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## The Craft Beer Party is Over

When I moved to New York City some sixteen years ago, every bar offered roughly the same menu of beers: Bud Light, Corona, Amstel Light, Corona, Heineken and Corona. But, much as in Oz, the craft beer market in the US has exploded over the last ten years. Now it is possible to walk into a bar and not recognize a single tap.

I love it. I love how easy it is to find good beer these days. I love visiting new cities and trying the different local microbrews. But the sheer number is overwhelming. The microbrewery count has gone from about 1,500 in 2008 to 4,200 in 2015. With relatively few barriers to entry, a new one opens every day. For a beer enthusiast like myself, the plethora of options is nirvana.

The analyst in me, though, debates whether they can all survive. Looking back, no matter how many new beers lined the shelves, there seemed to be room for everyone. With the global behemoths like Anheuser-Busch and Heineken slow to react, the small craft brewers reveled in an extended party free of big business concerns like competition, distribution and supply chain management. Everything came easy for them as they rode the wave of the cultural zeitgeist.

### Lights fading for craft scene

But the party lights look a little dim these days. Despite the success enjoyed by the craft movement, big beer enjoys a number of competitive advantages. Due to their scale, the giants obviously have more marketing resources; they also command more muscle with distribution. In the beginning, the popularity and strong growth of the craft beer segment meant that any beer-selling establishment interested in earning some cachet was quick to offer whatever craft beer it could find. Craft drove customer traffic, so the bars and storefronts took distribution from wherever it came.

But mass produced beer still commands the majority of the market. Because of that, most establishments feel compelled to offer it. These beers are supplied by dedicated distributors who carry only brands that the giants either own or approve. And the giants are striking back.

First, they have used their scale and resources to buy up the biggest craft brewers. Having armed themselves with their own stable of “craft brews”, they have used their distribution might to stuff the channel with their beers. When you walk into a bar today, most of the time you will see craft beers on tap—but it’s the same five or six that just so happen to be owned by the global giants. Same goes for your local grocery store. Perhaps you’ve seen Lagunitas (US craft brewer acquired by Heineken) at your local bottle shop.

### When small becomes big

It has recently been reported that the craft guys are starting to have problems with their supply chain as well. If you are into beer, then you are familiar with hops. Most of the IPAs produced in the States involve one (or several) of ten specific hop varieties. With the explosion in craft beer

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production, there is now a shortage specific varieties. Which beer companies do you think are going to pay the most to secure their hops?

Perhaps that is a temporary setback they can overcome with time. But these are big boy problems - problems most craft brewers are going to be extremely disadvantaged to face. It saddens me because I have thoroughly enjoyed the party. I expect there will be a reckoning period over the next few years that thins out the herd. That means fewer options and a decidedly less exciting beer scene. It also goes to show the importance of a sustainable competitive advantage and to not be too quick to count out an incumbent.