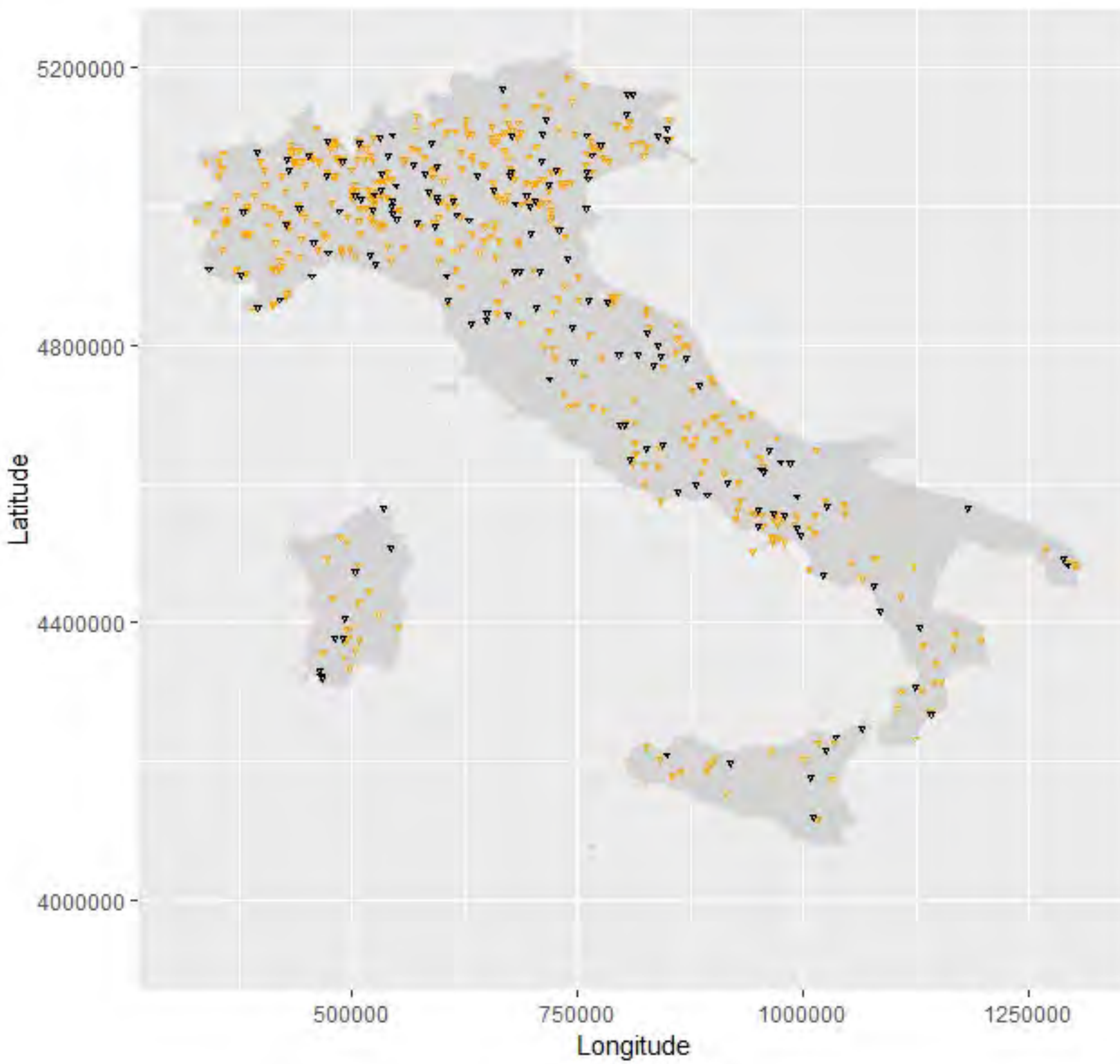
Focus on 2010-2016:
Towns with at least 1 craft brewery

Year 2013



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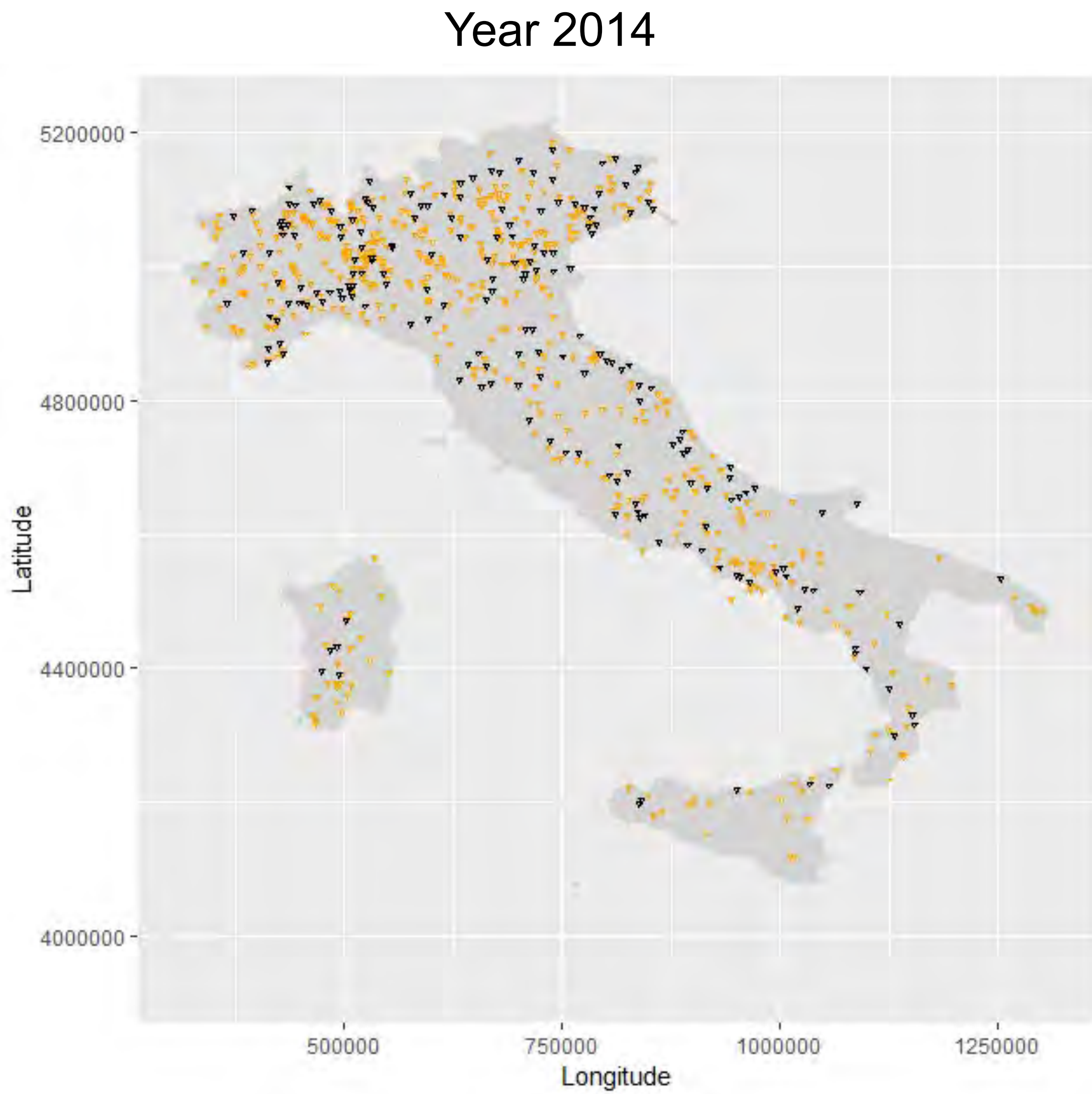
Towns with at least 1 craft brewery



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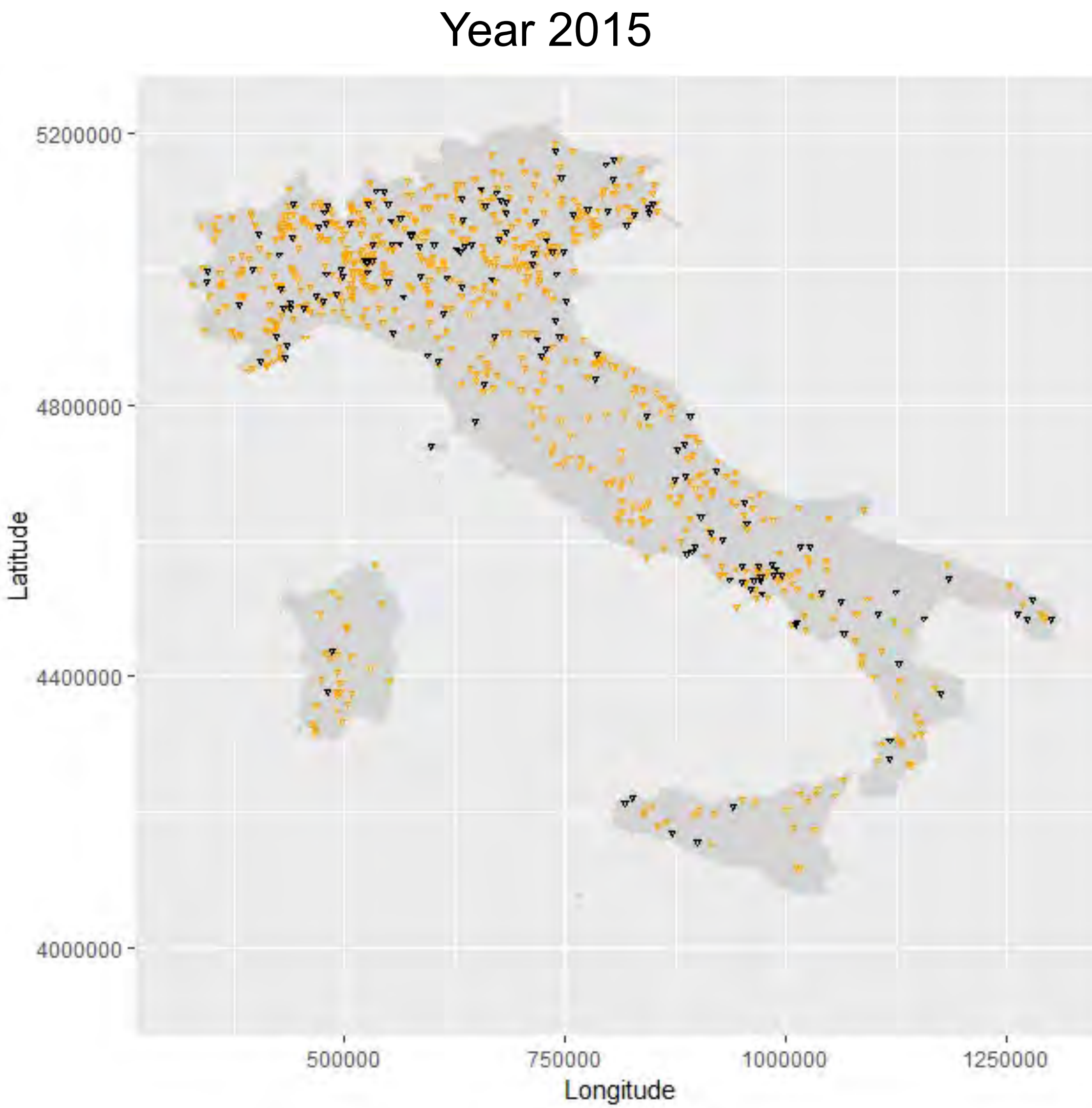

