

The background of the slide features three condensation-covered beer bottles. The bottles are arranged in a row, with the central one being the most prominent and in sharp focus. The condensation is visible as small droplets on the surface of the glass. The bottles are filled with a golden beer, and the liquid level is visible near the neck. The lighting is bright, highlighting the texture of the condensation and the clarity of the beer. The bottles are set against a white background, which is partially obscured by green and teal geometric shapes in the corners.

## Craft Beer in Europe

The Emergence of Craft Beer

Bord Bia

Dublin

16 November 2017

# welcome to Zenith

## committed to added value partnership

- Founded in 1991, Zenith is a specialist group of experts offering a unique combination of commercial and technical guidance to the food and drink industries worldwide.
- We provide a wide range of services from market intelligence, feasibility studies, business planning and due diligence through to the design and project management of food and drink factories.
- Zenith also organises global and regional industry conferences, providing detailed market insights and exclusive networking opportunities with key executives from the global food and drink sectors.
- Our team of experts is based mainly at our headquarters in Bath, UK. We have a separate office in New York, US. Zenith also maintains a global network of associates in 70 countries with direct local industry knowledge and experience.
- The company is wholly owned by its Directors and staff and is independent of any supplier, contracting or other consulting interest, thus maintaining impartiality on all consulting projects.
- Zenith works with clients both large and small all round the world, including food and drink manufacturers, brand owners, packaging suppliers, ingredients companies, distributors, financial institutions and private investors.
- With a mix of dedicated market analysts, commercial strategists and engineers, Zenith holds the breadth and depth of experience that makes us the ideal long-term partner for any food and drink business.



## what you will see today

- The emergence of craft beer
- European market landscape
- Company profiles
- Positioning and consumers
- Innovation
- Future outlook



# The emergence of craft beer



# The emergence of craft beer

## A global perspective

- According to a survey released by Alltech and The Brewers Journal, the number of breweries globally reached over 19,000 in 2016. Of these, 17,732 (94%) are defined as craft breweries.
- The leading markets for craft beer, by number of breweries, are in the table below. Zenith has also provided per capita consumption of beer (total) within this table.



Country	No. of craft breweries	2016 total beer per capita consumption
USA	4,750	73.2 litres
UK	1,655	68.1 litres
Germany	1,295	105.5 litres
Italy	942	30.0 litres
Spain	664	74.2 litres
France	662	32.6 litres
Canada	612	64.6 litres
Netherlands	434	73.8 litres
Switzerland	419	55.7 litres
Australia	410	79.3 litres

