2018 State of the Homebrew Industry

American Homebrewers Association®

Antitrust Guidelines for Meetings

We cannot discuss any of the following topics:

- Prices, pricing procedures, margins, what constitutes a fair profit level, changes in or stabilization of prices, terms or conditions of sale.
- Pricing practices of any industry member.
- Forecasts of price increases or decreases.
- Specific credit terms, discounts, rebates, freight allowances, profits, profit margins or costs, market shares, allocation of markets, any limitation on sales, sales territories or distribution practices.
- Selection, rejection, boycott, refusal to deal with, or termination of any suppliers or customers.

What is the Industry Sub-Committee?

Committee's function
The Industry Subcommittee was formed during the National Homebrewers Conference of 2010.

The committee's primary goals are to foster better communication between the AHA and industry entities, as well as provide resources, assistance, and guidance to the AHA based on concerns brought forward by said members of the homebrewing industry.

2017/2018 Activities

1. Help generate content for the Industry Newsletter- “Talking Shop”

1. Review and develop questions for the annual industry survey. Review quarterly version. Help generate participation in the surveys.

2. Engage with and contribute to our industry forum.

3. Explore methods, campaigns and ways to promote the hobby and activity of homebrewing on a national level.

4. Provide insights and feedback form Industry to the AHA, and AHA Governing Committee on trends in the hobby and community

This Week – Portland Ballroom 254-255

Thursday 6/28
- 9am – 2018 State of the Homebrew Industry
- 10:15am – Collaborative Competition: Homebrew Shops in the New Economy

Friday 6/29
- 9am – Stabilize Your Store's Performance by Diversifying into Wine, Cider, and Distilling
- 10:15am – (Mis-) Adventures of Online Retail in the Age of Amazon

Saturday 6/30
- 9am – Malt & Malt Extract: Sales & Product Management
- 10:15am – Staffing your store for Success: Who to Hire, Who to Avoid, and How to Manage Them

2018 Homebrew Supply Shop Survey Results

(and some 2017 Home Beer & Wine Maker Survey data..)

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2018 AHA Homebrew Supply Shop Survey

167 responses

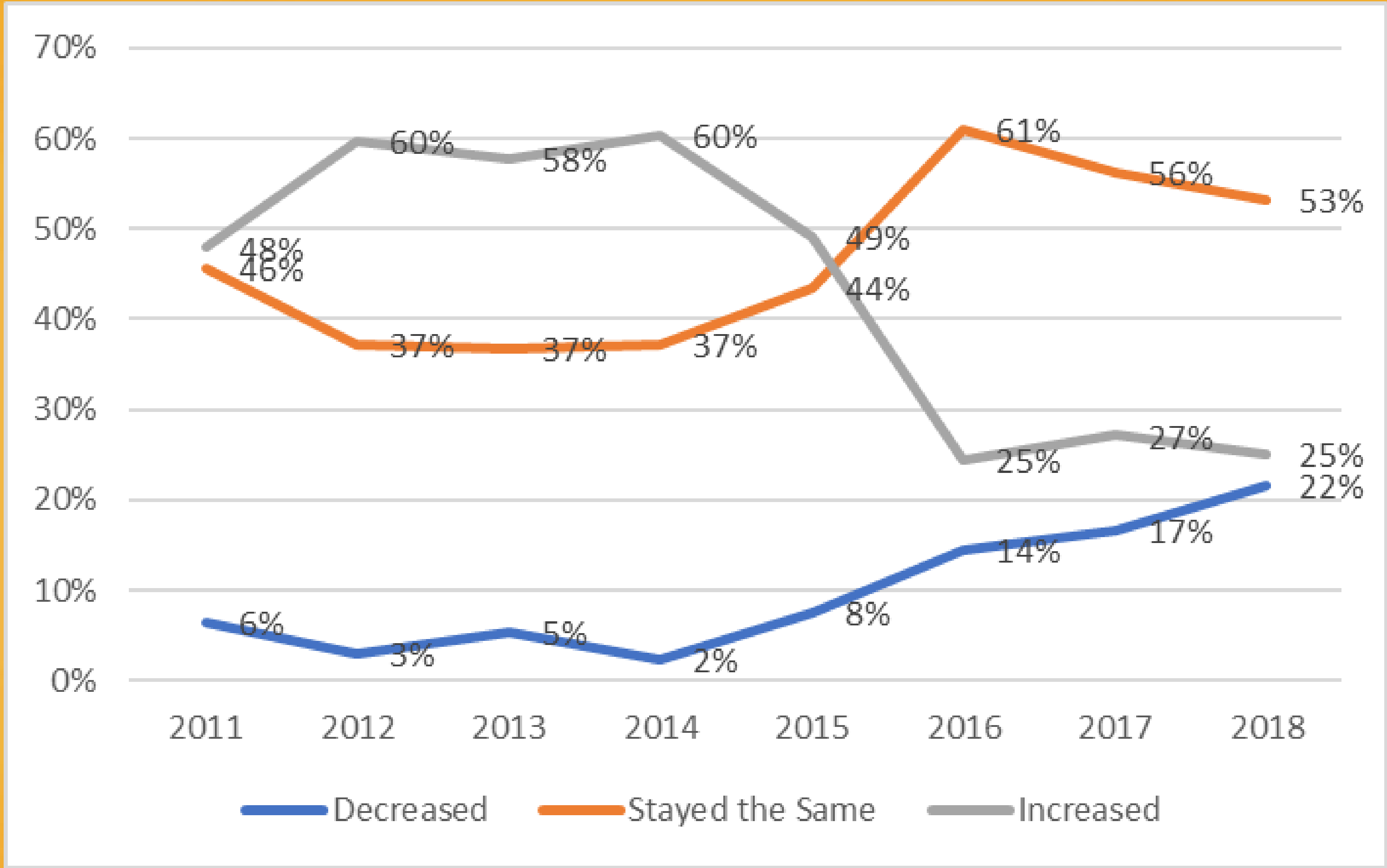
84% —Home beverage making supplies is primary source of income for business

