With an approximate 52 percent market share and estimated 2003 production figures of 102.5 million barrels, Anheuser-Busch is far ahead of its nearest competitors. Miller brewed about 39.6 million barrels in 2002 (the last year for which figures are available) and Coors brewed about 22.6 million barrels.

“A-B beats up on the competition,” said Tom Pirko, longtime beverage industry consultant and president of Bevmark in Santa Barbara, CA. “They have an excellent distribution system and great marketing. They found the sweet spot and they went with it.”
Miller, a potent symbol of the internationalization of the brewing business with its purchase by South African Breweries (SAB) in 2002, has lost some market share (now at about 19 percent) to A-B.

Instead of being managed in an old family brewing tradition such as A-B and Coors, Miller was an underdog in the multinational Phillip Morris conglomerate, according to Peter Reid, publisher and editor of Modern Brewery Age. Now, the question on the minds of beer industry watchers is when will SAB turn Miller around?

Coors (with an 11 percent market share) acquired the Carling brands in the UK in 2002. The flagship brand, Coors Light (the only Coors brand in the top 10), was down almost two percent in the last year. The Coors family is still in control and brewing is still the top priority in Golden; Coors has been stuck in the number three spot for a long time.

A Changed Marketplace

The economy was sluggish early in 2003, and even though it picked up at the end of the year it didn’t improve in job creation. “People don’t now and won’t in the future have the same discretionary income as in 1990s,” said Pirko.

There is also now much more competition to beer from other beverages. “The beer business dynamics have changed,” said Pirko. “Beer no longer stands alone as a choice when someone wants a cold one.” Today, consumers can choose from a plethora of malternatives, energy drinks, flavored water, plain water, teas and other drinks. Allegiances have changed. The beer drinker is no longer a flat-footed, given customer.

Low-carb beers are the only significant change in the beer industry within the last year, and low-carbs are a natural extension of light beers, already hugely popular.

Per capita consumption of beer has steadily declined in the U.S. over the past ten years from about 22 gallons in 1992 to just over 19 gallons in 2002. Health concerns are part of the reason for this decline. Despite many reports over the past few years that moderate consumption of alcohol is part of a healthy lifestyle, many consumers remain convinced that alcohol is not good for them and certainly fattening. Add with diet fads such as the Atkins low-carb craze, potential drinkers either shy away from beer or go the new low-carb beer route. But, as Pete Reid said: “All beers can’t be low-carb.”

Imports steadily climbed throughout the last decade and that ascension continued in 2003, with a growth rate of about six percent.
Neo-prohibitionists are also hurting the beer business by issuing negative alcohol reports on a regular basis. Industry trade group the National Beer Wholesalers Association (NBWA) considers groups like MADD, Center for Science in the Public Interest and the Robert Wood Johnson Foundation to be completely anti-alcohol. “Neo-prohibitionists are looking for all the bad data and will exploit it,” said David Rehr, president of NBWA.

State excise taxes on beer are up across the country and many states are looking to raise taxes on beer to pay for budget shortfalls. This has and will continue to negatively affect beer sales, just as the 1991 federal excise tax on beer did, according to Jeff Becker, president of the Beer Institute, a trade association of over 100 brewers, importers and brewing equipment suppliers. “The declines in beer sales in the first half of 1990s were due to the 1991 excise tax,” said Becker. A prime goal of the Beer Institute is to roll back the 100 percent increase of the federal beer tax imposed in 1991 to its pre-1991 levels of $9.00 per barrel.

Imports
Imports steadily climbed throughout the last decade and that ascension continued in 2003, with a growth rate of about six percent. When you look at the IRI list of the top ten beers sold in the last year, two imports – Corona and Heineken – are on that list. The big importers – Heineken USA, Labatt USA, Barton Beers, Gambrinus and Guinness (Diageo) – sell about four million barrels of beer each year in the U.S.

On the other hand, however, imports aren’t growing at the rate they were in the 1990s, the import boom years. From 1996-1997 imports grew at a rate of 14 percent; from 1998-1999 the rate was 15 percent. Even with last year’s lower rate of growth, imports have come on strong to take an 11 percent market share in the U.S., contrasted against 4.5 percent in 1990. Some analysts believe imports could eventually account for 20 percent of all U.S. beer sales.

Micros/Craft
Micro and craft beers continued to increase in sales last year, but market share for the category still hovers around three percent of all U.S. beer sales. The increase over 2002 is only a couple of tenths of a percent. The projections from the go-go days of the mid-1990s that micro/craft beers would eventually gain ten percent of the U.S. beer market seem like pie in the sky today.

