Craft & Regional segment:

Big crafters making hay, but market access tricky.

Craft brewers have been enjoying a revival in the past couple of years. It's not only that the numbers are looking better. They are—especially for the crafters that have transcended "microbrewery" status and have moved into regional markets.

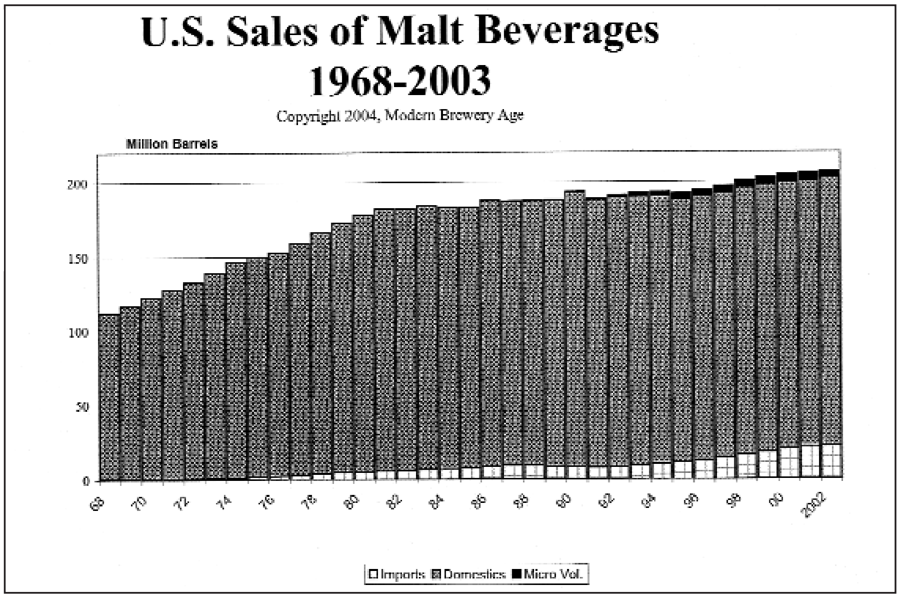
But there is also an entirely new sensibility among craft brewers, an infusion of youth and belligerence that must remind some craft brewing graybeards of their own rebellious beginnings in the 1980s.

Startlingly, it has been almost twenty years since the first vest-pocket breweries began popping up all over the West Coast. It is nigh time for a generational change, and it seems to be at hand.

Jack Joyce of Rogue Ales was presented with the annual Association of Brewers recognition award at this year's Craft Brewers Conference, and this Older Turk promptly thanked the Young Turks for their efforts. "We were viewed as becoming boring," he said, "and in danger of being viewed as 'our father's beers.' The new 21st century brewers have brought us product and passion. They are converting one retailer at a time, and have reenergized this industry."

The style of the new brewers is best evinced in the West by the brash statements and high IBU counts of Greg Koch of Stone Brewing Co. and in the East by the mind-bending brews and "brewsta" rap of Sam Calagione of Dogfish Head. But beyond the high-profile escapades of these two younger statesmen, there are many other dynamic young brewers abroad in the land. At the craft brewing conferences in the past couple of years, it has been heartening to see the renewed fervor about craft beer.

The segment is still plagued by capacity hiccups, as successful brewers are forced to throttle back periodically to install new brewhouses and tankage.



Top Ten Domestic Specialty Brewers, Year 2003

Reporting breweries established After 1980, now producing over 15,000 31-gallon barrels, not including brewpub chains.

Brewer	Barrels	% change
1. Boston Beer Co.(*)	1,229,217	-4.0%
2. Sierra Nevada Brewing Co.	575,000	+1.5%
3. New Belgium Brewing Co.	285,200	+11.7%
4. Redhook Ale Brewery	228,800	+1.2%
5. Widmer Bros. Brewing Co.	169,806	+20.5%
6. Deschutes Brewing Co.	118,186	+2.3%
7. Pyramid Brewing Co.	115,000	+1.7%
8. Pete's Brewing Co.(C)	98,000	-9.4%
9. Alaskan Brewing Co.	86,900	+14.1%
10.Mass. Bay Brewing Co.	79,340	+8.7%

Editor's Note:(C)= contract; (*)= some volume produced under contract.=exception is Anchor.*

However, the biggest obstacle to building barrelage continues to be the constraints imposed by the distribution system. A rapidly consolidating wholesale tier has left some crafters with limited access to market.It's a problem faced by all the mid- and smaller brewers, and smaller importers as well (see interview with Joe Heller of HellerHighwater, Inc. in this issue).