Years in Business

- Average: 9.1 years
- Median: 5 years
- 21% open ≤ 3 years (26% in 2017, 32% in 2016)
- 8% open ≤ 1 year (4.3% in 2017 survey)

Openings/Closings

How has the number of home beer & wine retailers in your area changed in the last year?



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YOY Gross Revenue

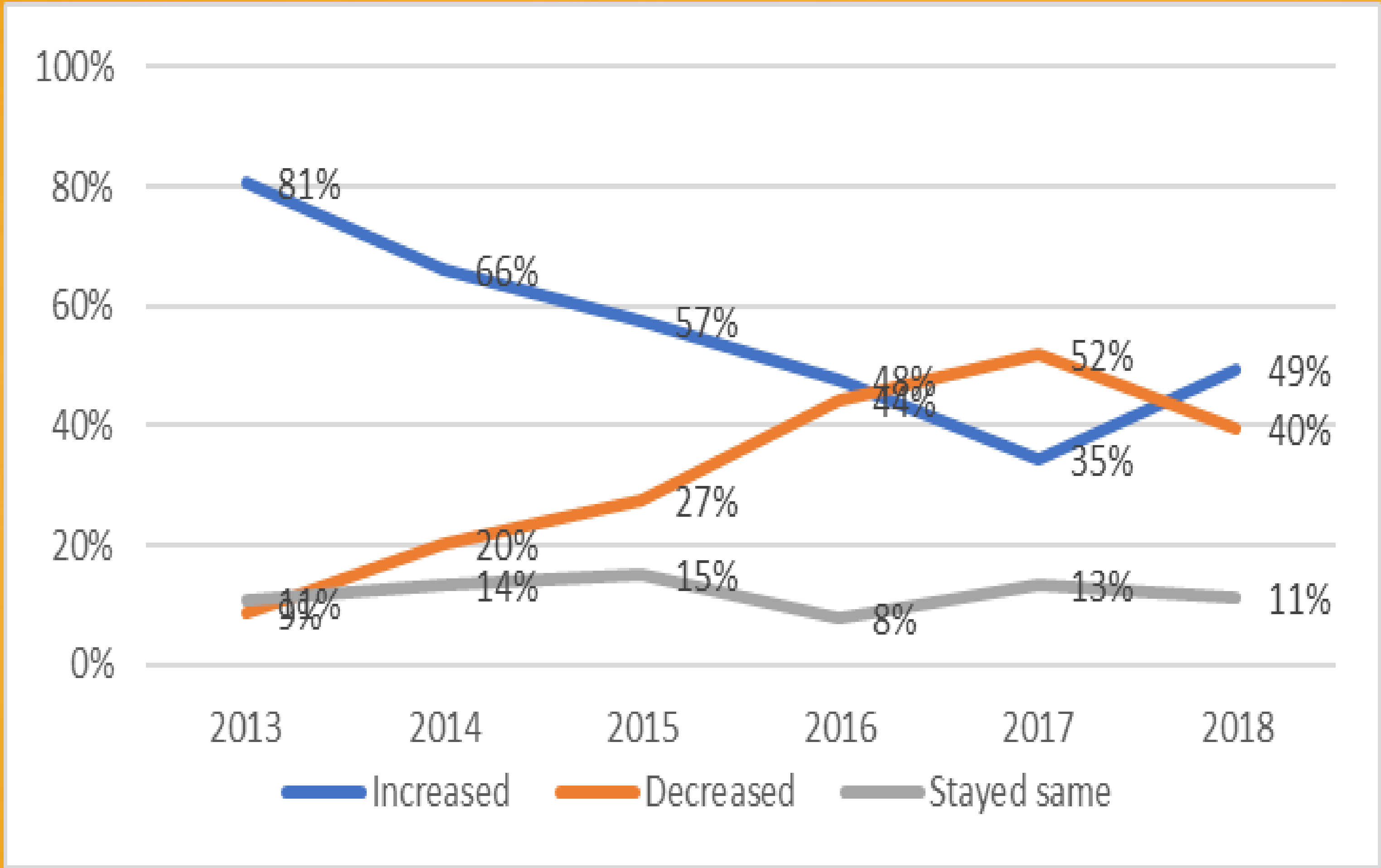
	% Δ Gross Revenue			
	2017	**2016**	**Q4 2017**	**Q4 2016**
All Shops	-0.9	0.5%	5.7%	-3.9%
Primarily Homebrew	-1.2%	-1.4%	6.3%	-4.4%
Homebrew, -70% online	-2.6%	-4.9%	-4.3%	-5.7%
Homebrew-70% online; 5+ yrs	-7.2%	-6.9%	-8.9%	-9.3%

Revenue

- 25% ≥ 10% growth in 2017 (29% in 2016)
- 17% ≥ 20% growth in 2017   (16% in 2016)
- 58% experienced a decline in 2017 (51% in 2016)