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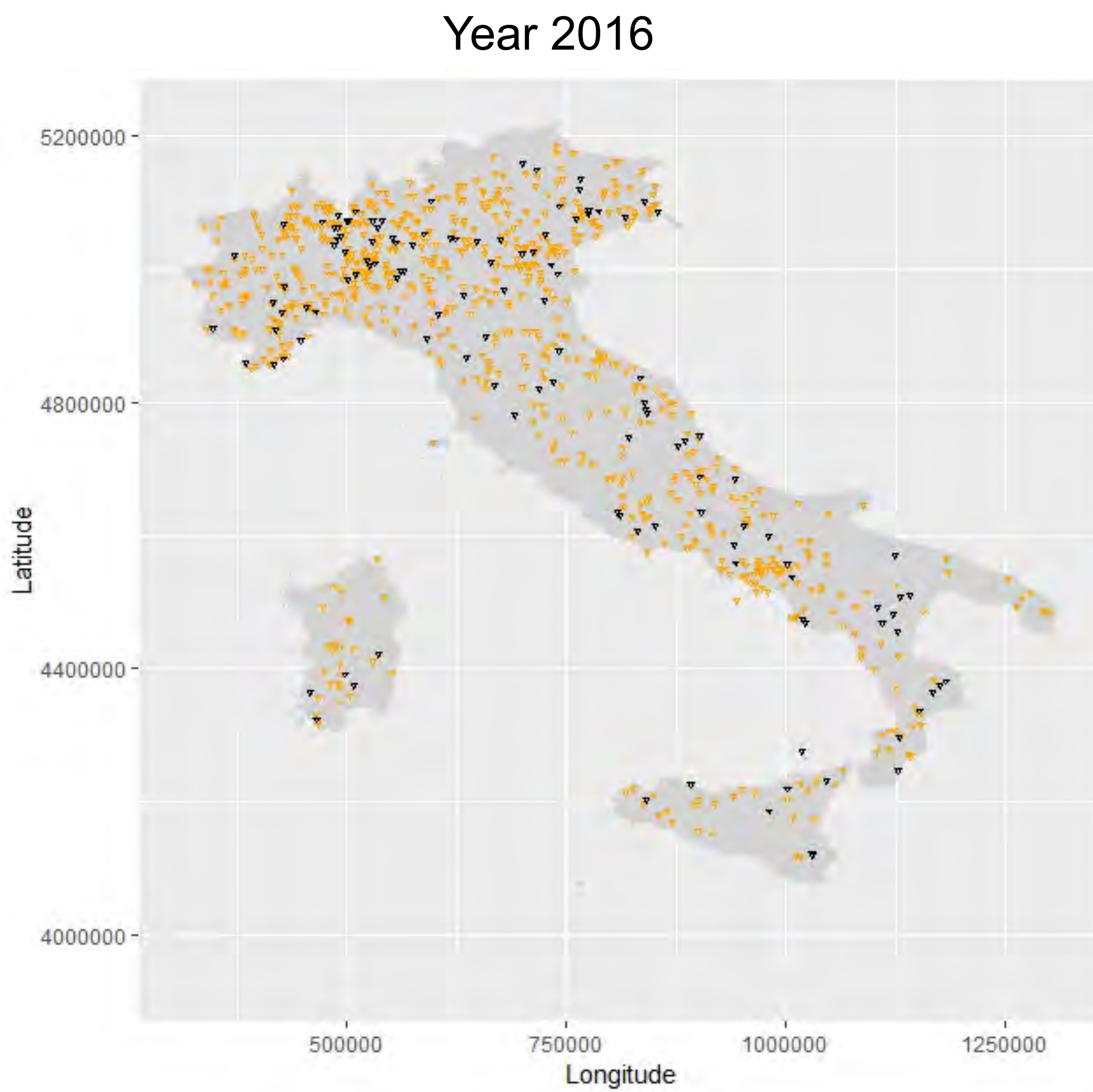

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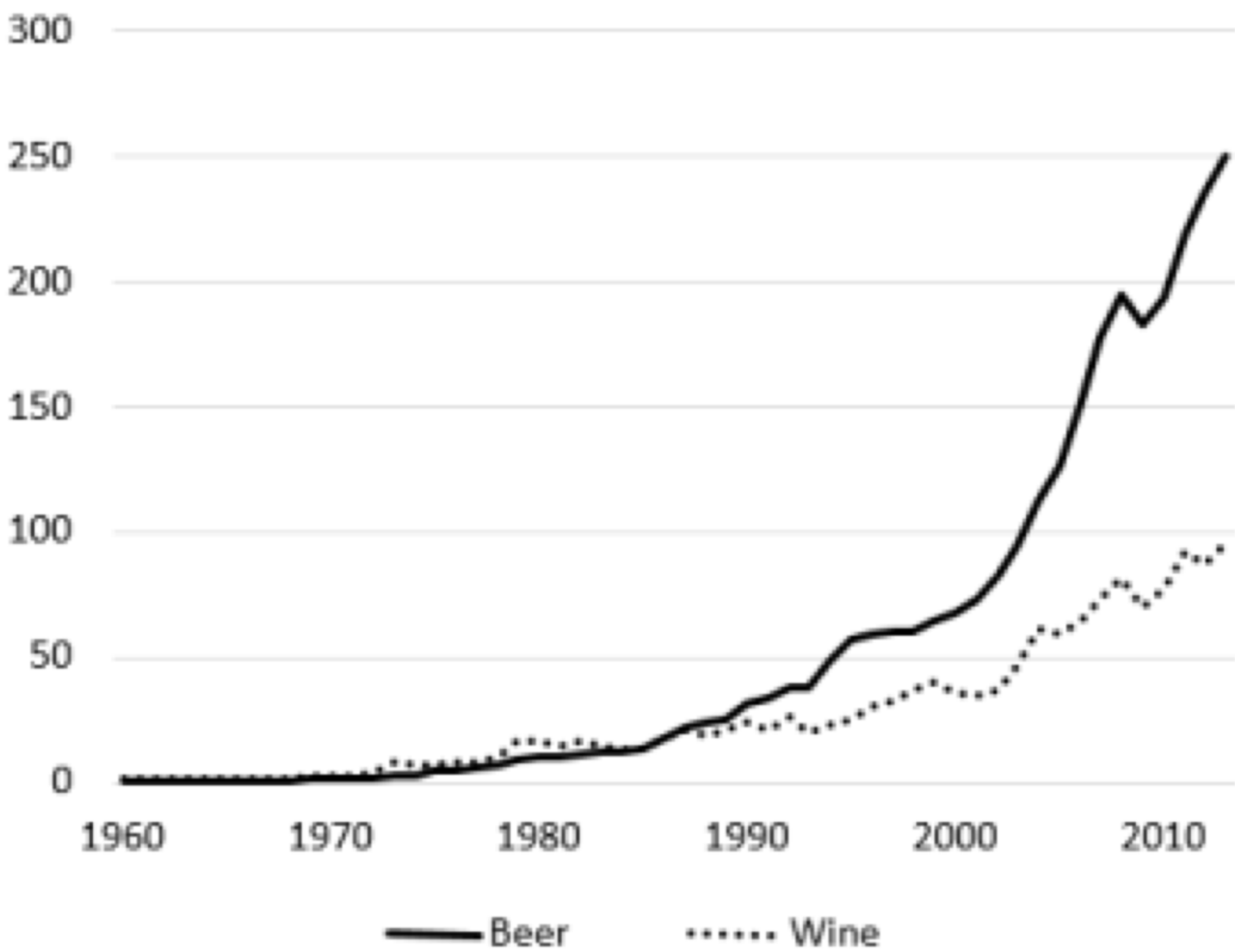
B)

LEARN FROM OTHERS:

The international context

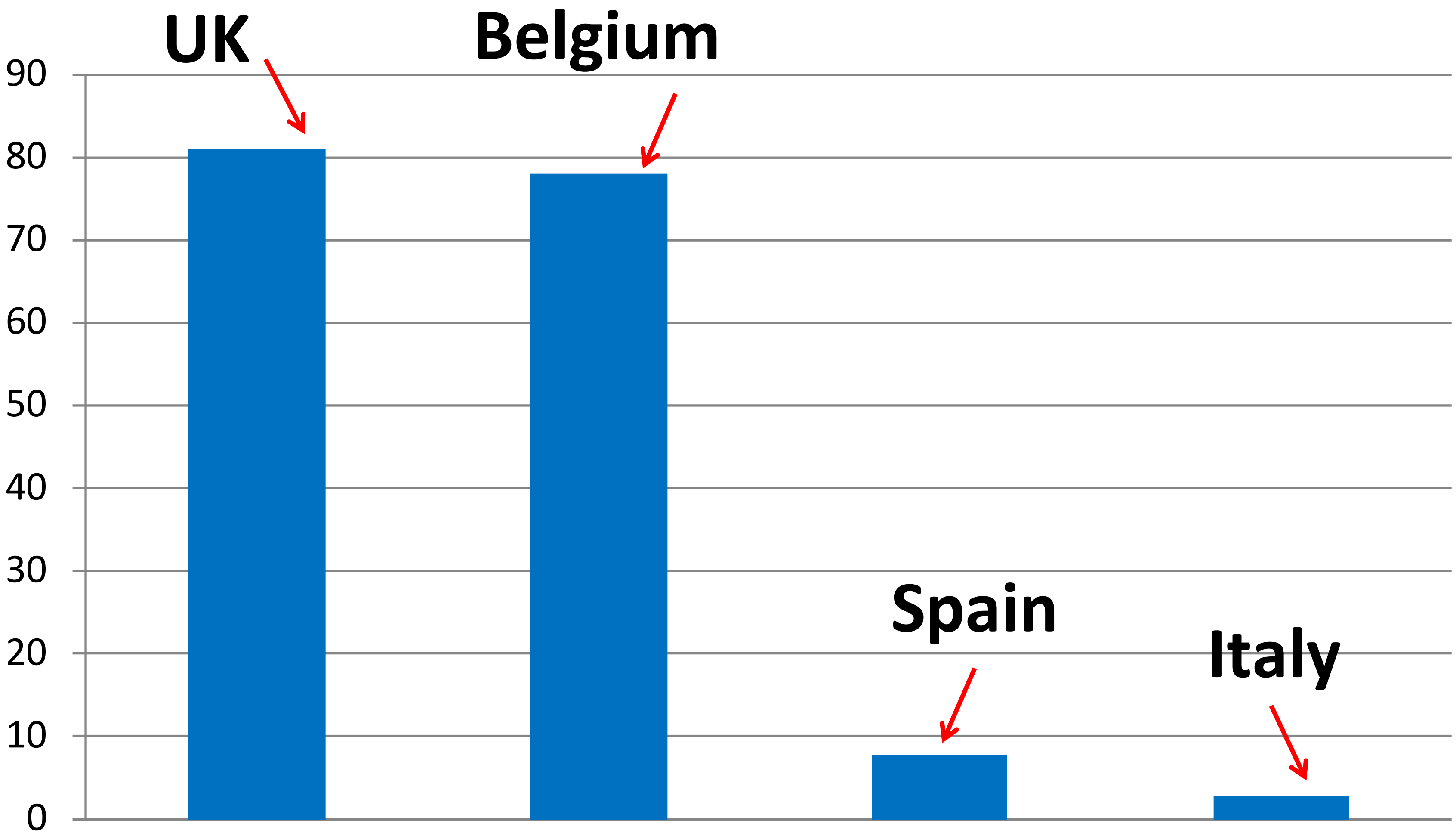
Global Consumption of Beer and Wine in Value (billion US dollars) 1960-2013



Top Five Beer Markets in the world, 1960–2010

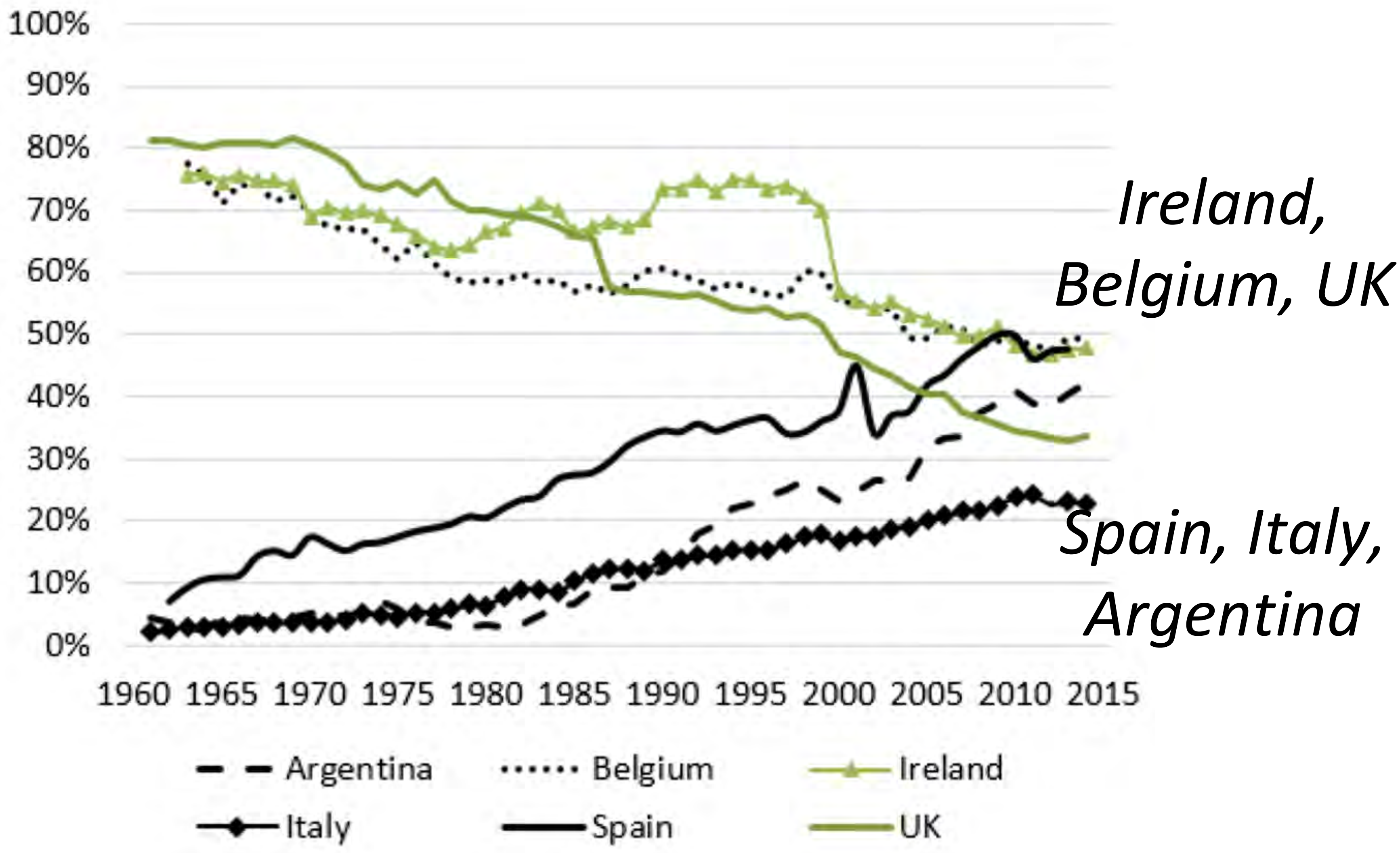
1960	Billion liters	Share of world consumption
1. USA	11.2	26.0
2. Germany	6.8	15.7
3. UK	4.7	10.9
4. Russia (USSR)	2.7	6.2
5. France	1.7	3.9
2010	**Billion liters**	**Share of world consumption**
1. China	45.5	25.8
2. USA	25.6	14.5
3. Brazil	12.8	7.3
4. Russia	9.9	5.6
5. Germany	8.1	4.6