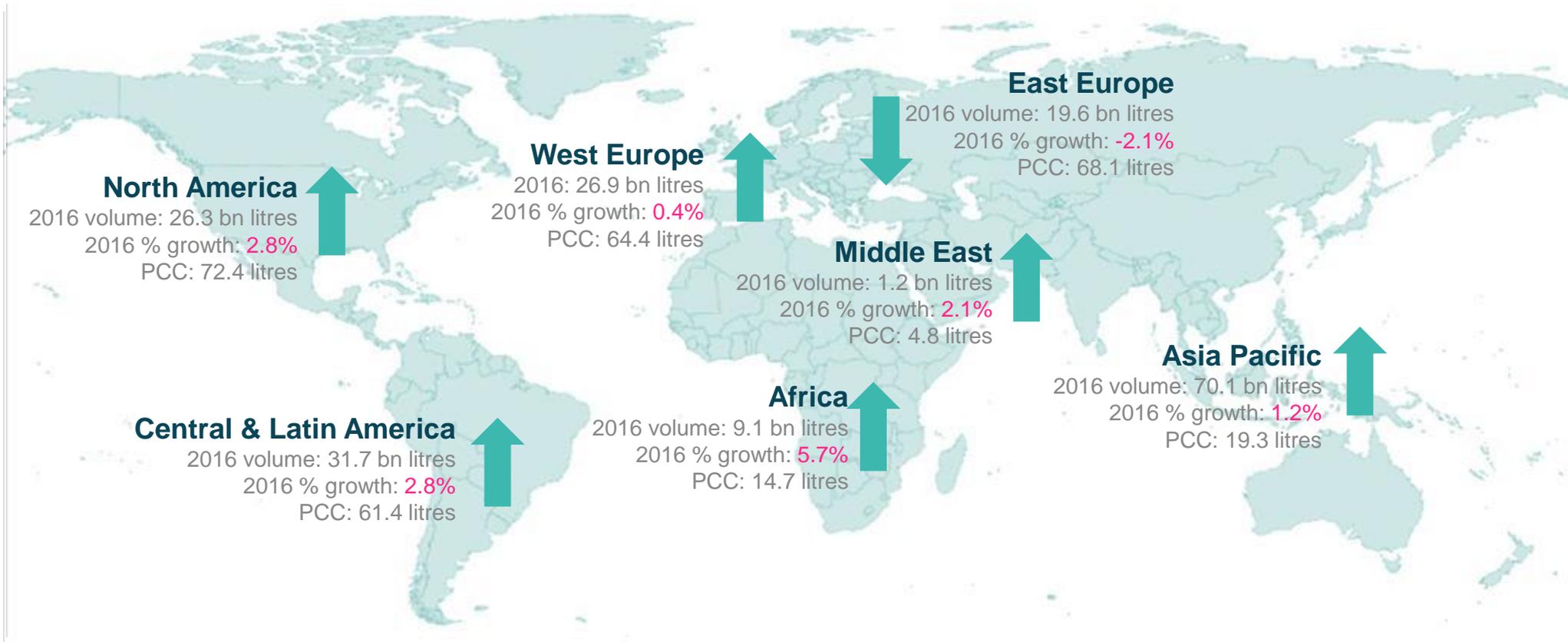


Source: Alltech and The Brewers Journal and Global Drinks



# The emergence of craft beer

## A global perspective of the total beer market



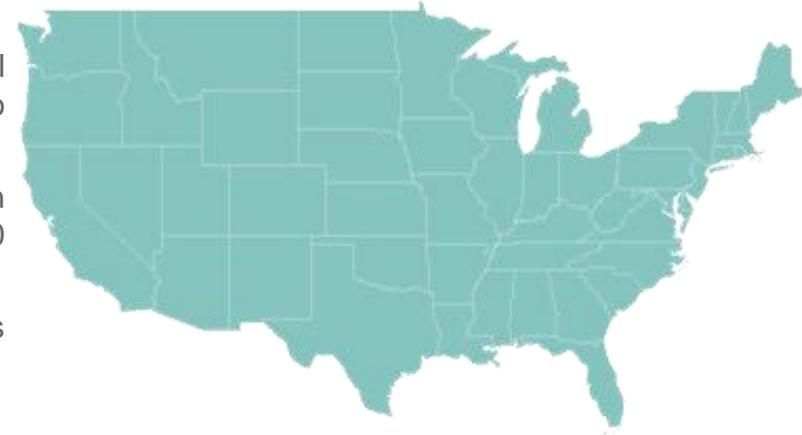
Source: Global Drinks



# The emergence of craft beer

## Growth in the USA

- Craft beer trends that are developing in Europe emanate from the successful growth of craft beer in the USA and the beer culture that it has helped to establish.
- According to the US Brewers Association at the end of 2015, there were an excess of 20,000 craft beer brands available in the US, produced by 5,000 breweries.
- However, sales growth is slowing and mergers and acquisitions activity is cooling, according to the Brewers Association.



# The emergence of craft beer

## Growth in Europe

- The total European beer market declined by 1% in volume terms due to:
  - The 2015 shortage of hops in the region
  - A movement towards alcohol abstinence
  - A growing interest in other types of alcoholic beverages (especially spirits)
- Germany (105.5l), Spain (74.2l) and the Netherlands (73.8l) have higher per capita consumption than the North American markets.
- Ireland is one of the heaviest consuming nations having a PCC of 93.0 litres in 2016.



# The emergence of craft beer

## Defining craft beer – the US definition

- In the US, the Brewers Association trade group defines craft breweries as "small, independent and traditional".
- "Small" in this case is defined as annual production of six million barrels (approximately 5.1m hectolitres) or less;
- "Independent" is defined as at least 75% owned or controlled by a craft brewer
- "Traditional" means that a brewer has a majority of its total beverage alcohol volume in beers whose flavour derives from traditional or innovative brewing ingredients and their fermentation.