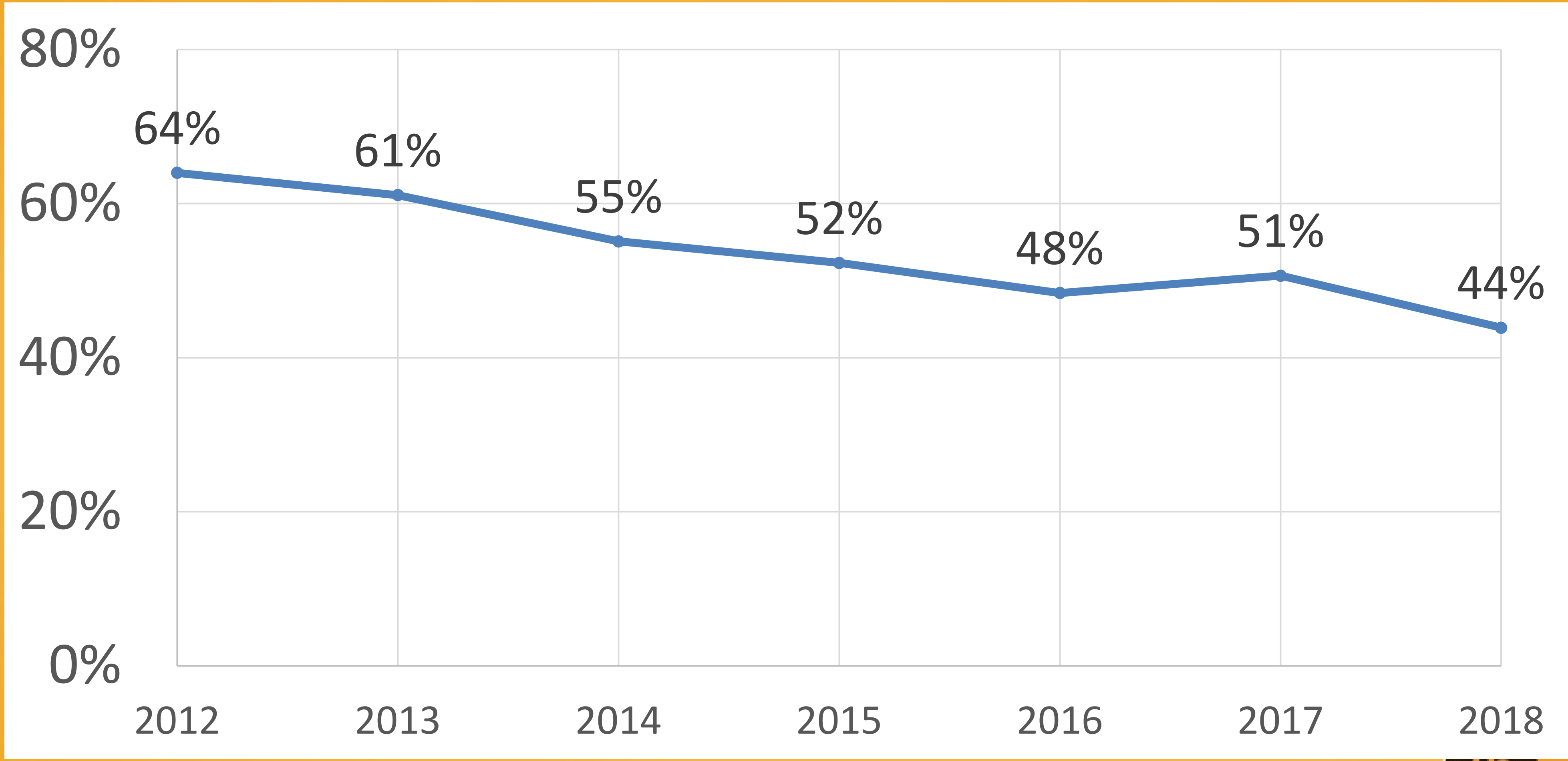
So where is the growth?

Beginner Beer Equipment Kit Sales



	Average	Median
2018	-2.40%	0%
2017	-8.50%	-5%
2016	-1.30%	0%
2015	7.40%	7.50%
2014	12.60%	10%

% of Purchases Include Malt Extract



Beer - Methods In Past 12 Months

Beer Brewing Methods in Past 12 Months	2013 Total Homebrewers	2017 Total Homebrewers	2013 AHA-Affiliated	2017 AHA-Affiliated
Base: Total, N=	**18,036**	**10,602**	**11,788**	**9,254**
All-grain	60%	**70% ^**	78% T	**84% T^**
Average # of Batches:	6.8	7.0	7.9 T^	**7.7 T**
Extract with steeped grains	59% A^	**49% A**	45% ^	**36%**
Average # of Batches:	4.2 A	3.9 A	3.8 ^	**3.4**
Extract (without adjuncts/grain)	24% A^	**21% A**	15% ^	**13%**
Average # of Batches:	2.7 A	2.8 A	2.5	2.4
Partial mash	25% A^	**18% A**	22% ^	**16%**
Average # of Batches:	3.1	2.8	3.06	2.9
Other Methods	-	2%	-	3%
Average # of Batches:	-	4.2	-	3.7

In 2017, +10% more Homebrewers are using ‘All-grain’ instead of other methods

- AHA-Affiliated are more likely to use All-grain and produce more batches than others, but they have reduced the number of All-grain batches since 2013

Q15. How many batches of beer have you brewed using each method in the past 12 months?

