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Status of Small Alcohol Suppliers: Still Growing with Bright Spots and Bumps

By Pamela Erickson

Small suppliers of beer, wine and distilled spirits continue to grow albeit at a slower rate overall. Some areas of the country do better than others for some products and there are spots where local markets may be saturated. Here is a summary:

Beer: The growth of breweries continues upward and surpassed 7,000 in 2018 according to the Brewers Association. While the overall 2017 beer sales and production dropped by about 1%, craft beer (as defined by the Brewers Association) grew by 5%--not the double-digit rates of the past, but still healthy. This equates to a 12.7% market share. Because a number of small beer companies have been purchased by large corporate entities, they no longer meet the Brewers Association definition of "craft." Thus, the total share of these products is probably higher. The "craft" segment is dominated by "regional" breweries which account for 70% of production.

While beer can be made anywhere, small beer suppliers have predominated in a few states, but that is changing.

- The most populous states had the greatest number of breweries: California (764), Washington (369), Colorado (348), Michigan (330) and New York (329). But the top five per capita are Vermont (11.5), Montana (9.6), Maine (9.6), Oregon (8.5) and Colorado (8.4), according to VinePair.
- "Craft" beer has shown higher growth elsewhere: New Jersey (43%), Kentucky (43%), Oklahoma (39%), North Carolina (37%), Virginia (36%), New Hampshire (33%) according to a report by C + R research.
- Economic impact was substantial, but varied greatly from one state to another. According to the Brewers Association, total economic impact in 2017 was over $76 billion with wages averaging $48,905. Twenty-two states had an annual economic impact of over a billion dollars. The highest per capita economic impact occurred in Colorado, Oregon, Pennsylvania, and Vermont.
- Closures and bankruptcies increased. Among brewpubs, there were fewer openings in 2017 and more closings than in 2016 although the overall number of closures was small. For micro-breweries, there were both more openings and closings…again the number was small. There were a few high-profile closures that seem to happen as expansion efforts soured. One was the San Diego brewer, Green Flash, which had expanded nation-wide and via exports, but they took on too much debt. "Most recently, Oregon's Deschutes Brewery slashed 7 percent of its workforce, and affected positions came from sales, marketing and operations." Several others, including the large companies cut staff. Various reasons have been offered for cut-backs such as increased competition from large companies with "craft" products and out-of-state microbrewers, lack of customer loyalty, the overall slowing of sales due to health concerns and possible marijuana substitution.

Wine: The wine industry continued its growth trajectory going from 9,091 wineries in 2016 to 9,654 in 2017 and California continued its dominance with 45% of the nation's wineries and 86% of the production. Other states in the top five included Washington, Oregon, New York and Texas. As with previous years, the vast majority of wineries were very small. While every state has at least one winery, climate and soil do make a difference for growing wine grapes. So not every state is likely to be a major wine producer.

Distilled Spirits: This segment of the industry has grown over the past five years to reach revenue of $14 billion, according to an industry market report. The number of businesses has grown by 19% and employees by 7.2%. According to the American Craft Spirits Association, the number of distilleries grew in 2018 to reach 1,835 by August. Thirty four percent were concentrated in five states: California, New York, Washington, Texas, and Colorado. The next five with 18.4% of the craft market are Oregon, Pennsylvania, North Carolina, Ohio and Florida. Overall market share is 3.2% by volume and 4.6% by value. One state not on this list is Kentucky which has seen an explosion of distilleries that produce whiskey, particularly bourbon. Kentucky makes 95% of bourbon whiskey and sales of that product increased by more than 50 percent. Not only have new distilleries popped up, but they are building facilities that cater to tourists so people can have the entire "bourbon experience." And, people are talking about "Napa-fication" involving tours of distilleries in the countryside.

Funds, loans and government subsidies have become available for alcohol suppliers. Two decades ago, alcohol businesses had great difficulty getting bank or government loans. Many funding sources simply did not support alcohol businesses. That has changed. By looking at Small Business Loans granted for breweries, wineries and distilleries in 2009 versus 2018, one can see how much it has changed.

	BREWERIES		WINERIES		DISTILLERIES	
2009	26	$6,674,600	32	$8,369,900	8	$2,439,100
2018	423	$201,030,030	71	$42,275,400	423	$25,050,700

In addition, states have given a lot of subsidies to alcohol companies. These can be viewed at https://www.goodjobsfirst.org/subsidy-tracker.

Efforts are needed to examine regulations, resolve conflicts with other categories of licensees, and carefully evaluate promises of jobs and tax revenue (…as what goes up may come down!). Here are two examples:

- A Virginia Senate Committee is studying the feasibility of consolidating licenses. Currently, there are 100 different licenses and permits for retail, manufacturing and wholesale businesses. In 1934, there were only 10. They are also looking at the "inconsistencies in quantity limits on wine, beer and spirits samples…"
- The state of Michigan recently established production and equipment requirements for satellite facilities and a tasting room license. Now the state will require microbreweries to produce at least 50% of the beer sold on-site for satellites. The change was supported by the Michigan Brewer's Guild which stated, "The Guild's basic position is that a brewery opening a tied house — a retail operation without a brewery with exclusive focus to them — has not proven to be a good model for small craft brewers."

Here are some questions state/local leaders should consider:

- Outlet density: how many alcohol licenses should there be given the research that indicates that too many licenses can create problems. (See thecommunityguide.org for recommendations on outlet density.)
- What conflicts and inconsistencies exist with license categories? For example, some states have gradually given tasting/tap rooms additional privileges that makes them full-blown retail operations without the same fees, quota requirements, training requirements, etc.
- How will license changes impact local economies? Will new jobs materialize or just replace current jobs? Are local markets saturated and likely to experience job and business losses?
- What level of taxpayer support should be available for alcohol businesses via subsidies and tax decreases?

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