# The emergence of craft beer

## Defining craft beer – UK and Europe

- The term 'craft brewery' originated in the UK in the late 1970s and describe the new generation of small breweries that produced traditional cask ale independently of major brewers.
- In Europe, the term craft beer seems to be more loosely applied.
- A lack of clarity means that:
  - Small and traditional players are facing increasing competition from multinationals that launch their own craft beer brands.
  - The market is harder to quantify which leads to an inability for industry players to secure regular, accurate market data that may influence their strategic decisions.



# The emergence of craft beer

## M&A activity

Increasingly multinational brewers enter the sector through M&A activity and through creation of their own craft beer brands.

Date	Buyer	Target	Price
August 2017	Sapporo (Japan)	Anchor Brewing (US)	Undisclosed
July 2017	Brooklyn Brewery (US)	21 <sup>st</sup> Amendment Brewery (US)	Undisclosed
July 2017	Brooklyn Brewery (US)	Funkwerks Brewing Company (US)	Undisclosed
July 2017	Heineken (Netherlands)	Short's Brewing Co (US)	Undisclosed
July 2017	Carlsberg (Denmark)	London Fields Brewery (UK)	Undisclosed
June 2017	Halewood International (UK)	Sadler's Brewing Company (UK)	Undisclosed
May 2017	Heineken (Netherlands)	Lagunitas (US)	Undisclosed
May 2017	AB InBev (Belgium)	Wicked Weed Brewing (US)	Undisclosed
April 2017	TSG (US private equity)	Brewdog (UK)	£213m for 22% stake
March 2017	Heineken (Netherlands)	Stellenbrau (South Africa)	Undisclosed
February 2017	Heineken (Netherlands)	Tuatara Brewing Co (New Zealand)	Undisclosed
January 2017	AB InBev (Belgium)	Cervezas La Virgen (Spain)	Undisclosed

The majority of transactions detailed above include US-based businesses which highlights the size of the US craft beer market but also reflects the maturity of the companies operating in the sector within the US.

M&A is also occurring within the craft beer sector as Brooklyn Beer, in which Kirin has a minority stake, recently acquired a stake in two other US-based craft brewers.

*Zenith Global*



# The emergence of craft beer

## M&A activity

- Globally, the M&A activity within the craft beer sector is unlikely to slow down in future years
- If we are to use the US Brewers Association of craft beer then brands that are acquired by the major breweries would not technically fall under craft beer because the brewery which owns them would not be classified as a craft brewer, due to its size.
- However, these brands compete in the same space, are positioned similarly and are trying to attract the same type of consumer. Therefore, they are important to consider