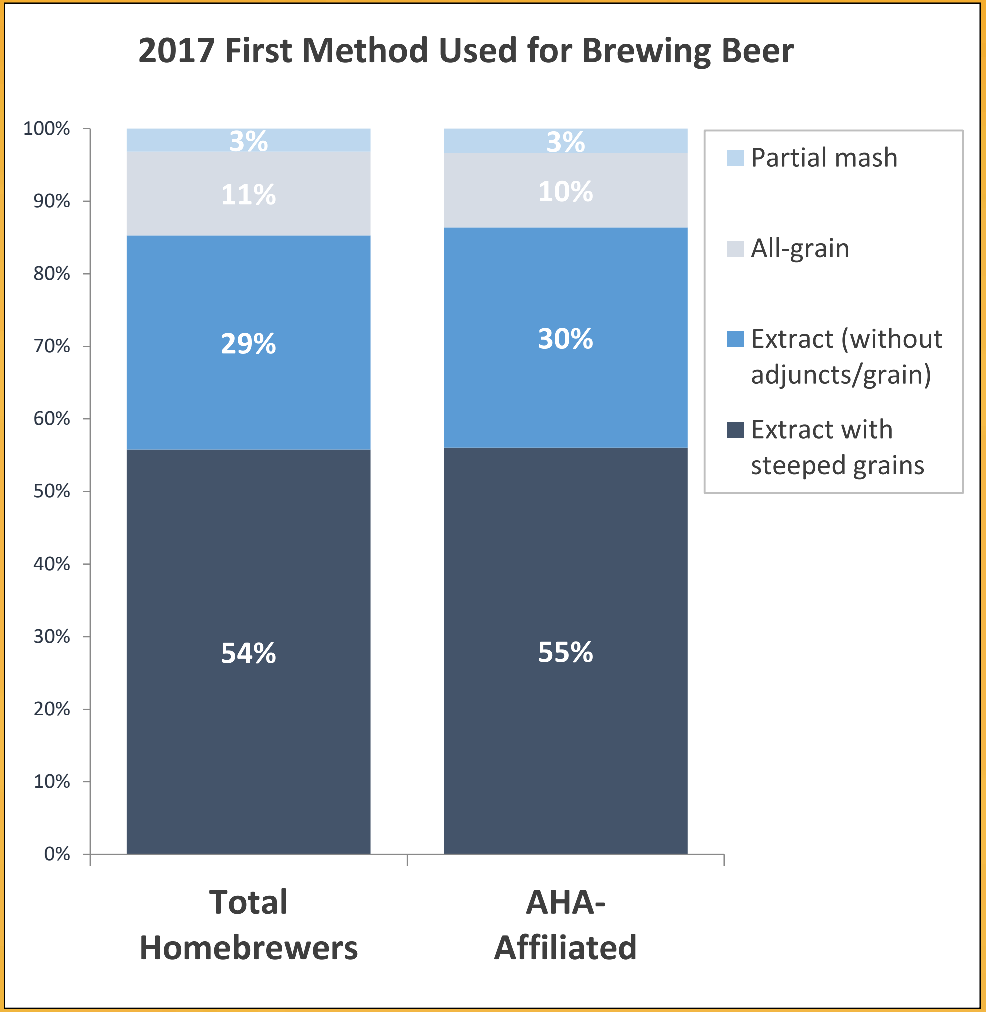
Beer - Method First

Over half started homebrewing beer using 'Extract with steeped grains' (55%) and 30% with 'Extract without adjuncts/ grain'

Only 10% started with 'All-grain' and very few with 'Partial mash' (3%)

AHA-Affiliated look like all Homebrewers in their first method to start homebrewing beer

Q16. When you FIRST started brewing beer, which beer-making method did you start with first?
Based on Beer Brewers Past 12 Months: Total Homebrewers N=10,098, AHA-affiliated N=9,180