To his credit, the aforementioned Greg Koch of Stone Brewing Co. was the driving force behind a seminal two-day meeting of independent craft beer wholesalers that preceded the Craft Brewers Conference (CBC) in April, 2004. The Craft Brewers Conference has always been an important receptacle of knowledge on the technical and aesthetic aspects of beer, but it has often eschewed talk about the dirty business of actually selling it.

Koch's specialty beer wholesalers conference filled that vacuum neatly. Approximately forty representatives of specialty beer wholesalers attended. These were not hopeful wannabes, but practicing small-scale wholesalers with a keen interest in the nuts and bolts of the business—logistics, transportation, warehousing, staffing, and draft line cleaning.

Topics included fleet management, cooperative purchasing, freight management, and sales force compensation structure.

Dan Bradford of the Brewers' Association of America was front and center, as was Tom McCormick, the pioneering specialty beer wholesaler from Sacramento. Keith Lemcke, executive director of the Draught Beer Guild, provided insight during a component on draft

TOP 100 U.S. THIRD-TIER BREWERS

	BREWER	LOCATION	2003 SALES 31-GAL. BARRELS	2002 SALES 31-GAL. BARRELS	VARIANCE AMOUNT (03-02)	VARIANCE PERCENT (03-02)	2003 PRODUCTION SHARE OF U.S. SALES	2003 MARKET SHARE OF U.S. SALES
1.	D.G. Yuengling & Son	Pottsville, PA	1,310,000	1,184,368	125,632	10.61%	0.65%	0.58%
2.	Boston Beer Co.	Boston, MA	1,229,217	1,280,589	(51,372)	-4.01%	0.71%	0.63%
3.	City Brewery	LaCrosse, WI	1,152,865	900,000	252,865	28.10%	0.50%	0.44%
4.	Latrobe Brewing Co.*	Latrobe, PA	1,050,000	1,040,000	10,000	0.96%	0.57%	0.51%
5.	High Falls Brewing Co.*	Rochester, NY	750,000	900,000	(150,000)	-16.67%	0.50%	0.44%
6.	Sierra Nevada Brewing Co.	Chico, CA	575,000	566,098	8,902	1.57%	0.31%	0.28%
7.	McKenzie River Corp.(C)*	San Francisco, CA	420,000	470,000	(50,000)	-10.64%	0.26%	0.23%
8.	Pittsburgh Brewing Co.*	Pittsburgh, PA	415,000	425,000	(10,000)	-2.35%	0.23%	0.21%
9.	J. Leinenkugel Brewing Co. (2)*	Chippewa Falls, WI	349,000	344,405	4,595	1.33%	0.19%	0.17%
10.	New Belgium Brewing Co.	Fort Collins, CO	285,200	255,290	29,910	11.72%	0.14%	0.13%
11.	Spoetzl Brewery, Inc.	Shiner, TX	265,259	257,324	7,935	3.08%	0.14%	0.13%
12.	Redhook Ale Brewery	Seattle, WA	228,800	225,900	2,900	1.28%	0.12%	0.11%
13.	Matt Brewing Co.	Utica, NY	228,700	239,000	(10,300)	-4.31%	0.13%	0.12%
14.	Widmer Bros. Brewing Co.	Portland, OR	169,806	140,905	28,901	20.51%	0.08%	0.07%
15.	Deschutes Brewing Co.*	Bend, OR	118,186	115,501	2,685	2.32%	0.06%	0.06%
16.	Pyramid Breweries	Kalama, WA	115,000	117,000	(2,000)	-1.71%	0.06%	0.06%
17.	Pete's Brewing Co. (C)*	Palo Alto, CA	98,000	108,178	(10,178)	-9.41%	0.06%	0.05%
18.	Alaskan Brewing Co.	Juneau, AK	86,900	76,100	10,800	14.19%	0.04%	0.04%
19.	Anchor Brewing Co.*	San Francisco, CA	81,000	82,200	(1,200)	-1.46%	0.05%	0.04%
20.	Mass Bay Brewing Co.	Boston, MA	79,340	72,960	6,380	8.74%	0.04%	0.04%
21.	Boulevard Brewing Co.	Kansas City, MO	74,872	63,616	11,256	17.69%	0.04%	0.03%
22.	Carolina Beer & Beverage	Mooresville, NC	63,215	31,482	31,733	100.80%	0.02%	0.02%
23.	Gluek Brewing Co.	Cold Spring, MN	58,300	32,000	26,300	82.19%	0.03%	0.03%
24.	Summit Brewing Co.	St. Paul, MN	55,222	49,469	5,753	11.63%	0.03%	0.02%
25.	Full Sail Brewing Co.	Hood River, OR	51,565	57,606	(6,041)	-10.49%	0.03%	0.03%