Share of beer in alcohol consumption (%) 1961

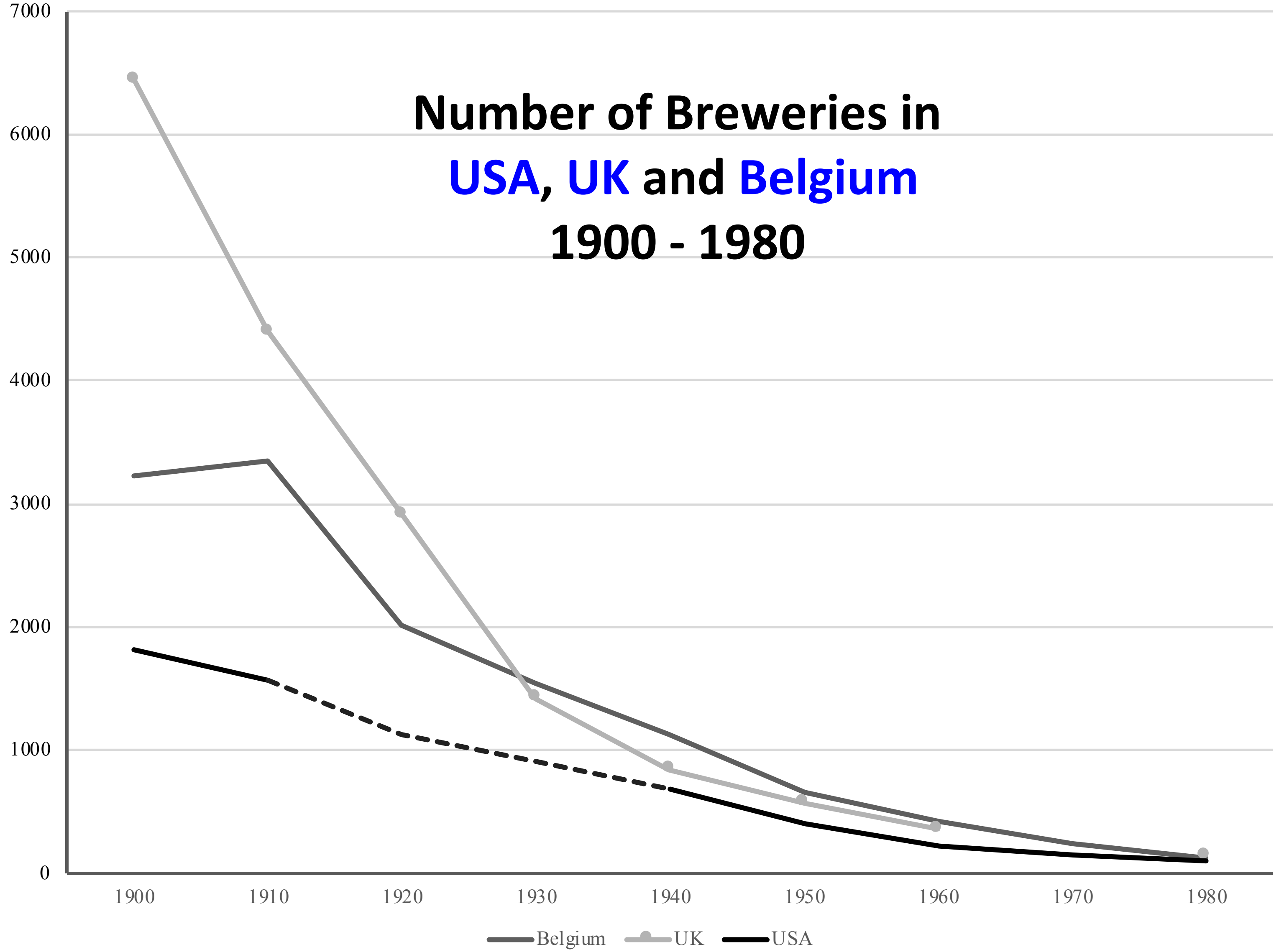


The Great Convergence

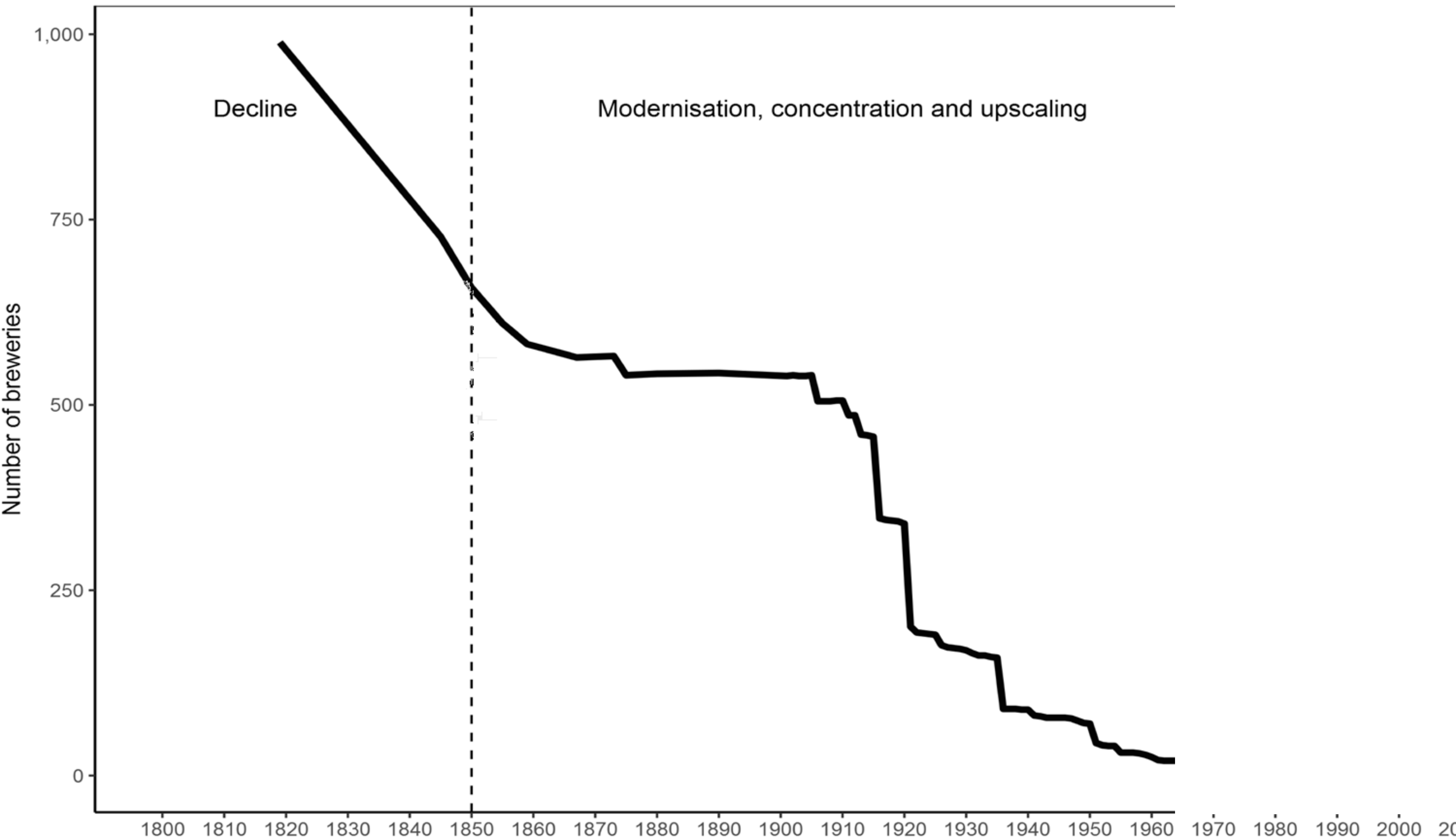
Share of beer in alcohol consumption (%) 1960-2010



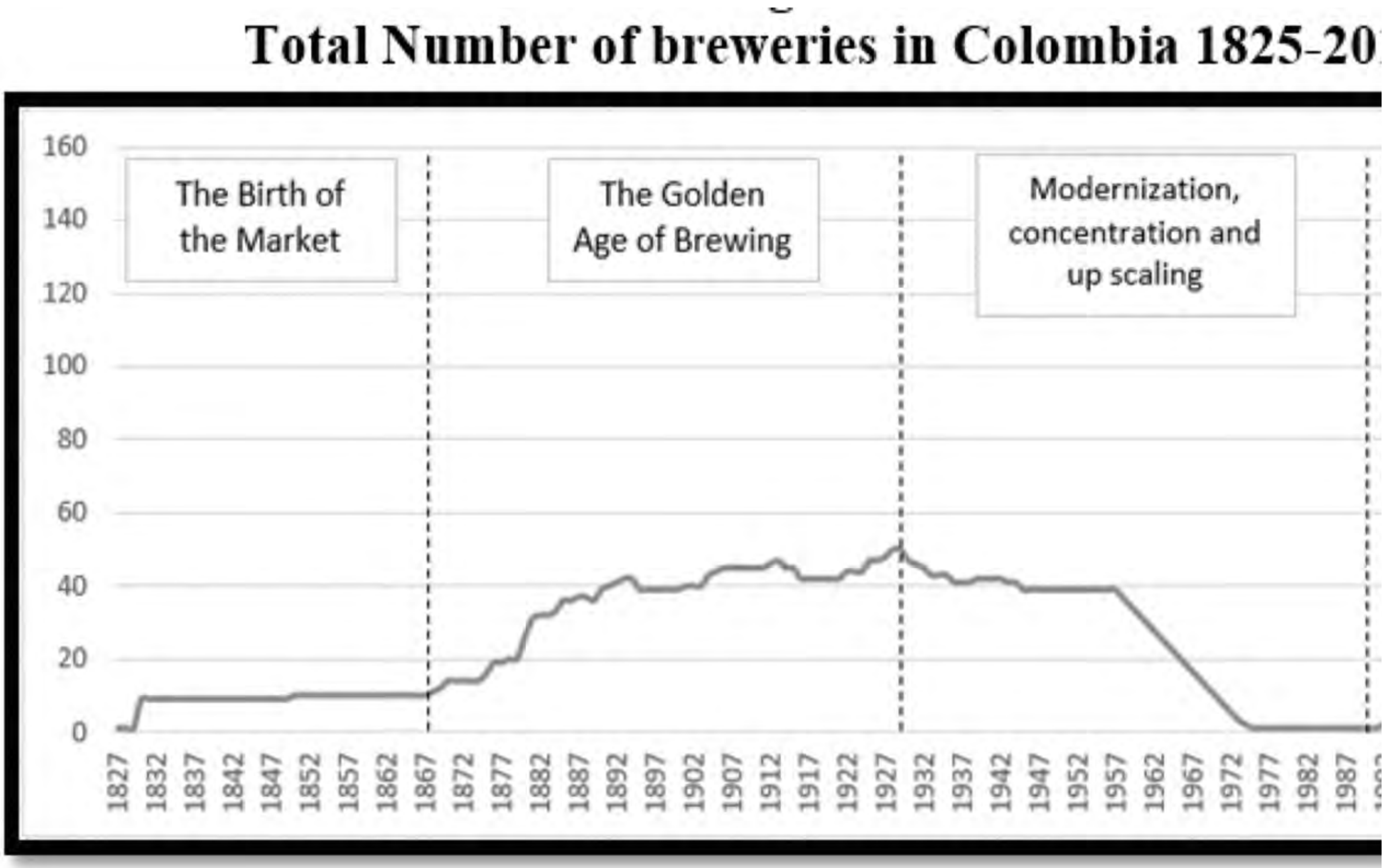
20th Century Domestic Concentration



Netherlands



Colombia



Total Number of breweries in Colombia 1825-20
The Birth of the Market
The Golden Age of Brewing
Modernization, concentration and up scaling
160
140
120
100
80
60
40
20
0
1827
1832
1837
1842
1847
1852
1857
1862
1867
1872
1877
1882
1887
1892
1897
1902
1907
1912
1917
1922
1927
1932
1937
1942
1947
1952
1957
1962
1967
1972
1977
1982
1987

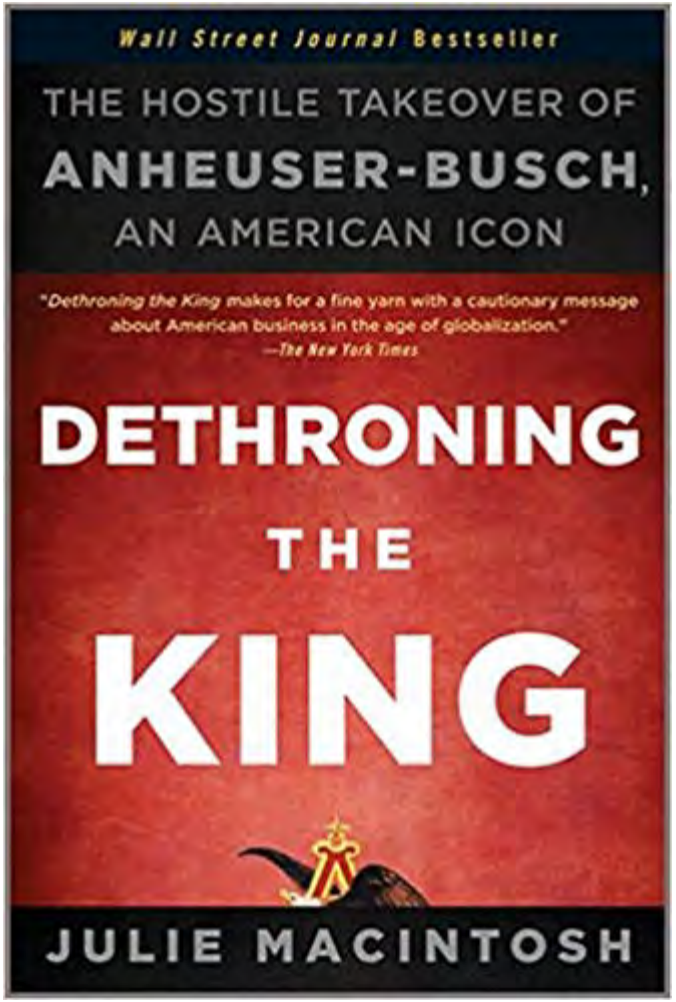
Global Concentration of Brewing Industry 2000