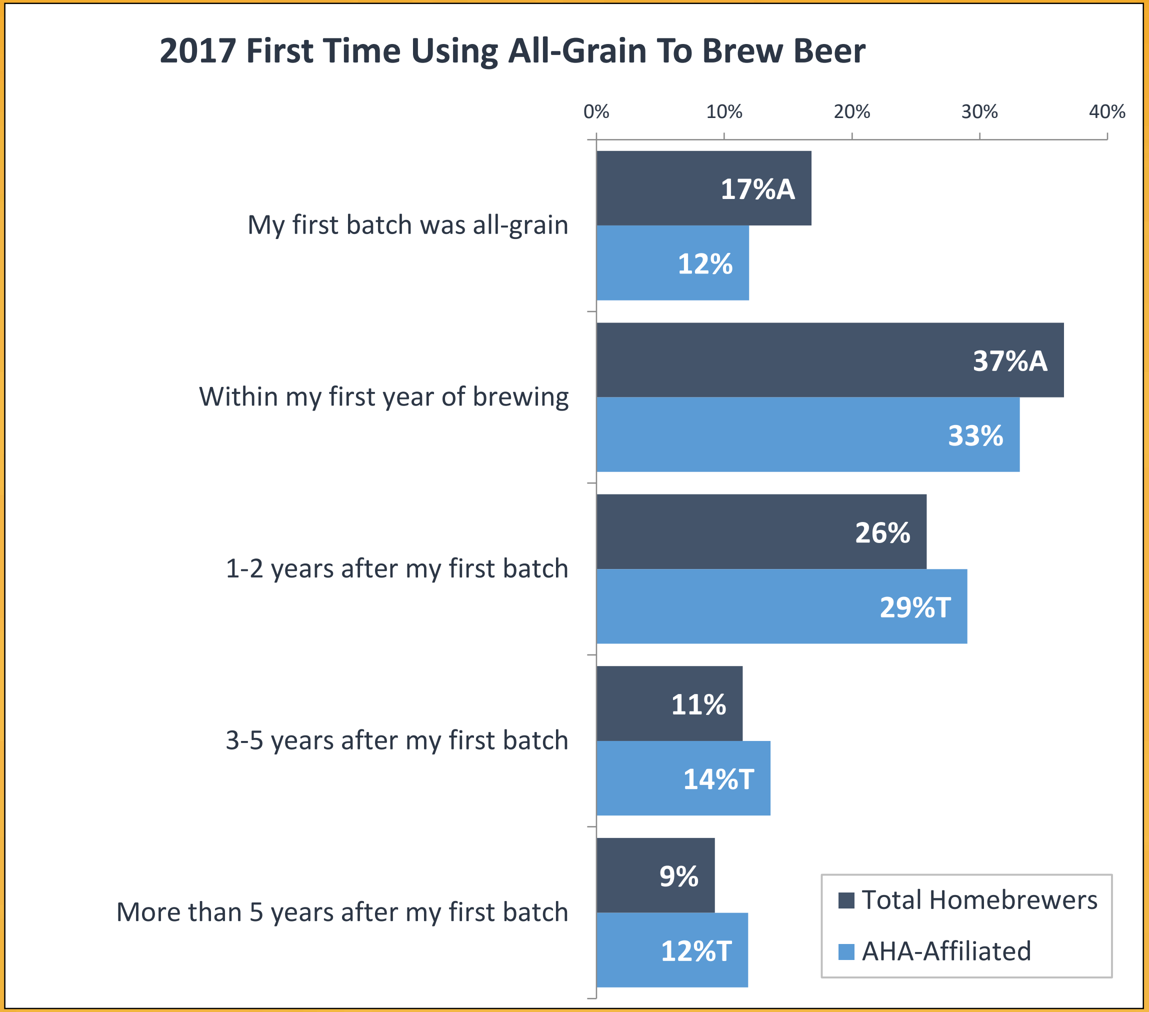


Beer - First Time All-Grain

Among all Homebrewers who use All-Grain most often, the majority started using All-Grain within their first year (55%) or two (26%) of starting to homebrew

More AHA-Affiliated started using All-Grain after their first year homebrewing (55%)

Q19. [IF "ALL GRAIN" SELECTED IN Q15 ASK:] When did you start brewing all-grain? Select only one.
Based on Beer Brewers Past 12 Months and Use All-Grain Most Frequently: Total Homebrewers N=6,185 , AHA-affiliated N=7,217