London Fields was acquired by Heineken in July 2017



Cervezas La Virgen was purchased by ABInBev in January 2017



Sadlers Brewery was sold to Halewood International in June 2017



# European market landscape

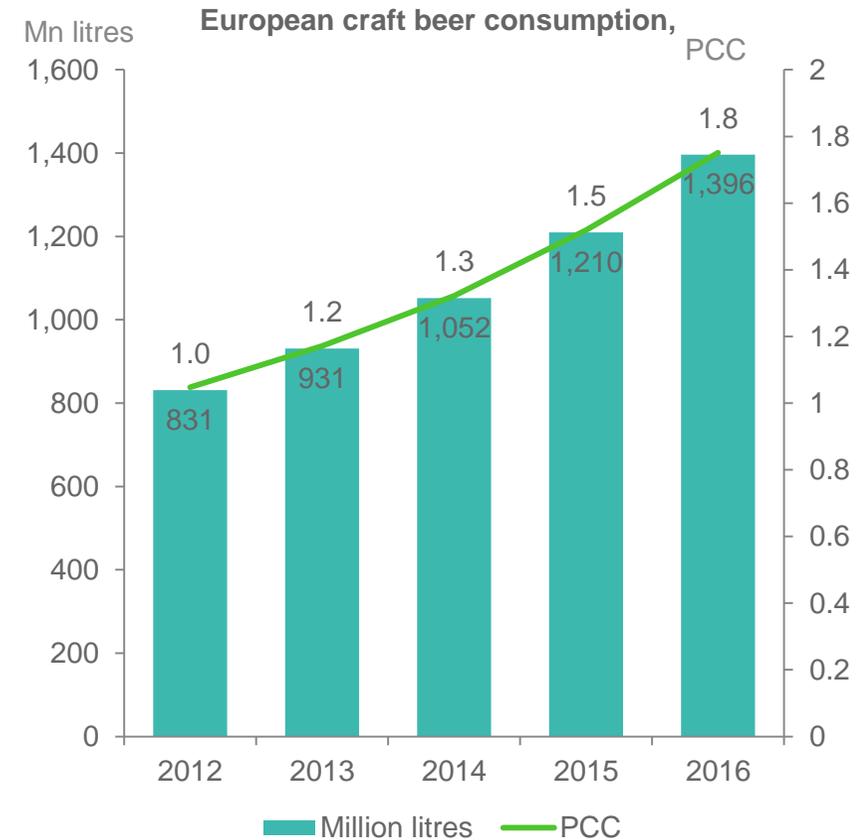


# Market landscape

## European market volume

### Craft beer

- Zenith estimates that Europe’s craft beer market stood at 1.4 billion litres in 2016, having seen double digit growth annually for the five year review period.
- In the UK, Zenith estimates that craft beer currently makes up an estimated 5% of overall beer volume sales, whereas in Europe as a whole, this is conservatively estimated to be at 3% compared to the US which stands at 12%.
- Craft beer may provide the impetus for the overall beer category’s return to growth.



Source: Zenith Global



# Market landscape

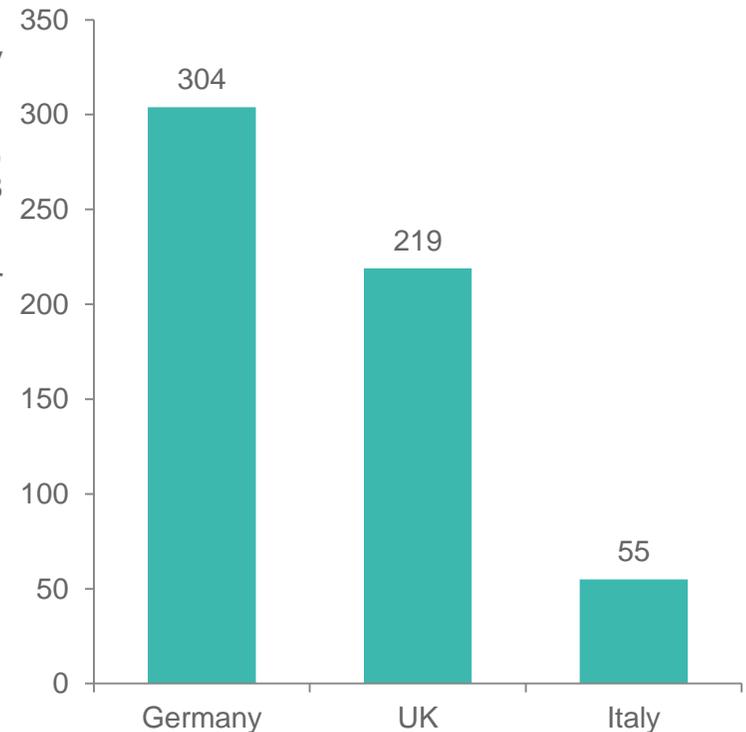
## Leading European countries

- Whilst the craft beer sector is more established in the UK than it is in Germany, craft beer volumes are actually larger in Germany
- Almost all of the craft beer available in Italy and Germany is locally produced.
- Total beer consumption in Germany reached 8.7 billion litres in 2016, whereas in the UK and Italy this figure stood at 4.4 billion litres and 1.8 billion litres respectively.
- Spain is one of Europe's fastest growing markets for craft beer and other countries are following suit including France

PCC of craft beer in the 3 countries of focus



Top three European countries craft beer consumption, million litres (2016)