Global Concentration of Brewing Industry 2005

Global Concentration of Brewing Industry 2010

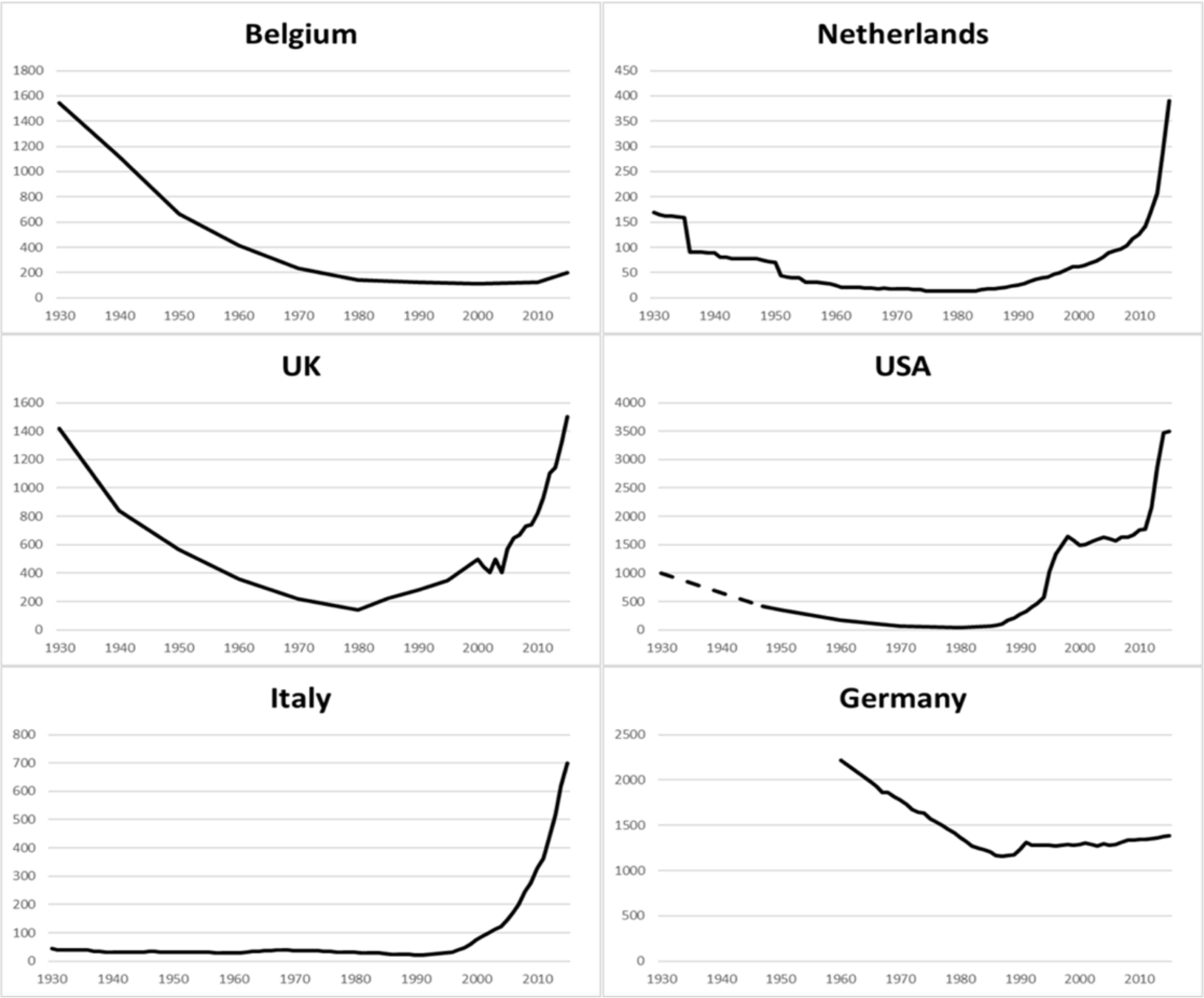
Global M&As

- **2000:**
  - some big multinationals
- **2005: 7 major holdings**
  - InBev
- **2010: 4 major holdings**
  - AB InBev (25% of the world)
- **2017: 3 major holdings**
  - SAB InBev ?



The return of the small & local

Number of breweries 1930 - 2015



WHERE DID IT HAPPEN?

Elzinga, Tremblay and Tremblay (2018), Garavaglia and Swinnen (2018):

“The craft beer segment begins in Europe”

because much of the beer being produced by the US craft segment has European origins

- Fritz Maytag (Anchor Brewing Company)
- John McAuliffe (New Albion Brewing Company)
- Sam Calagione (Dogfish Head brewery)
- Brian Hunt (Moonlight Brewing Company in California)
- Will Meyers (Cambridge Brewing Company in Massachusetts)
- Oregon’s Rogue brewing also illustrates the debt that US craft brewers have to Europe. Rogue introduced German-style doppelbock ale—different from Scottish and English ale—to the United States. We are unaware of any brewer who ever brewed a doppelbock ale in the United States.
- Maine’s Allagash Brewery now brews Lambic beer

- European brewers are now influenced by the craft brewers in the United States.

- *“Belgians are making hoppy beers, and American are making Belgian ales. The French are making cask ale, and the British are discovering craft lager. These trends get fed back into* ***the cultural mill****, shifting and mutating until they’ve created something yet again different and new”* (Alworth, 2015).

Result: the Geography of Craft Beer

One of the most interesting results is the idea of a **two-way street** hypothesis

LESSONS #3

I. Globalization VS Neo-localism

II. International connections and trends

C)

LEARN FOR THE FUTURE:

What’s next?

Understand the past → Understand the future?

- Standardization and homogenization of beer

  → **NEW OPPORTUNITIES**

- Changes in demand (consumers' preferences)
  - → Increasing incomes
  - → Intrinsic characteristics of food

  → **NEW DEMAND**

- Globalization
  - → Neo-localism

  → **NEW ATTTUDE**

- International integration
  - → Travels
  - → Economic integration

  → **NEW INFORMATION-KNOWLEDGE**

WHAT'S NEXT?
Some key questions
(Crystal Ball Sphere Predictions)

