IMPORTS & LARGE BREWERIES

Are Big Beer Brands Dying?

BY HARRY SCHUHMACHER

Big brewers and importers have had a tough two years. And if we were looking for 2010 to provide relief, we might as well have been singing hosannas to King Gambrinus. Domestic beer shipments were down 3 million barrels, or -1.6 percent, compared to 2009, according to estimates by Lester Jones at the Beer Institute. That's on top of a 2.2-million-barrel loss in 2009. So in two short years, the beer industry has seen domestic beer shipments lose nearly five million barrels.

The lion's share of those losses came at the expense of the two largest breweries that account for eight out of 10 beers sold in this country: Anheuser-Busch InBev and MillerCoors, which each posted about 3-percent volume declines for the year. All the while, craft brewers and a few regional brewers like Yuengling and Pabst have been gaining double digits. It begs the question: Are big beer brands dying?

Last year, consultant Mike Mazzoni posited—and Dr. Bob Weinberg has been demonstrating for years using his infamous "pocket charts"—that the six mega-brands (Bud Light, Bud, Coors Light, Miller Lite, Corona, and Heineken) are in the midst of a lifecycle decline. Those charts show that every major beer brand since Repeal has gone through a steady rise and then, as the next generation comes of age around every 30 years or so, and they resist drinking "their father's beer," those brands go into an inexorable decline that no amount of marketing investment can reverse. (In fact, sometimes that investment can accelerate a brand's decline. A former board member of Interbrew once told me that marketing dollars are like motor oil to an engine—if the brands are already going, marketing accelerates the growth, but if the engine is going in reverse, marketing also accelerates the decline).

Indeed, AB InBev, MillerCoors, and Heineken USA all posted the second year in a row of quite steep declines. More on that later.

IMPORTS REBOUND, LED BY CROWN

Let's start with some good news for some big brands. Imported beer turned around in 2010. Imported beer shipments were up nearly 5 percent, compared to a 10-percent loss in 2009. But upon closer inspection, the rebound in imported beers was driven by the leading importer, Crown Imports, the joint venture between Constellation Brands and Grupo Modelo. Crown Imports wrapped up its distributor meetings in March amid more upbeat sales numbers. "Momentum" was the chosen theme—mass times velocity—and Crown's numbers have

shown some momentum lately. Crown volumes were up 1.8 percent in 2010, even with their largest brand, Corona Extra, being down 2 percent and Corona Light down 1.4 percent. But Modelo Especial more than made up for the Corona franchise losses, up 16.9 percent (blowing through the 30-million case mark).

One variable that helped Crown was that it didn't take a price increase for the second year in a row. This narrowed the price gap between its brands and the big domestic premium brands, and drove volume toward Crown. But that's probably an unsustainable strategy, because at some point Crown will have to raise prices to protect the equity and image of its brands.

HEINEKEN USA STILL FACES CHALLENGES

The big news from Heineken was its acquisition of FEMSA Cerveza, owner of such iconic Mexican brands as Dos Equis, Tecate, and Sol. Their hottest brand, Dos Equis, gained 22 percent in 2010 on the heels of its widely successful "Most Interesting Man in the World" campaign.

But brand Heineken continues to struggle, down 5 percent in 2010, as its target demographic, African Americans and Hispanics, have been disproportionately affected by the recession. But Heineken USA is increasing its marketing behind the brand in 2011, and initiating a big push for Heineken draught in the on-premise.

ANHEUSER-BUSCH INBEV

ABI reported distributor sales to retailers down 3.2 percent for 2010, which represents about a half a share point loss. This from a brewer that consistently gained a half to a full share point a year for 30 years. The good news is that pricing and mix rocked. "Our price increase in September led to a loss of volume in our sub-premium brands as a consequence of our decision to narrow the price gap between our sub-premium and premium portfolios," wrote ABI in its fourth-quarter earnings release. In fact, revenue per barrel was up 3 percent in 2010, and up 4.1 percent in the fourth quarter. In addition to taking hefty price increases, ABI also has generated over $2 billion in synergies since they purchased Anheuser-Busch. Clearly, ABI is more interested in generating profits than generating market share.

ABI also worked to "fix" the price gap between their sub-premium portfolio (Busch, Natural Light) with their premium portfolio (Bud, Bud Light). That price gap had gotten quite wide, driving consumers in this recession to sub-premium brands. ABI took a larger price increase on sub-premiums than on premiums, and as such in the fourth quarter their premium brand declines stabilized. ABI said in its fourth-quarter earnings statement: "We saw improvements in the market share of all four of our premium and super-premium Focus Brands: Bud Light, the Bud Light mega brand and Michelob Ultra gained share for the year; Budweiser's share decline decelerated; and Stella Artois gained share on the back of full-year volume growth of 20.6 percent."