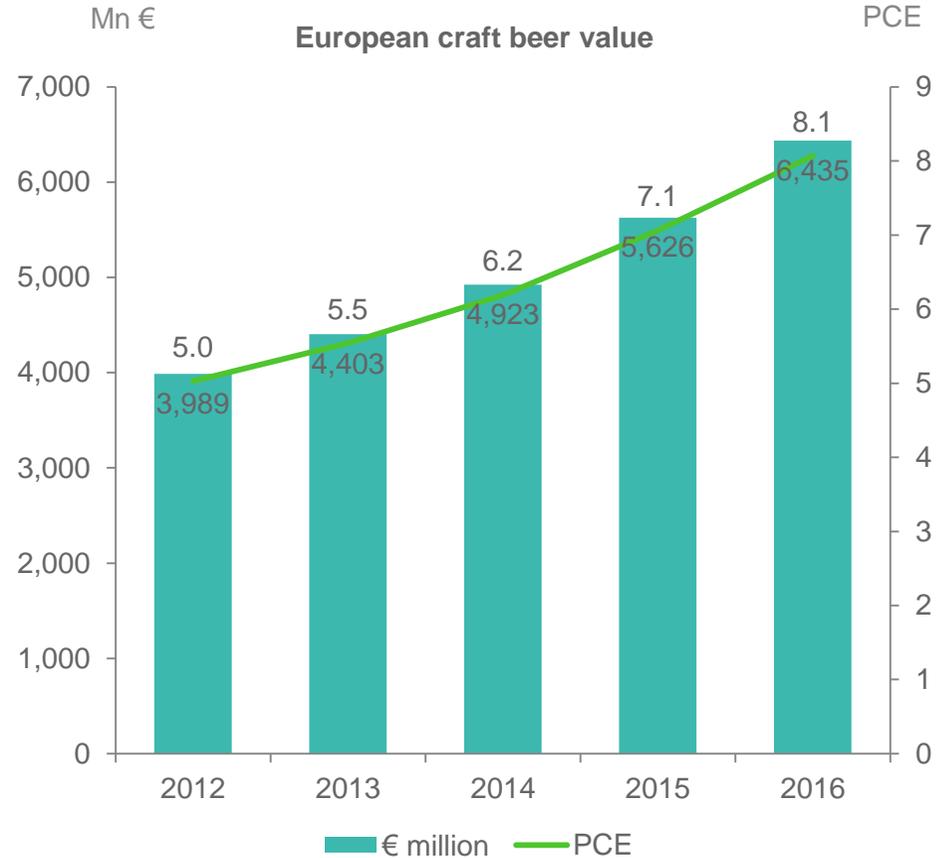
Source: Zenith Global



# Market landscape

## European market value

- The European market for craft beer was worth an estimated €6.4 billion in 2016.
- Spend per person or per capita expenditure (PCE) now stands at an average of just over €8 across Europe.
- Compared to the US craft beer market, the European market's value is modest at present at just under one third of the US value.
- For the three prominent markets, Germany's craft beer sector was valued at approximately €1.4 billion for 2016, while the markets of the UK and Italy had a value of €1 billion and €254 million respectively.
- The high value of the craft beer sub-sector is another reason why there is interest in the sector



Source: Zenith Global



# Market landscape

## Market dynamics – Germany

- The overall beer industry in Germany is fragmented, with the top three producers, AB InBev, Bitburger and Krombacher, controlling around 30% of the market.
- The number of craft breweries in Germany has more than doubled in the last five years. However, the number is still believed to be very small.
- Craft brewers want to experiment with new ingredients and flavours, and are questioning 'Reinheitsgebot' relevance (a 500 year old purity law whereby only four ingredients can be used in beer (water, malt, hops and yeast)).
- Craft beer brands are often located in the large cities such as Berlin, Hamburg, Munich and Cologne, but Bremen, Frankfurt, Nuremberg and Leipzig are also picking up on the trend.



# Market landscape

## Market dynamics – Germany

- In Germany, craft beer is at a relatively nascent stage when compared with the UK. However this is changing as younger German consumers look for alternatives to traditional brews.
- Currently the craft beer market is highly fragmented due, in part, to its early stage of development.
- As yet, there is no official German craft brewers association but, as in other markets, there is the beginnings of a craft beer community amongst brewers.
- Supermarkets are starting to dedicate aisle sections to craft beers.
- Craft breweries have joined together to open craft beer stores that supplement the footfall into their breweries and accompanying bars.