26.	Portland Brewing Co.	Portland, OR	51,375	56,400	(5,025)	-8.91%	0.03%	0.03%
27.	Shipyard Brewery	Portland, ME	45,255	39,278	5,977	15.22%	0.02%	0.02%
28.	Rock Bottom Brewery (chain)	Louisville, CO	43,977	43,690	287	0.66%	0.02%	0.02%
29.	Brooklyn Brewery	Brooklyn, NY	42,010	41,031	979	2.39%	0.02%	0.02%
30.	Abita Brewing Co.	Abita Springs, LA	41,300	39,400	1,900	4.82%	0.02%	0.02%
31.	Bridgeport Brewing Co.	Portland, OR	40,128	36,691	3,437	9.37%	0.02%	0.02%
32.	Kalamazoo Brewing Co.	Galesburg, MI	38,738	31,902	6,836	21.43%	0.02%	0.02%
33.	Magic Hat Brewing Co.	Burlington, VT	38,339	38,555	(216)	-0.56%	0.02%	0.02%
34.	Dixie Brewing Co.*	New Orleans, LA	37,000	38,000	(1,000)	-2.63%	0.02%	0.02%
35.	Straub Brewing Co.	St. Mary's, PA	35,896	38,549	(2,653)	-6.88%	0.02%	0.02%
36.	Rogue Ales	Newport, OR	33,076	29,817	3,259	10.93%	0.02%	0.01%
37.	Odell Brewing Co.	Ft. Collins, CO	26,017	26,546	(529)	-1.99%	0.01%	0.01%
38.	Lagunitas Brewing Co.	Petaluma, CA	25,876	23,960	1,916	8.00%	0.01%	0.01%
39.	Flying Dog Brewery	Aspen, CO	25,561	21,875	3,686	16.85%	0.01%	0.01%
40.	Otter Creek Brewing Co.	Middlebury, VT	25,400	23,900	1,500	6.28%	0.01%	0.01%
41.	Great Lakes Brewing Co.	Cleveland, OH	24,963	21,734	3,229	14.86%	0.01%	0.01%
42.	Stone Brewing Co.	San Marcos, CA	24,500	18,450	6,050	32.79%	0.01%	0.01%
43.	Old Dominion Brewing Co.	Ashburn, VA	24,306	25,350	(1,044)	-4.12%	0.01%	0.01%
44.	Big Sky Brewing Co.	Missoula, MT	22,450	20,800	1,650	7.93%	0.01%	0.01%
45.	Gordon Biersch+ (chain)	San Jose, CA	21,802	23,482	(1,680)	-7.15%	0.01%	0.01%
46.	McMenamin's +(chain)	Portland, OR	19,750	20,531	(781)	-3.80%	0.01%	0.01%
47.	New Glarus Brewing Co.	New Glarus, WI	19,179	13,806	5,373	38.92%	0.01%	0.01%
48.	Anderson Valley Brewing Co.	Boonville, CA	19,000	19,502	(502)	-2.57%	0.01%	0.01%
49.	North Coast Brewing Co.	Ft. Bragg, CA	18,095	16,030	2,065	12.88%	0.01%	0.01%
50.	Rockies Brewing Co.	Boulder, CO	17,923	15,297	2,626	17.17%	0.01%	0.01%
51.	Hops Grillhouse & Brewery (chain)	Tampa, FL	17,013	22,332	(5,319)	-23.82%	0.01%	0.01%
52.	Kona Brewing Co.	Kona, HI	16,217	17,173	(956)	-5.57%	0.01%	0.01%
53.	Victory Brewing Co.	Downington, PA	15,300	11,600	3,700	31.90%	0.01%	0.01%
54.	Olde Saratoga Brewing Co.	Saratoga, NY	15,135	12,946	2,189	16.91%	0.01%	0.01%
55.	Uinta Brewing Co.	Salt Lake City, UT	14,225	13,959	266	1.91%	0.01%	0.01%
56.	Sweetwater Brewing Co.	Atlanta, GA	14,200	11,500	2,700	23.48%	0.01%	0.01%
57.	Dogfish Head Brewing Co.	Milton, DE	14,200	7,100	7,100	100.00%	0.00%	0.00%
58.	Lost Coast Brewing Co.	Eureka, CA	13,856	10,600	3,256	30.72%	0.01%	0.01%
59.	Sprecher Brewing Co.	Milwaukee, WI	11,475	12,945	(1,470)	-11.36%	0.01%	0.01%
60.	Berkshire Brewing Co.	South Deerfield, MA	9,872	8,483	1,389	16.37%	0.00%	0.00%
61.	Wachusett Brewing Co.	Westminster, MA	9,356	8,355	1,001	11.98%	0.00%	0.00%
62.	Tabernash/Left Hand Brewing Co.	Longmont, CO	8,718	8,448	270	3.20%	0.00%	0.00%
63.	Smuttynose Brewing Co.	Portsmouth, NH	8,246	7,163	1,083	15.12%	0.00%	0.00%
64.	Bayern Brewing Co.	Missoula, MT	7,899	7,501	398	5.31%	0.00%	0.00%
65.	Mad River Brewing Co.	Blue Lake, CA	7,464	7,605	(141)	-1.85%	0.00%	0.00%
66.	Hale's Ales	Seattle, WA	7,287	9,223	(1,936)	-20.99%	0.01%	0.00%
67.	Saint Arnold Brewing Co.	Houston, TX	7,208	6,152	1,056	17.17%	0.00%	0.00%
68.	Fish Brewing Co.	Olympia, WA	7,140	7,845	(705)	-8.99%	0.00%	0.00%