MILLERCOORS ALSO FOCUSES ON PROFITS

MillerCoors continues to beat expectations on synergies and cost controls, although sales remain soft. Sound familiar? Yes, A-B and MillerCoors have been living parallel lives for over two years now, foregoing market share in order to take price increases and cut costs. For the full year, MillerCoors' net income was $1.1 billion, up 25 percent. But distributor sales to retailers were down 3 percent. The bright side? Coors Light got strong distribution gains and Miller Lite is starting to stabilize, said CEO Leo Kiely, gaining half a share point in premium light per Nielsen scans. Again, this is largely because MillerCoors took higher price increases on its sub-premium brands (Keystone and Milwaukee's Best) and lower price increases on its premium brands (Coors Light and Miller Lite).

MillerCoors is having success with its specialty and imported beer division, Tenth and Blake, which grew double digits primarily through growth in Blue Moon, which experienced gains in velocity and distribution. The big news from Tenth & Blake was its loan to Southeastern craft brewer Terrapin Beer in Athens, Ga. The loan allowed Terrapin founders Spike Buckowski and John Cochran to buy out their other investors. Tenth and Blake's Tom Cardella told Beer Business Daily that he had met Spike and John last fall as he was traveling the country meeting with craft brewers. "They were just nice guys, and we got along great. I told them, 'If you ever need anything, give us a call.'" And they did. Will this mean Tenth and Blake will be making more plays into craft brewers? MillerCoors executives have downplayed the possibility, but at the same time have left the door open.

DECLINES WIDESPREAD

Another interesting aspect of the mega-brewer declines in 2010 is that they were widespread, although the hardest-hit states tended to be in the Sun Belt. Outside of the Northeast, most states sold less beer in 2010. And three very large markets, California, Florida, and Texas, posted steep losses for the second straight year. California was down 3 percent for the second year running, and has lost 1.4 million barrels over two years. Florida is down 8 percent over the last two years, while Texas was down 2.5 percent in the same period. Those three states accounted for nearly three million barrels of losses.

Total U.S. Beer Imports

Year	Volume	% change from previous year
2001	21,754,758	9%
2002	23,070,306	6%
2003	23,518,719	2%
2004	23,849,827	1%
2005	25,565,702	7%
2006	29,294,760	15%
2007	29,694,714	1%
2008	28,699,731	-3%
2009	25,881,474	-10%
2010	27,142,402	5%

**does not include non-alcoholic beers*

The stated reason: the economy. The tough economy has hit lower income and Hispanic communities higher than the general market, and those states over-index on both demographics.

In fact, Nielsen reports that all demographic segments earning less than $100,000 per household not only made fewer trips to stores, but purchased less. And households making less than $100,000 account for the vast majority of beer consumed, while wine and spirits enjoy more higher-income consumers who have been less affected by the economic downturn.

ARE MEGA-BRANDS DYING?

So, back to our original thesis: Are mega-brands dying? Well, they are certainly hurting. But the real question is whether their soft sales are a function of brand lifecycle shackles from which they can't break free, or for other, more sanguine reasons?

In many ways, today's beer industry is very different from our father's beer industry, and therefore some of the old brand lifecycle rules don't apply. For one thing, most of those brands that rose and then declined—many regional, some national—did so due to August Busch III's take-no-prisoners market share expansion from 1960 through 2008. Before 1960, there weren't really any mega-brands in beer, just a fractured market of high-share regional brands and a few moderately successful national brands. Any brands that declined during that era were actually just Three Sticks (Busch) and his army of Wharton MBAs outsmarting

U.S. Market Share

	2010	2009	Change %			
Craft Total	9,951,956	8,934,446	11.4			
Craft Exports	59,093	46,143	28.1			
U.S. Craft Brewer Sales	9,892,863	8,888,303	11.3			
Craft Share*	**2010 bbls**	**2010 Craft Share**	**2009 bbls**	**2009 Craft Share**	**Share Change**	
Brewpub	752,118	7.56	703,341	7.87	-0.31	
Contract	224,287	2.25	281,774	3.15	-0.90	
Microbrewery	1,059,914	10.65	947,350	10.60	0.05	
Regional	7,915,637	79.54	7,001,981	78.37	1.17	
U.S. Market Share	**2010 bbls**	**2010 share**	**2009 bbls**	**2009 share**	**bbl change**	**Vol. share change**
Craft	9,892,863	4.86	8,888,303	4.32	1,004,560	0.54
Imports	27,142,402	13.33	25,881,474	12.58	1,260,928	0.75
U.S. Non-Craft	166,541,185	81.81	170,906,223	83.09	-4,365,038	-1.28
Total Market	203,576,450	100.00	205,676,000	100.00	-2,099,550	0.00