# Market landscape

## Market dynamics – UK

- In the UK, craft beer is currently estimated to account for 5% of overall beer volumes.
- The growth of craft beer is expected to continue, and by 2020, Zenith estimates that craft beer could hold a 10% share of the overall beer market.
- The leading craft beer brands in the country are Brewdog, Magic Rock Brewing, Beavertown Brewery, Meantime and Camden.
- Brewdog remains resilient and appears to have the both the resources and an established enough brand to compete with the multinationals.
- Similarly to Wicked Weed in the US, Camden faced considerable negative publicity from within the craft brewing community.



# Market landscape

## Market dynamics – UK

Retailers in the UK are also recognising the rise in demand for craft beer and are adjusting their shelf space accordingly.

- In 2016, leading retailer Tesco announced that it would significantly increase the number of craft beers in its Express convenience stores.
- In 2017, craft beer supplier Real Ale is expanding into M&S stores in Ireland and Northern Ireland. Also in 2017, Co-op and Robinsons Brewery have joined forces to release a range of craft beers
- The on-trade channel also provides a far greater selection of craft beers than previously
- The US brewers are also looking at the UK market as a possible point of expansion.



# Market landscape

## Market dynamics – Italy

- The Italian craft beer scene is currently one of the most dynamic in Europe, with over 900 craft breweries scattered across the country. Most of these are concentrated in the north of Italy.
- The Italian wine world is heavily governed by production laws, and it is said that craft brewers are enjoying the relative freedom found in the less restricted craft beer sector.
- Consumption of craft beers in Italy is now thought to be equal to approximately 3% of total beer consumption, in line with Europe, an equivalent of 55 million litres.



# Market landscape

## Market dynamics – Italy

- Craft brewers in Italy consider both domestic and export markets, such as the US, when developing new beer brands.
- The Italian craft beer market is made up predominantly of Italian beers with little presence of imported craft beers in the market.
- Retailers are beginning to invest in supporting craft beer and the shelf space provided is likely to rise in upcoming years.
- The key trade channels for craft beer in Italy are on-trade, online and local / specialist stores.



# Company profiles



# Company profiles

## Camden - UK



# Positioning and consumers



# Product positioning

## Product positioning

Craft beers generally have an everyday premium positioning within the beer sector. This is due primarily to the following reasons:

### Pack type and imagery

In a number of European markets such as the UK, Germany, and Italy, craft beers are predominantly found in glass bottles.

### Pack size

Furthermore, in many European markets such as the UK and Italy craft beer products are most often sold in 330ml and 660ml bottles. 750ml bottles are also available in European countries such as Italy but are less prominent than the smaller bottles.

### Single serve

It is unusual to find craft beers in large multipack formats. Often the beers are sold in single serve glass bottles or small multipacks, often of four. This differs to most of the mainstream lagers.

### Provenance and regionality

Few craft beers will have regular national distribution either through the on- or off-trade channels. Distribution is usually focussed on regional outlets.



# Product positioning

## Product positioning

### Pricing and offers

According to Zenith's storechecks, in the UK, craft beer is priced up to an additional £2 per litre compared to mainstream beer products.

The growth in craft beer suggests that consumers accept that they will be paying more for their craft beer.

### Ale vs. lager

In certain European markets such as the UK and Germany craft beer is traditionally an ale product whilst many of the mainstream beers would be a lager product. However, in markets such as Italy, craft beer is fragmented with ales and lagers having a similar share of the sector.

### Brand story

Successful mainstream and craft beers are both likely to have strong brand stories. Craft beers are more likely to be able to play on the personal story be that of the founder, the region, or the ingredients to gain consumer traction.