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69.	Four Peaks Brewing Co.	Tempe, AZ	6,720	5,290	1,430	27.03%	0.00%	0.00%
70.	Bayhawk Ales, Inc.	Irvine, CA	6,343	2,997	3,346	111.64%	0.00%	0.00%
71.	Highland Brewing Co.	Asheville, NC	5,875	4,950	925	18.69%	0.00%	0.00%
72.	Blue Point Brewing Co.	Patchoque, NY	5,850	5,150	700	13.59%	0.00%	0.00%
73.	Lakefront Brewery	Milwaukee, WI	5,447	4,850	597	12.31%	0.00%	0.00%
74.	James Page Brewing	Minneapolis, MN	5,250	5,600	(350)	-6.25%	0.00%	0.00%
75.	Great Divide Brewing Co.	Denver, CO	5,100	5,545	(445)	-8.03%	0.00%	0.00%
76.	Avery Brewing Co.	Boulder, CO	4,984	3,776	1,208	31.99%	0.00%	0.00%
77.	Buzzard's Bay Brewing Co.	Westport, MA	4,929	4,224	705	16.69%	0.00%	0.00%
78.	Speakeasy Ales	San Francisco, CA	4,875	3,350	1,525	45.52%	0.00%	0.00%
79.	Arcadia Brewing Co.	Battle Creek, MI	4,006	3,642	364	9.99%	0.00%	0.00%
80.	Butte Creek Brewing	Chico, CA	4,000	3,500	500	14.29%	0.00%	0.00%
81.	Sudwerk Privatbrauerei	Davis, CA	3,900	4,200	(300)	-7.14%	0.00%	0.00%
82.	Drake's Brewing Co.	San Leandro, CA	3,500	3,000	500	16.67%	0.00%	0.00%
83.	Oak Creek Brewing Co.	Sedona, AZ	3,250	3,000	250	8.33%	0.00%	0.00%
84.	High Point Brewing Co.	Butler, NJ	3,000	2,975	25	0.84%	0.00%	0.00%
85.	Lake Placid Brewery+	Lake Placid, NY	2,968	1,890	1,078	57.04%	0.00%	0.00%
86.	Atlantic Brewing Co.	Bar Harbor, ME	2,967	2,870	97	3.38%	0.00%	0.00%
87.	Gritty McDuff's+	Freeport, ME	2,663	2,402	261	10.87%	0.00%	0.00%
88.	Moose's Tooth Brewing Co.	Anchorage, AK	2,480	2,431	49	2.02%	0.00%	0.00%
89.	Moylan's Brewery+	Novato, CA	2,465	2,540	(75)	-2.95%	0.00%	0.00%
90.	Rock Bottom-Chicago+	Chicago, IL	2,440	2,174	266	12.24%	0.00%	0.00%
91.	Free State Brewing Co.+	Lawrence, KS	2,410	2,330	80	3.43%	0.00%	0.00%
92.	Rock Bottom-Denver+	Denver, CO	2,391	2,881	(490)	-17.01%	0.00%	0.00%
93.	Custom Brewcrafters, Inc.	Honeoye Falls, NY	2,063	2,029	34	1.68%	0.00%	0.00%
94.	Sierra Blanca Brewing Co.	Carrizozo, NM	1,929	1,870	59	3.16%	0.00%	0.00%
95.	Coopersmith's Brewing Co.+	Ft. Collins, CO	1,867	1,955	(88)	-4.50%	0.00%	0.00%
96.	Rock Bottom Brewery-Portland	Portland, OR	1,840	1,780	60	3.37%	0.00%	0.00%
97.	Lake Superior Brewing Co.	Duluth, MN	1,763	1,670	93	5.57%	0.00%	0.00%
98.	Rock Bottom-San Jose	San Jose, CA	1,746	1,347	399	29.62%	0.00%	0.00%
99.	Upstream Brewing Co.	Omaha, NB	1,740	1,568	172	10.97%	0.00%	0.00%
100.	Rock Bottom-Arlington+	Arlington, VA	1,688	1,664	24	1.44%	0.00%	0.00%