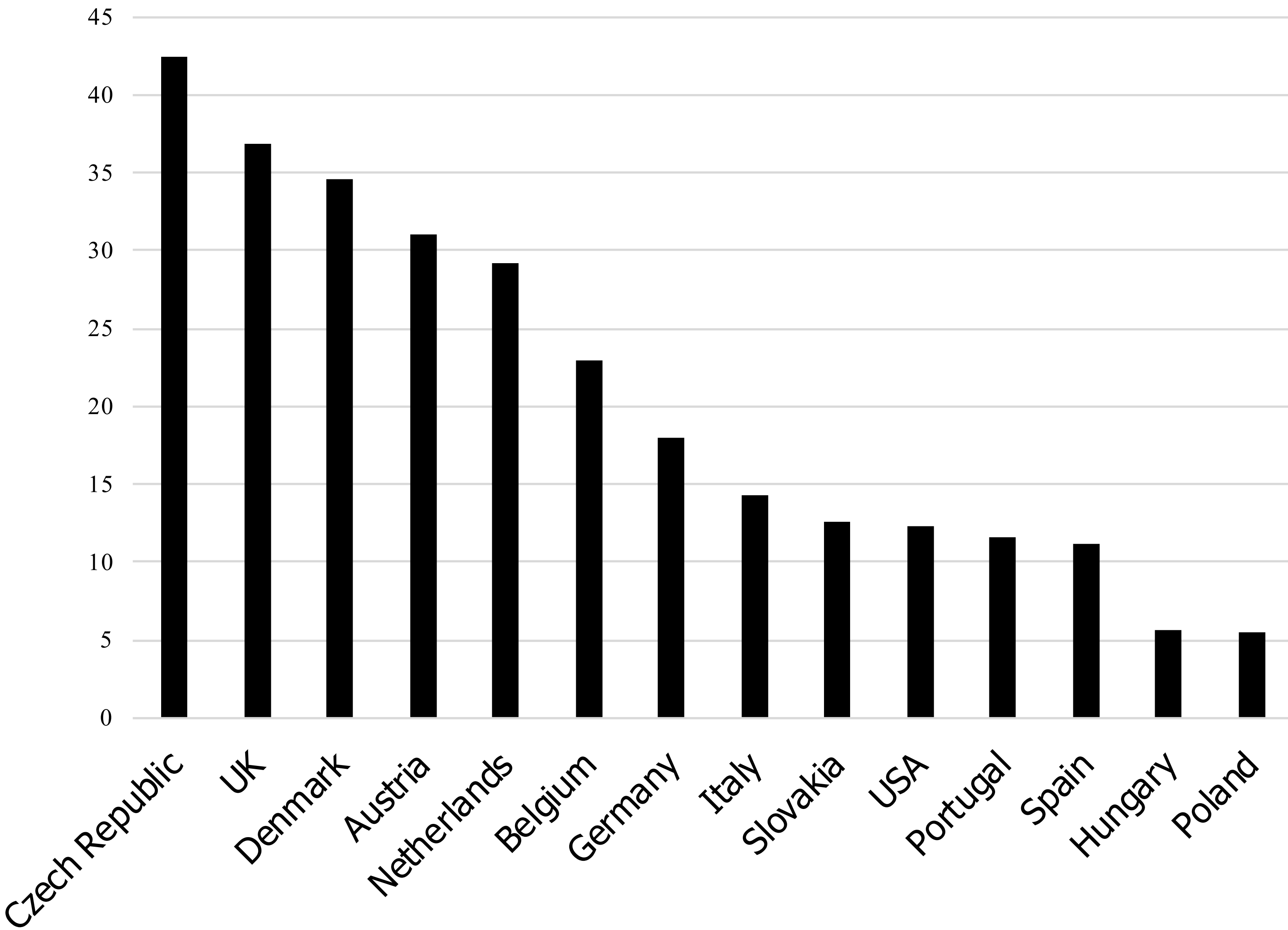
Key questions

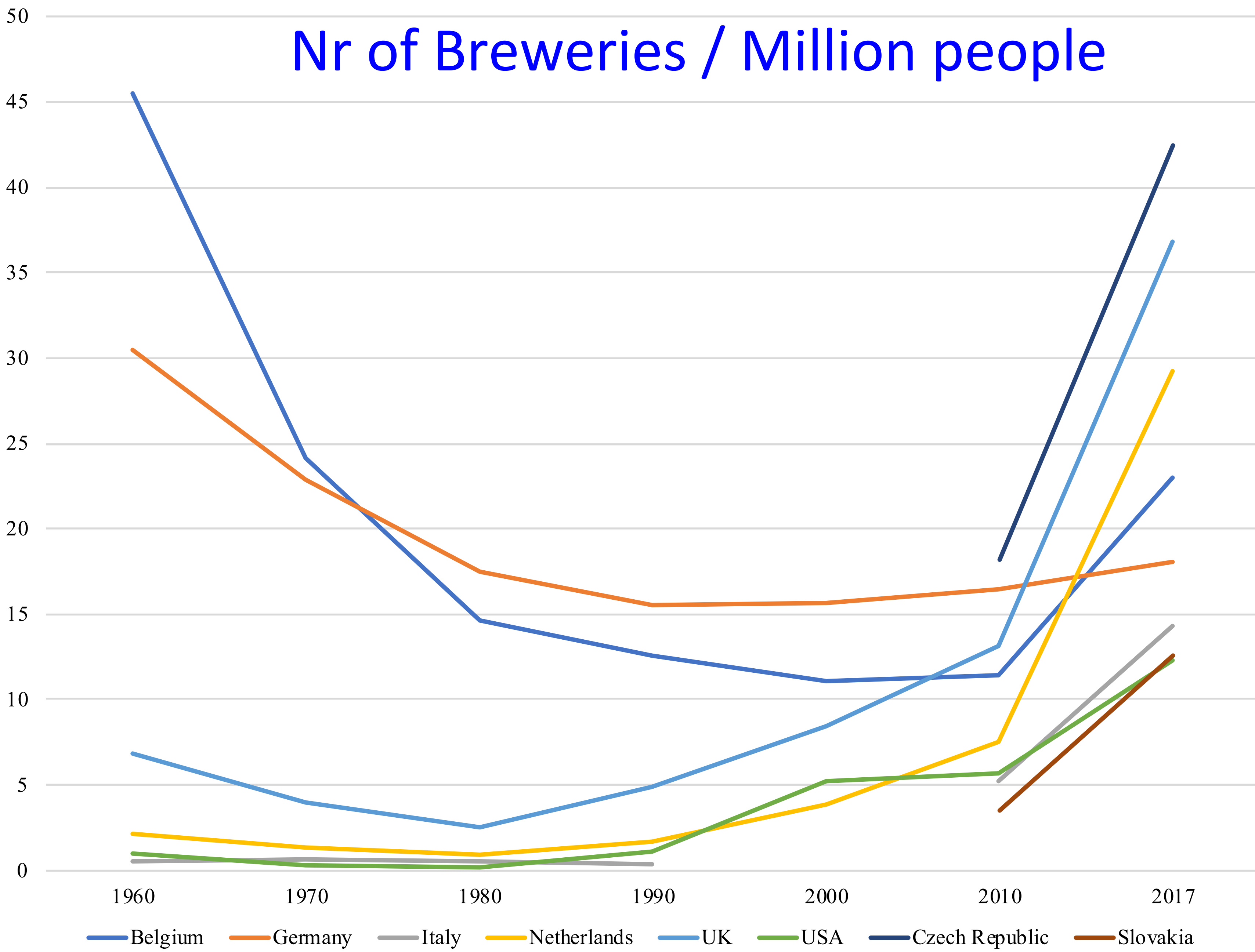
1) Is there room for new craft breweries in Italy?
2) Localism VS export?
3) Product strategy: hyperdifferentiation?
4) Distribution?
5) Will macrobrewers' strategic responses continue?
6) New trends?

1) Is there room for new craft breweries in Italy?

- Italy, market share 2017 = 4% (?) of beer volume
- US, market share 2017 = 13.2% of beer volume (i.e. 24.2% share of the $114.2 billion U.S. beer market)
- Graph: breweries per million inhabitants

Nr of Breweries / Million people



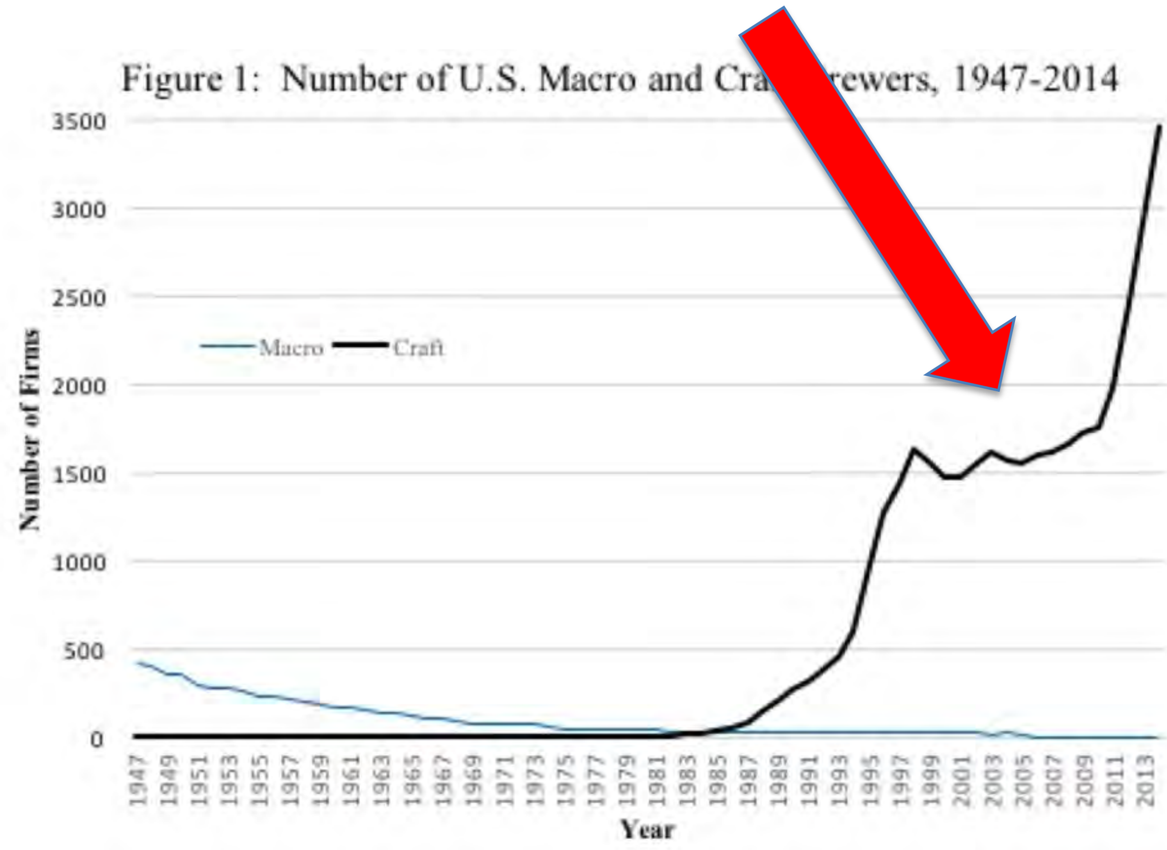


Nr of Breweries / Million people
50
45
40
35
30
25
20
15
10
5
0
1960
1970
1980
1990
2000
2010
2017
Belgium
Germany
Italy
Netherlands
UK
USA
Czech Republic
Slovakia

Can we expect a consolidation in the craft beer segment?

- In US the largest independent craft breweries have recently experienced flat or declining sales (e.g. Boston, Sierra Nevada, New Belgium…)
- Much of the growth in the craft segment is not related to the smaller-scale productions (→ neolocalism)

Why the decline in the US craft beer segment in the '90s???
In the second half of the '90s, the sales growth of the microbrew segment began to slow to 26% in 1996, and to 5% in 1997 (Melcher 1998). For the first time since the craft brewing movement began, more breweries closed than opened in 1999 (Flaherty 2000).



- At the same time as the majors were honing in on the micro market, thousands of other investors and entrepreneurs jumped in, attracted to the dollar signs they saw in every glass → **quality???**
- During the boom, many microbrewers, excited by their success, saw vast untapped markets for their brews nationally, and many tried to expand regionally or nationally. Many such enterprises failed.
- Such profit-driven initiatives on the part of the microbreweries floundered because the brewers misunderstood the root of their initial success, the neolocal appeal of their product. In trying to play in the national market, they had lost touch with their local roots.

2) Localism VS export?

The success of the microbrewery revolution had really been about more than just beer

With a micro, consumers are not drinking a brand at all, but an “idea”

→ for many, the “idea” is craft
consumers who desire products because they are made by an identified person who utilizes craft knowledge to produce goods with quality and authenticity. Consumers are interested to know the story behind the brewery!

→ for many others, the “idea” is connection to place

Strategy: **Build an identity!**

- **The irony is that as successful micros grow,they risk to lose their ties to local communities.**
- **The "seduction" of the microbreweries could not be effectively recreated on a national scale**

Problem: distribution → quality!

3) Product strategy: hyperdifferentiation?

- Product differentiation is crucial!
- Hyperdifferentiation increases product diversity, that in the end will increase prices and consumers satisfaction (Clemons et al., 2006).
- In markets responsive to hyperdifferentiation strategies "*it may be particularly important to design a product that at least some consumers love, rather than developing a middle-of-the-road product that consumers neither love or hate*". This can be described as a strategy of resonance marketing according to which when a product provides a unique degree of customer resonance it can be sold at extremely attractive margins.
- IPA, IPA, IPA… What's next? Sour? Brut IPA??
- **Strenghts = Italian creativity!** → example: IGA

  = flexibility of small firms

4) Distribution?

- Craft beers have recently started to appear in the off-trade channel, i.e. hypermarkets, supermarkets, mini markets.
- Off-trade distribution represents a **great opportunity** for the growth of craft beer consumption in the future: the percentage of beer consumption off-trade is 62.4 while on-trade is only 37.6 in 2017 in Italy (Assobirra Report 2018).
- Craft breweries should focus on the overcome of some critical concerns:
  1. The higher perishability of craft beer is a limitation for a wide distribution compared to industrial beer: keeping low temperatures is crucial for the storage of craft beer, while supermarkets do not often store beer in fridges → **quality!!!**
  2. In addition, the collaboration with supermarkets gives low profit margins for the breweries.
  3. Craft breweries, also, often face difficulties in guaranteeing the required (relatively high) volumes by the supermarkets because of their limitations in production.
  4. The more purist craft beer consumers do not really appreciate to buy craft beer in the supermarkets because of the debasement of the product.
  5. Similarly, the local bars and restaurants want to have the exclusivity of the beers and thus do not appreciate that the beer they sell are also available at the near supermarkets.