Dan Bradford, president of the Brewers Association of America (BAA), sees things differently. “The high end beer category will continue to expand as consumers invest in fewer units and instead go for rich, full flavor. That’s where the craft brewers are well positioned,” said Bradford.

Micro/craft brewers benefit from consumers’ alcohol sensitivity, explained Bradford, because many beer drinkers have decided to drink less, but drink better.
The biggest of the craft brewers (Boston Beer, especially) are becoming to the rest of the category the same as A-B is to all other brewers. Many of the formerly micro brewers are no longer micro, but are classified as regional specialty brewers. The smallest of the top ten micro/craft brewers brewed over 76,000 barrels in 2002. The largest, Boston Beer, produced 1,280,589 barrels. The Institute of Brewing Studies in Colorado defines a micro brewer as one producing 15,000 or fewer barrels per year. You have to go down to brewery number 56 on the micro/craft list to find one meeting that definition.

This split between the truly small, locally distributed micro brewer and the much larger regional or nationally distributed regional specialty brewer is the big story in the micro/craft segment. Bradford said that most of the big brewers in the BAA were up double digits last year, whereas the smaller players grew only 3-5 percent. When it comes to working with distributors - and the all-important chain stores - the biggest craft brewers have a huge edge over their smaller micro competitors.

Malternatives: Here to Stay?

Malternatives, a.k.a. Ready To Drink (RTD), Flavored Malt Beverages (FMBs) and Alcopops, are not the powerhouse they were (or were thought to be) in 2002. They still sold well in 2003, but sales have dropped from previous levels. Case sales were down 154.6 percent (according to IRI) from November 2002 to November 2003, and dollar sales were down 12 percent. One of the first malternatives, Hooper's Hooch, introduced in 1995, has been discontinued. Diageo's Smirnoff Ice continues to lead this category with a 26.3 percent market share. Diageo also has the number three player, Smirnoff Ice Triple Black. And no surprise here, A-B has three entries in the top ten: Bacardi Silver O3 (#5), Bacardi Silver (#7) and Tequiza (#9).

Federal regulatory issues could seriously injure the malternative category. The Tax and Trade Bureau (TTB) of the Treasury Department issued a Notice of Proposed Rulemaking regarding malternatives in March 2003. In that notice, TTB proposed limiting the amount of neutral distilled alcohol malternatives to 0.5 percent. Currently, most malternatives have 75-99 percent of their alcohol content derived from distilled alcohol in the form of flavor concentrates.
Since malternatives are now classified as malt products, they are advertised, marketed, distributed and sold like beer. If the TTB proposed rule goes into effect, many industry watchers believe these requirements would destroy the taste of the drinks, making them too “malty” and turn off consumers. If the producers didn’t change their formulas, then their malternatives would be treated like liquor: no more TV ads, a loss of the beer distribution and sales conduits and a higher taxation level would follow.

A TTB “comment period” after the March proposal resulted in TTB receiving 15,000 comments (9,000 emails) on the proposal. “That’s an enormous number of comments,” said Charles Bacon of the TTB. The comment period was extended six months and even after this extension ended an additional 1,000 comments flowed into TTB offices. Needless to say, it will be many months before TTB officials wade through all these comments and issue a final ruling.

“This is a difficult, highly charged issue with many factors to consider,” explained Bacon. “The comments were all over the board.”

The industry has lined up on two distinct sides in the malternative wars. The Beer Institute, NBWA and BAA are in favor of the 0.5 percent rule. As Rehr of NBWA said: “Beer is brewed, not squirted into a bottle.”

Diageo and the spirits companies, who produce the bulk of the malternatives, favor a ruling that states that only the majority (51 percent) of alcohol must be from fermentation and 49 percent may come from added flavorings.

Whenever TTB completes its review of the thousands of comments, a transition period is anticipated to allow industry members to reformulate existing products that don’t meet the new requirements. It could be 2005 before this issue is resolved.

**A Future Scenario for Beer?**

According to the Beer Institute, today there are approximately 2,800 malt beverage brands produced in the U.S., about three times the number a decade ago. There are over 1,800 U.S. brewers (including brewpubs), five times more than in 1992. But still, said Pirko, the beer business is languishing.

“There’s not much creativity, except by the one company that can afford to fail. The big question is how far can A-B go in market share - 55 percent, 60 percent?” Just as a comparison, in Denmark, Carlsberg has an 80 percent market share.

As it has been for years, beer is the number two beverage choice for Americans, with soft drinks holding the top spot.

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