2008 was a memorable year on the beer scene. InBev drank up Anheuser-Busch, creating the world’s largest brewer, just months after the merger of Coors and Miller in late 2007. Small craft brewers got bigger in their own way, with “extreme” beers, high in alcohol and hops, gaining traction. Also of significance, craft beer sales went up 11% by mid-year. While higher barley and hops costs made things tough for brewers over the past year, few industries are as optimistic in the face of the recession. “We’re bullish for 2009. Beer is an affordable luxury,” says Craig Purser, president of the National Beer Wholesalers Association. “We’re seeing a little bit of softness in wine and spirits, but slow, steady growth in the beer category.”

Beer at the Table
Domestic beer has been the star for the past two years. According to the DC-based Beer Institute, domestic beer sales have increased nearly 2% between 2006 and 2008 and have shot up by an impressive 24% for export sales. As domestic consumption has steadily increased, imported beers have felt the crunch. 2008 saw a decrease of 2.8% in imported beer sales which may be attributed to the falling dollar and the 3% price increase of malt beverages over the course of the year.

The overall growth in beer sales may come at wine’s expense, as many experts feel that drinkers might “trade down” from wine to beer. “Wines retailing at over $20 are down in sales, benefiting craft beers, premium beers and cheaper wines on and off-premise,” according to Paul Gatza, director of the Brewers Association. Drinkers can get a well-made, high-end beer for a fraction of the cost of premium wines, and a growing respect for beer makes this switch even more palatable, especially at the table. In the past year consumer magazines, events and brewers’ dinners, and books like He Said Beer, She Said Wine, by brewer Sam Calagione and sommelier Marnie Old, have put beer forward as a pairing for all sorts of foods, moving well beyond pizza and pretzels to stand alongside gourmet dishes like foie gras and lobster.

Beer’s diversity has made food pairings a workable premise, but certain categories are leading the way in popularity. Despite the high cost of barley and hops, Gatza says hoppy IPAs have become the most popular craft style, surpassing Pale Ales in 2008. Many brewers are now working with barrel-aged beers, and sour beers, made with lactic bacteria or unusual yeast strains, are becoming increasingly available. Some in the industry, including the importer Shelton Brothers and writer Lew Bryson, are calling for greater respect for session beers – beers that, while still flavorful, aren’t tiring on the
palate or the liver (on his website, Bryson suggests 5.5% ABV as the maximum alcohol for a session beer), allowing beer drinkers to spend an evening enjoying multiple beers without worrying about overdoing it. Will Shelton began crafting his own beers, under the brand name “High & Mighty,” with this goal in mind.

However, the biggest growth category in the past year encapsulates a number of different styles. “Seasonal beers have been on fire,” says Jim Koch of the Boston Beer Co. “We’ve had a seasonal beer program for 20 years and had our biggest single year of growth in 2008.” Seasonal beers cater to the contemporary beer drinkers’ wide-ranging tastes, while still allowing for brand loyalty, which Koch feels continues to play a more important role in beer sales than it does in the world of wine. Brian Callahan of New Belgium Brewery in Colorado agrees: “Special releases and seasonal brews are vital in keeping your audience engaged in what you’re doing.”

Adapting to Changes
Koch also suspects that drinkers may find fewer brands to choose from in the coming year or two, owing in part to the consolidations of Anheuser-Busch/InBev and Coors/Miller. In a given market, distributors are already typically handling one of those big players along with a number of smaller brands. As the big boys get bigger, their distributor may feel even greater pressure to push their beers over the smaller, more niche products. Craig Hartinger, marketing manager for premium beer importer Merchant du Vin, explains: “If a city with three big distributors goes down to two, it could result in fewer choices for the consumer. A distributor with 60 brands might really push the top 20, but still have time for smaller brands; if two [distributors] combine and have twice that, it’s harder to focus on brand number 119 or 120.” Furthermore, the big guys are looking to grab their own piece of the craft beer market. “Watch what the big breweries are doing: releasing craft-style beers,” points out Hartinger. He cites as an example Blue Moon Belgian Wheat Ale, which is produced by Coors; it’s more expensive than their other brands, but is showing double digit growth each year, with minimal advertising.

Brian Callahan says that brewers are getting creative in finding alternative distribution methods. His New Belgium Brewery, for example, is collaborating with Seattle’s Elysian Brewing, giving New Belgium greater access to the Pacific Northwest while allowing Elysian to increase production and even begin distributing in the East Coast. Jim Koch says that some “beer wholesalers have figured out that small-production distribution works more like wine: higher margins and a more educated workforce affect the cost of distribution. There are starting to be small, specialty wholesalers set up to handle smaller volume beers, with significantly higher gross margins and more limited distribution.”

Koch adds that beer drinkers are more and more willing to pay higher prices for craft and premium import beers, which may help pay for these new distribution structures, staff education and smaller volumes. Prices for less specialized products have also risen a bit, which may continue if state governments decide to up their share. Gatza points out that 30 state legislatures are considering raising excise taxes on alcohol in the coming year, hoping to make up for recession-related shortfalls. And then there’s costly hops and malt.

Actually, that’s one expense that seems to have peaked. Hops prices have stabilized, and new plantings will increase the supply over the next few years; aromatic hops take about three years for the vines to mature sufficiently, while bittering hops will be available sooner. New barley plantings can contribute more immediately, and although Australia’s continuing drought cut yields there by half in 2008, most observers feel harvests in Europe and North America were good.

With the fundamentals, barley and hops, holding steady, a new respect for beer as a culinary product, and, so far, continued product diversity in the face of consolidation, breweries and beer fans have at least a few things to raise their glasses to in what otherwise could be a tough year.