5) Will macrobrewers' strategic responses continue?

- Yes!
- Craft beer is gaining market share in a declining/stagnating market
- Competition is fierce
- Strategic reponses

1. **Craft-Style Beer Production by Macro-Brewers**
2. **Take-Over of Craft Brewers (**While most initial acquisitions of craft breweries were domestic, increasingly they have become international)
3. **Distribution and other tactics** (Recently AB InBev announced a plan that would incentivize some of its distributors to focus on the sale of AB InBev brands. … … and … … …

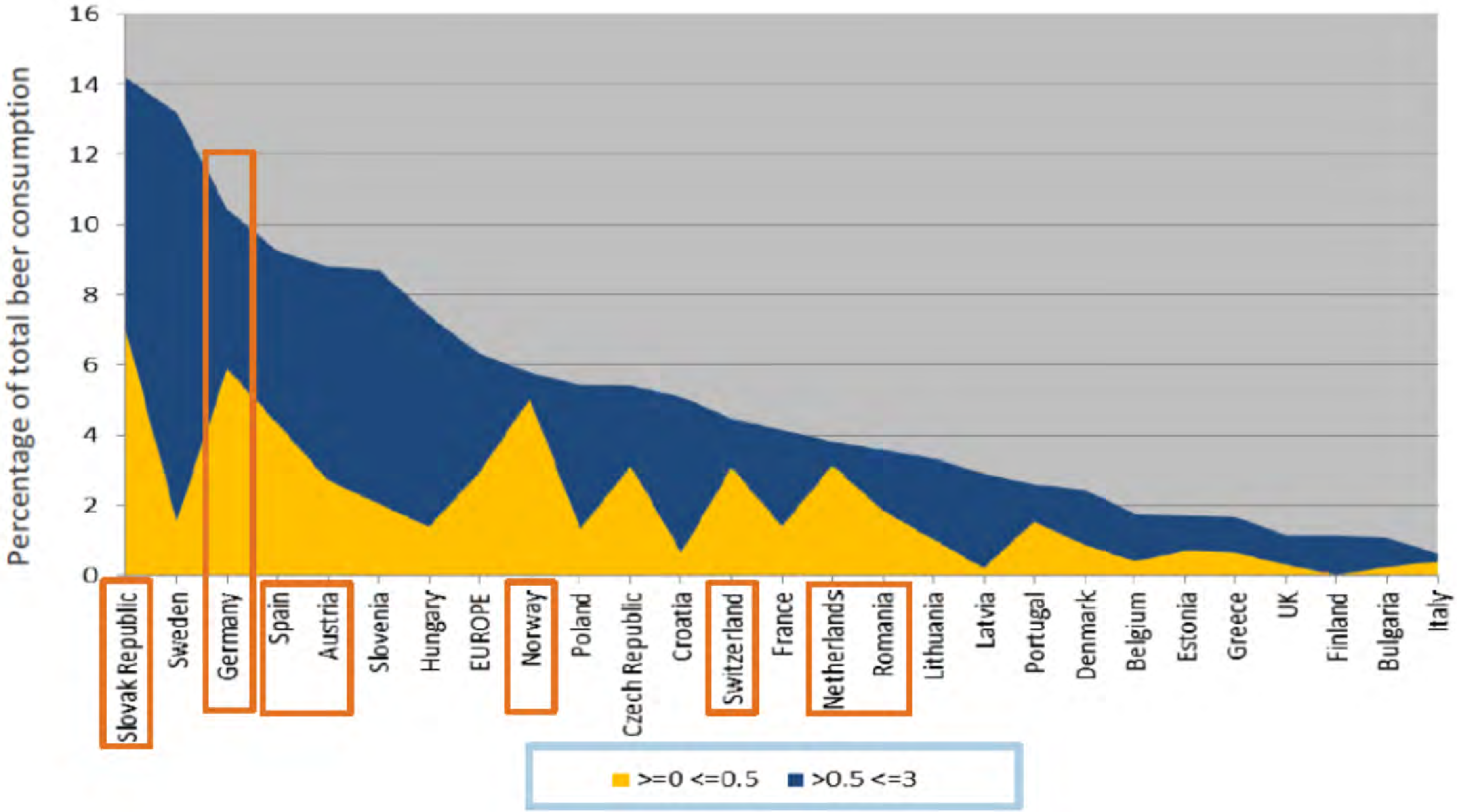
- Craft beer enthusiasts are concerned by the recent acquisition (February 2019) of the website **RateBeer.com** by ZX Ventures, a 100% subsidiary of AB Inbev. Would the change in ownership hamper the truly independence of the beers ratings generating favoritisms?
- **Deceptive marketing for “import” brands**: AB InBev tricked American consumers into believing that the beer Beck’s was an authentic German pilsner, when it is really brewed in St. Louis.
- Australia: Carlton & United (now a division of AB InBev) beer had deceived consumers into thinking it was made in a **small facility**, far from the industrial-scale brewery where it was actually produced.

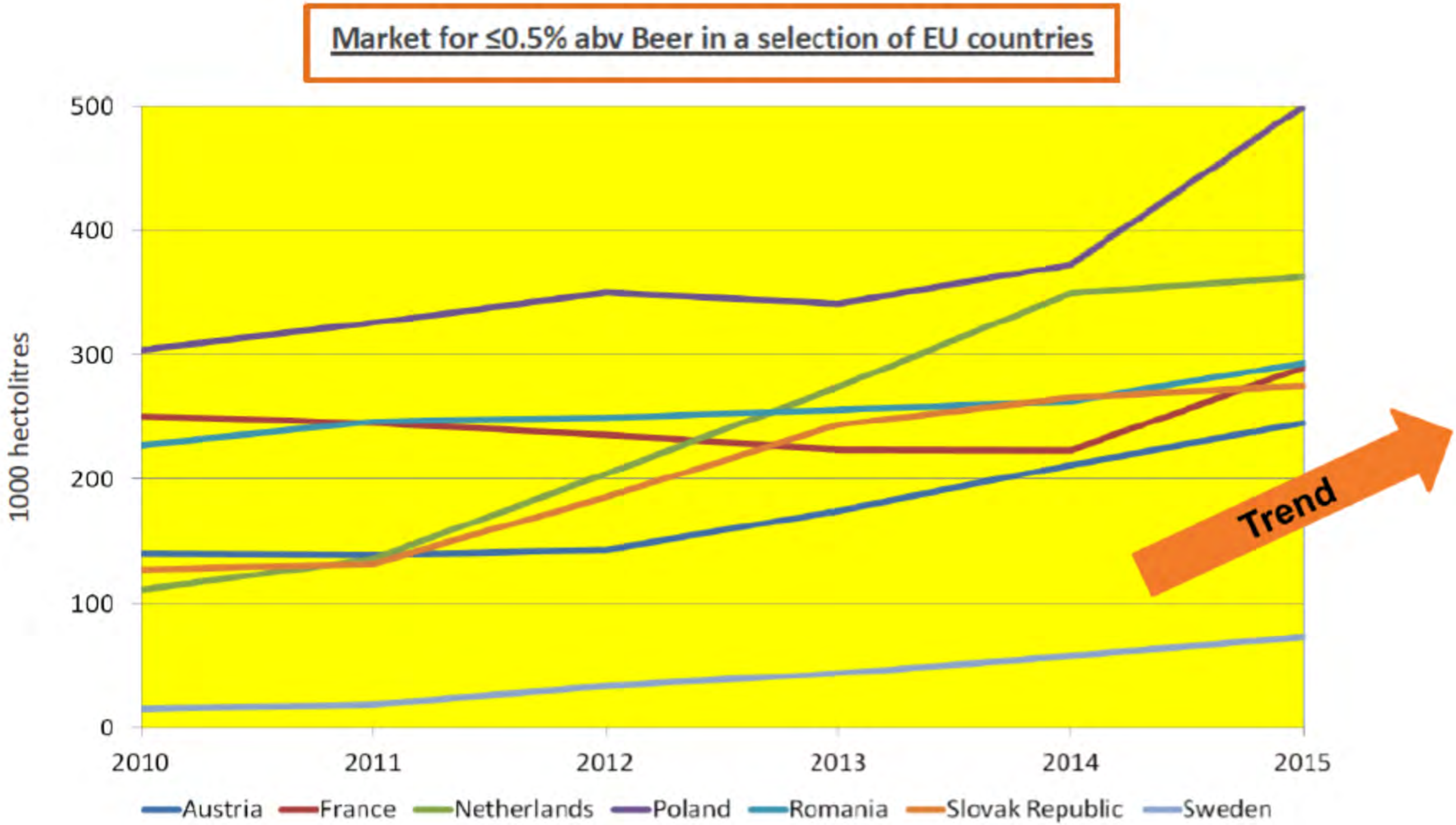
INDIPENDENTE
ARTIGIANALE
UNA GARANZIA
UNIONBIRRAI

6) New trends?