Brand	Price per litre	Mainstream vs. Craft
Heineken	£3.10	Mainstream
Budweiser	£3.05	Mainstream
Stella Artois	£3.05	Mainstream
Cobra	£3.23	Mainstream
Peroni	£4.28	Mainstream
Brewdog Punk IPA	£5.46	Craft
Sierra Nevada	£5.20	Craft
Meantime	£5.50	Craft
Anchor	£5.10	Craft

Prices taken from UK storecheck – July 2017 (excluding offers)



# Target consumers

## Target consumers

- The target consumer for craft beer is similar to that of any mainstream beer product. However, the demographics of the beer consumer is evolving.
- Female consumption of beer, globally and in Europe, is on the increase and craft beer has played a part in this growth by offering greater variety in terms of taste, alcohol content and branding.
- The US Brewers Association states that in the early 2000's the craft beer consumer was predominantly a white man in his late thirties living in an urban area with a university degree and higher than average income. Today, the biggest growth area of craft beer drinkers is young women between the ages of 21-34.



Innovation



# Innovations

## European innovations

### Brands

- The most notable developments in terms of innovations in Europe has generally been by the leading craft beer brands.
- In the UK, Magic Rock has experimented with flavours such as cinnamon, cherry, Apricot and tarragon. A number of breweries such as Sadlers Brewery have tried altering alcohol levels, introducing so-called session beers.
- In Germany, C. & A. Veltins, Hopfmeister and Von Freude have innovated with flavours such as fresh lemon, raspberry and coffee respectively, whilst in Italy an oyster infused craft beer proposition was introduced as a category delicacy.

### Flavours

- Flavour developments tend to be around fruits-based products
- India Pale Ales (IPAs) are the most-often consumed type of craft beer in the UK, but amber beers, dark beers and other brews are also gaining ground across Europe

### Packaging

- The dominant packaging format amongst craft beers is the glass bottles. Size of bottles differ across Europe but the 330ml and 660ml are commonplace.
- According to Zenith's research, the glass style of bottle is reportedly the least expensive to fill when compared with cans.



Low alcohol,  
France



Can format,  
UK



# Innovations

## European innovations

### Alcohol content

- Due to the increasing health awareness of the modern consumer, there has been a recent growth in the popularity of low-alcohol beers across Europe.
- The rise in craft beer has also allowed consumers to access higher alcohol content beers (Troubadour Beer in Belgium, with alcohol content of 9%).

### Isotonic claims

- Mainstream European beer brands such as Erdinger and San Miguel have recently launched isotonic beers in order to support recovery after exercise.

### Category convergence

- Beers are increasingly being flavoured with coffee, whisky and even champagne to provide a different flavour profile.



Coffee flavoured,  
USA



Isotonic craft beer,  
Sweden



# Innovations

## European innovations - Flavours



Grapefruit infused,  
UK



With real lemon juice,  
Germany



Raspberry infused,  
Germany



Pineapple, lime and mint  
UK



Honey and peach-  
scents, France



# Innovations

## European innovations - Packaging



Printer's Ale,  
USA



Magic Rock,  
UK



Deus Brut des Flanders,  
Belgium



Oyster infused,  
Italy



# Innovations

## European innovations – Alcohol level



Low alcohol,  
France



No alcohol beer,  
UK



Low ABV,  
UK



High ABV, Belgium



# Innovations

## European innovations – Category convergence



Brewed with coffee, Germany



Whisky barrel-aged, Scotland



Red wine beer, Italy



Gin and Tonic Inspired, England



future outlook



# Future Outlook

## Future Outlook – trends

### What to expect in 2017 and beyond

- It is forecast that the number of craft breweries are to increase in the coming years across Europe. The European market, and individual countries within Europe, will continue to be fragmented.
- West European markets such as UK, Germany, Italy, France and Spain will continue to grow alongside Scandinavian markets. Within Eastern Europe, Poland is expected to see growth in craft brewery numbers.
- M&A activity will continue between the large mainstream and craft breweries, and also as larger craft breweries acquire other craft beer brands.
- Innovation around pack type, flavours, alcohol content, limited editions and pack design will continue to drive interest in the category and attract a wide variety of consumers.
- Retailers will respond to growing interest in craft beer by providing more shelf space for craft beer brands.
- There will be a continuation of the growing number of American craft beers available in Europe but also it is likely that European craft beer brands will grow their exports both to other European markets and to the US.
- Expected continued growth will provide significant opportunity for any new or current market player to build a strong European-focussed craft beer business.



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