** Craft contract beer brewed at craft breweries is not included in the segment of the brewer, so as to avoid double counting the same barrels. Estimate of flavored malt beverage volume is not included.*

All Eyes on ABI

One of the most attention-getting headlines of 2010 was the possibility of an "Armageddon" scenario put forth by Boston Beer chairman Jim Koch at the National Beer Wholesalers Association meeting last fall. Koch said that the next "game changer" in the U.S. beer business could depend on what AB InBev does next. Koch put forth two scenarios: 1. Before 2015, ABI could buy PepsiCo. But if that's not in the cards, then, 2. ABI buys SABMiller, spins off its stake in MillerCoors to Molson Coors, and then buys Coca-Cola. Either way, it would have huge implications not just for beer wholesalers, who could possibly get the boot in favor of company-owned bottlers, but craft brewers too, who could find their routes to market blocked.

As Koch says, regarding the three-tier system: Large suppliers "don't need it" and "large retailers don't want it." At the same time, legislators and consumers don't understand it. Koch's advice: "Stay involved...because that's what I see as possibly being a game-changer in this industry."

Total U.S. Beer Industry, Major Brewers & Importers

	Shipments (000)		Change		Market Share	
	2010	2009	bbls	%	2010	2009
AB	101,725	104,875	-3,150	-3.0	47.9	48.9
MillerCoors	61,485	63,400	-1,915	-3.0	28.9	29.5
Crown Imports	11,323	10,965	358	3.3	5.3	5.1
Heineken USA	8,400	8,670	-270	-3.1	4.0	4.0
Pabst	5,675	5,775	-100	-1.7	2.7	2.7
Diageo/Guinness USA	2,660	2,560	100	3.9	1.3	1.2
NAB	2,481	2,322	159	6.8	1.2	1.1
Boston	2,259	2,021	238	11.8	1.1	0.9
Yuengling	2,159	2,025	134	6.6	1.0	0.9
Mark Anthony (Mike's)	1,205	980	225	23.0	0.6	0.5
Other	13,183	11,074	2,109	19.0	6.2	5.2
Total	**212,555**	**214,667**	**-2,112**	**-1.0**		
(Tax-free)	4,175	4,550	-375	-8.2		
US Market	208,380	210,117	-1,737	-0.8		
Figures are BMI estimates of shipments, subject to revision.						
Imports	27,265	25,995	1,270	4.9	13.1	12.4
Taxpaid	180,259	183,222	-2,963	-1.6		
Taxfree	4,175	4,550	-375	-8.2		
NA	856	900	-44	-4.9		
US Total	**185,290**	**188,672**	**-3,382**	**-1.8**		
Import	27,265	25,995	1,270	4.9		
Total	212,555	214,667	-2,112	-1.0		
US Market	**208,380**	**210,117**	**-1,737**	**-0.8**		

Taxfree includes exports, NA exports, Puerto Rico. NA is US only.

the competition, and of course Philip Morris coming out with a better widget called light beer, or should I say Lite beer from Miller. Brand lifecycle, indeed. More like brand homicide, by Three Sticks and Marlboro.

The other difference is that the beer industry, until fairly recently, has always been highly fragmented with perpetual excess brewing capacity in the hands of several under-capitalized players. The beer industry was a wild west, particularly on the low end. Pricing integrity was non-existent, as anybody with a few idle dusty fermenters and a third-hand truck could start shipping beer at a cut-rate price. Yes, today we have more actual breweries, but the multitude of breweries we have today are craft brewers who sell at the high end, and most don't have excess capacity issues. If anything, they are lacking for capacity. Don't underestimate the value of having an industry that is operating at near 100-percent capacity in the summer months. Market shares tend to be rather sticky when that's the case.

The other difference is that we operate in a virtual duopoly dominated by sophisticated multinational companies, who tend to make decisions based on profitability to please Wall Street rather than a singular drive to ratchet up market share. ABI and MillerCoors have clearly shown a willingness to sacrifice share in return for higher pricing and higher profits.

And then we have the economy. While unemployment hovers at around 9 percent, the unemployment rate for blue collar, Hispanic, and African Americans—particularly young men in this demo-segment 21 to 29 years old—is much higher. And the megabrands over-index on this demographic, while craft beers over-index on Caucasian higher-income earners who are less affected by the poor economy.

Bottom line, there are too many moving parts, with too many correlations and too few causations, to tease out whether megabrands are on an inexorable and generational decline. The creation of a profit-driven duopoly, the shortage of capacity, and the uneven effects of unemployment on different demographic segments make the water too muddy to know for sure. We'll just have to wait and see.

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