- Low-Alcohol beer
- Cans

0-3% Beer as a percentage of total beer consumption in 2015

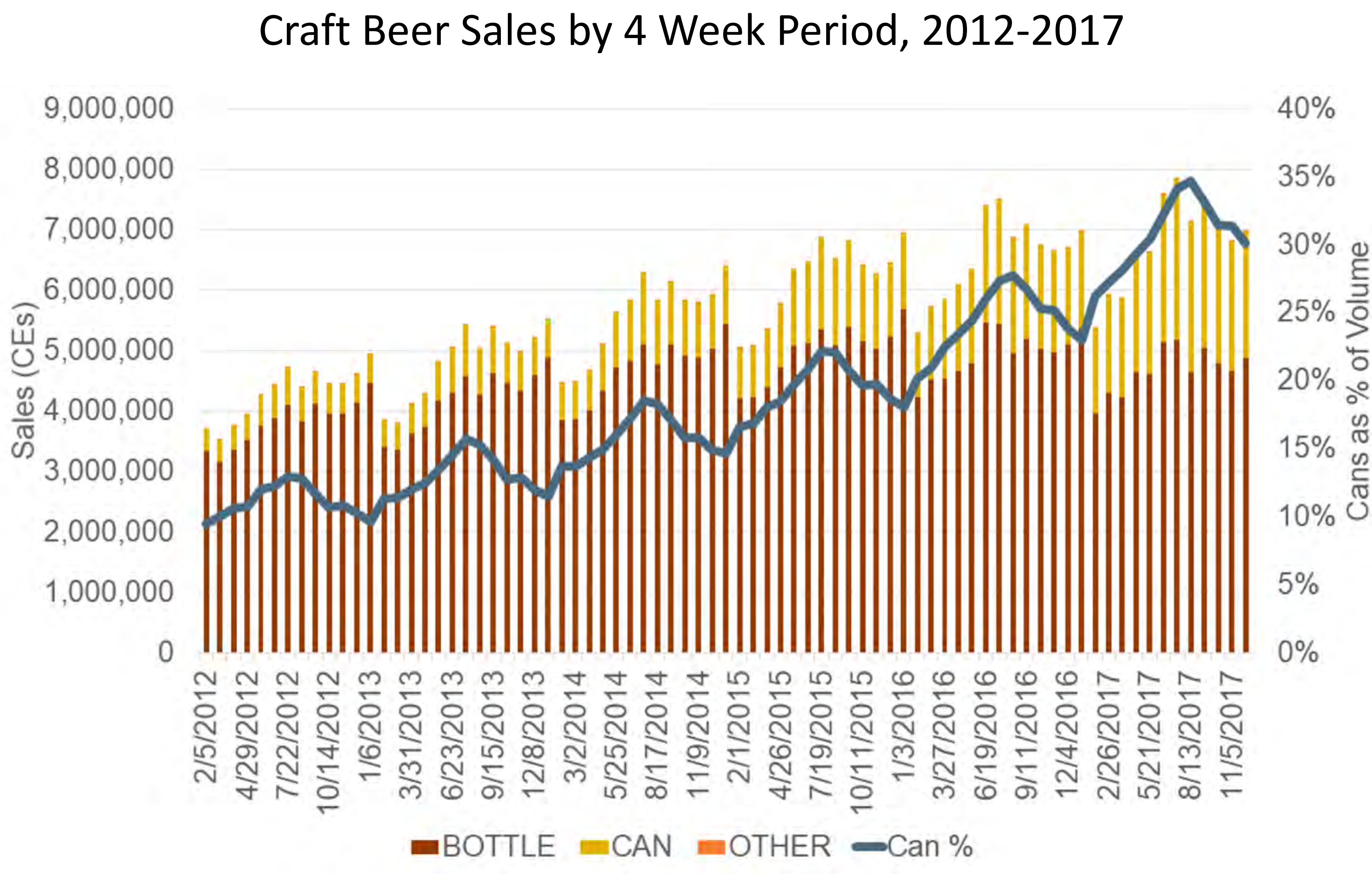



Market for ≤0.5% abv Beer in a selection of EU countries
1000 hectolitres
500
400
300
200
100
0
2010
2011
2012
2013
2014
2015
Trend
Austria
France
Netherlands
Poland
Romania
Slovak Republic
Sweden

Strategic benefits of low-alcohol beer

- New market with high margins
- New customers: drivers, sportsmen, women, teenagers…
- No cannibalism: it is a different product than beer
- Hard to copy for soft drink industry
- Brand and marketing symbiosis

Cans in US


Craft Beer Sales by 4 Week Period, 2012-2017
Sales (CEs)
9,000,000
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
40%
35%
30%
25%
20%
15%
10%
5%
0%
Cans as % of Volume
2/5/2012
4/29/2012
7/22/2012
10/14/2012
1/6/2013
3/31/2013
6/23/2013
9/15/2013
12/8/2013
3/2/2014
5/25/2014
8/17/2014
11/9/2014
2/1/2015
4/26/2015
7/19/2015
10/11/2015
1/3/2016
3/27/2016
6/19/2016
9/11/2016
12/4/2016
2/26/2017
5/21/2017
8/13/2017
11/5/2017
BOTTLE
CAN
OTHER
Can %

Benefits of cans

- Total protection from light
- Transport
- Use when bottles are forbidden
- Images → marketing, creativity

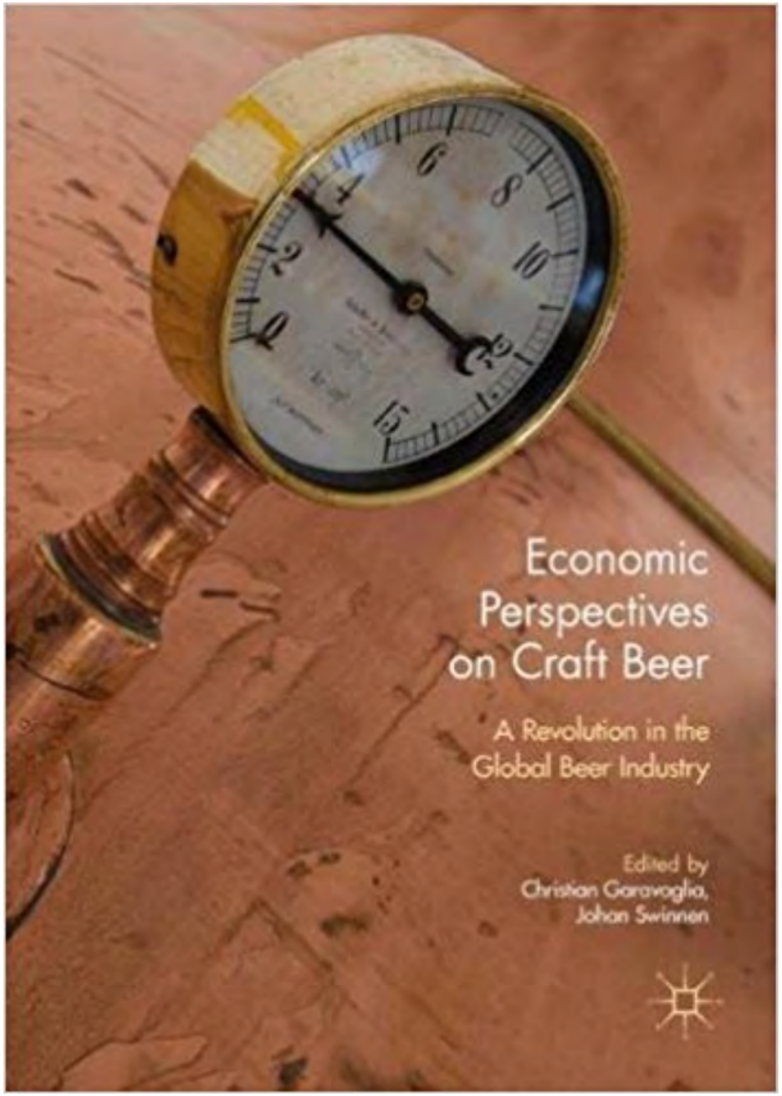
MONK'S BLOOD
BREW FREE! OR DIE IPA
INDIA PALE ALE
21ST AMENDMENT BREWERY
21ST-AMENDMENT.COM
TO HOPPY, AROMATIC BEER.
HOP CRISIS
Imperial IPA
HELL OR HIGH WATERMELON
WHEAT BEER
BITTER AMERICAN
BACK IN BLACK
BLACK IPA

Strategic suggestions?

- Product Differentiation: *Product, Packaging, Distribution*
- Create an identity
- Consciuos creation of place attachment
- Marketing: sustain local events and communities
- Create networks of social relations between producers and the consumers
- Takeovers resistance
- “Independent Craft” seal
- Distribution: pay attention

Thank you!

Cheers!



Where to buy:

www.palgrave.com

www.amazon.com

1. WHAT

… is craft beer?

US

The American Brewers Association (ABA) defines a **craft brewery as being "small", "independent" and "traditional**".

SMALL: annual production less than 6 million barrels.

INDEPENDENT: ownership (less than 25% owned or controlled by an alcohol industry member that is not itself a craft brewer).

TRADITIONAL: more than 50% of its beer derives its flavor from "traditional" or "innovative" brewing ingredients and their fermentation

Italy

A recent definition of craft brewery has been given by the Italian Parliament: 2016: Collegato Agricoltura, DDL (Disegno Di Legge) n. 1328-B

Craft breweries are **small independent** producers whose beer **does not undergo pasteurization and micro-filtration** during the production process.

Independent brewery means a brewery which is legally, economically and physically independent of any other brewery, which does not operate under license and whose annual production does not exceed 200,000 hectoliters (hl).

Any definition has its problems

Problems : the craft beer market is changing rapidly and is heterogeneous across countries.

- concepts like “tradition” and “innovation” are context specific.
  - Budweiser, Stella Artois etc have a centuries-old history (tradition)
  - “innovative” in some environments can be a standard (“traditional”) beer in other places.
- scale of a “craft” or “micro”-brewery are related to the size of the country
  - in Italy the maximum size is 200,000 hl (170,502 barrels) while in the US it is 6 million barrels (7,038,000 hl). If the US size limit is considered, in many countries most mass brewers would satisfy this criterion.
- growth in craft brewing.
  - increase in size of many craft breweries,
  - take-over of craft breweries by larger brewers.

Number of Breweries/Million Inhabitants

Country	1980	1990	2000	2010	2015
Australia	0.6	2.3	2.5	8.0	15.2
Belgium	14.5	12.6	11.0	11.3	17.6
Canada	1.6	2.2	na	9.1	17.8
Colombia	0.03	0.03	0.1	0.8	2.4
Denmark	4.8	3.7	3.0	21.6	na
Germany	17.4	15.5	15.7	16.4	17.0
Italy	0.5	0.4	1.3	5.5	11.2
Japan	0.04	0.04	2.4	1.6	1.7
Netherlands	0.9	1.6	3.8	7.3	23.0
UK	2.5	4.9	8.5	13.1	23.0
USA	0.2	1.1	5.3	5.7	10.9

Average Annual Growth in the Number of Breweries

	2005-2015	2010-2015
Australia	26.6	37.4
Belgium	8.4	15.2
Canada	na	65.6
Colombia	11.1	15.8
Germany	11.2	9.2
Hungary	-2,4	3,2
Italy	53.6	71.8
Netherlands	30.2	53.8
Slovakia	4.1	6.2
Spain	na	72.4
UK	85.4	119.2
USA	189.9	346.8