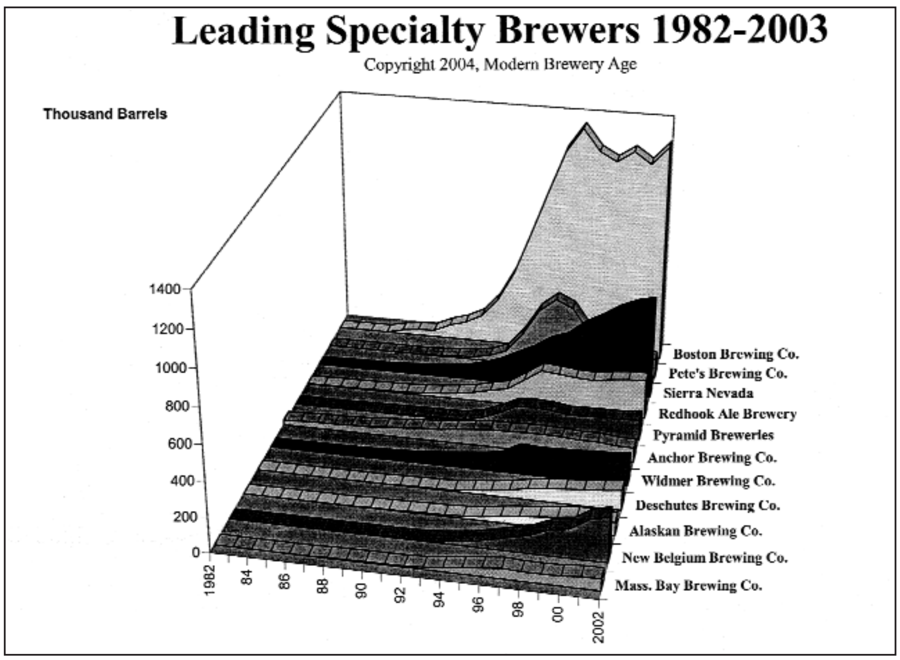
Editors Note: This ranking is based on a larger table published in the March 2004 issue. This table is intended to represent the top 100 U.S. third tier brewers, so Anheuser-Busch, Miller, Coors and Pabst are omitted. Key: *=estimate; (C)= contact brewer; +=brewpub, selling primarily on-premise.Copyright Business Journals, 2004. For future inclusion, send barrelage to pete@breweryage.com.

technology and line cleaning. Many of the participants represented small breweries that self-distribute, and others have taken that a step further, becoming full-scale wholesalers.

"It was a tremendous opportunity for sharing of ideas and insights," Koch remarked to the AOB later. "This conference showed that the face of specialty beer wholesaling is evolving in ways that are beneficial for the craft brewing industry."

Broadly, there is a new sense of optimism that belies the craft segment's three percent market share. At times, this optimism can wander into the terrain of the cock-eyed. "Kim Jordan of New Belgium thinks we can hit 10% market share," Greg Koch noted at the CBC. "I think we can do double that."

Paul Gatza of the Association of Brewers gave a more staid, but still upbeat assessment of the craft brewers progress at CBC, calling 2003 "a solid year for market penetration" by craft brewers. Gatza said the bulk of craft growth last year was from regional specialty brewers, companies that produce over 15,000 barrels a year. There are now 54 craft breweries that sell more than 15,000 barrels per annum, and this segment increased sales by 9.8%



Out of 1426 craft brewers currently in operation, 986 of them are brewpubs. The brewpub segment continued to be the most volatile, with 60 openings matched by 61 closings. As a result, brewpub barrelage actually dropped in 2003. For packaging breweries, there were 21 openings and 12 closings. At least eight craft brewers are now operating canning lines, perhaps one of the past year's most important developments. Finally, craft brews that you can take to the beach.. ■