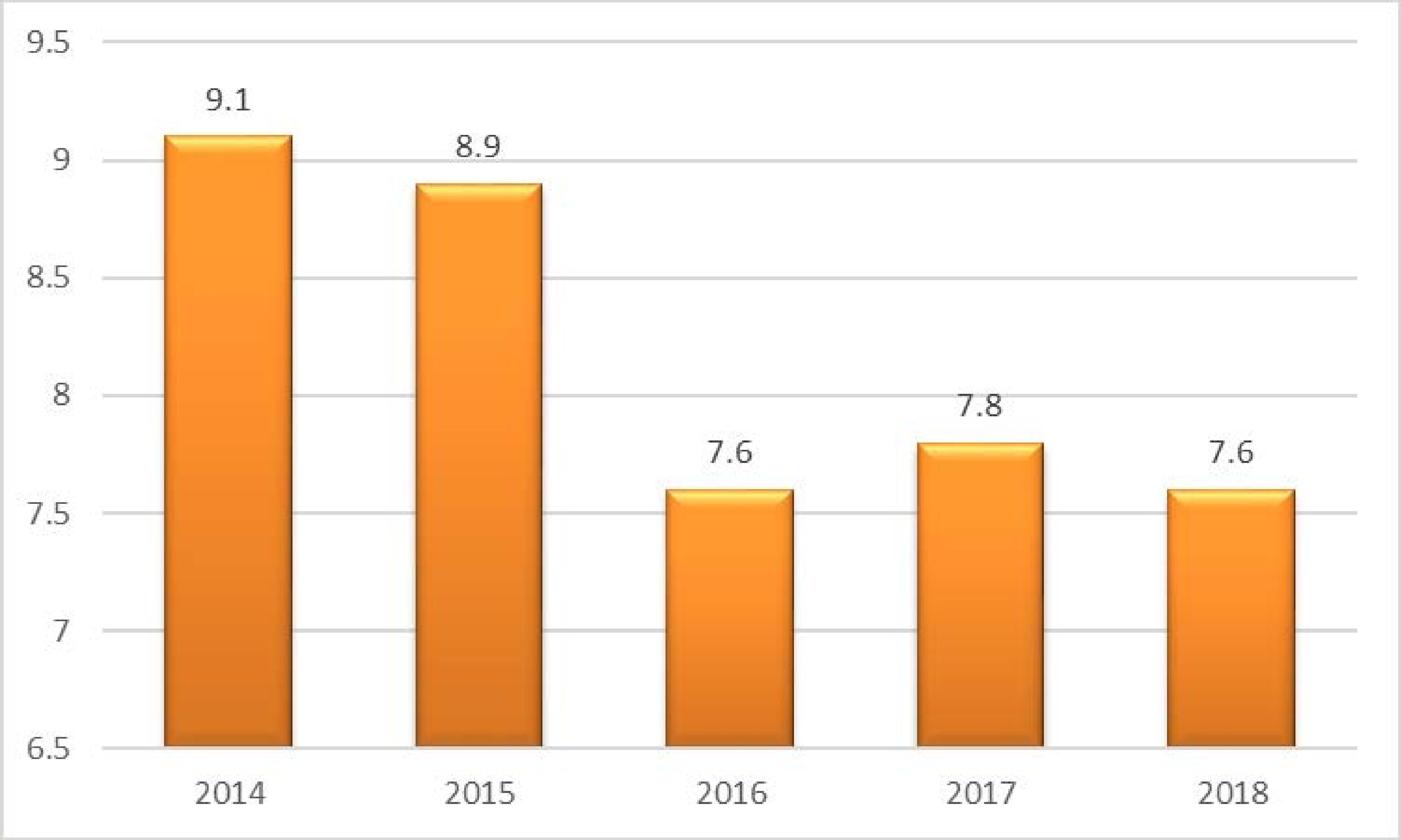
Beverages Made - Ever & Past 12 Months

	2013 Total Homebrewers	2017 Total Homebrewers	2013 AHA-Affiliated	2017 AHA-Affiliated
Base: Total, N=	18,036	10,602	11,788	9,254
Beverages Ever Made				
Beer	96%	96%	100% T	100% T
Cider	30%	**38% ^**	38% T	**44% T^**
Wine	28%	31%	28%	29%
Mead	23%	24%	32% T	32% T
Spirits	-	6%	-	7% T
Other Fermented Food/Bev	-	21%	-	25% T
Beverages Made in P12M				
Beer	95%	95%	99% T	99% T
Cider	23%	**29% ^**	26% T	**30% ^**
Wine	21% A	22% A	17%	16%
Mead	17%	17%	22% T^	**20% T**

Significantly more are making Cider in 2017 compared to 2013 (+8% to 38%). Cider grew in popularity among all Homebrewers and AHA-Affiliated. The making of other beverages remains at par, except for a decline in those making Mead among AHA-Affiliated

Q2. Which of the following have you personally ever brewed/made?

Customer Frequency (visits per year)



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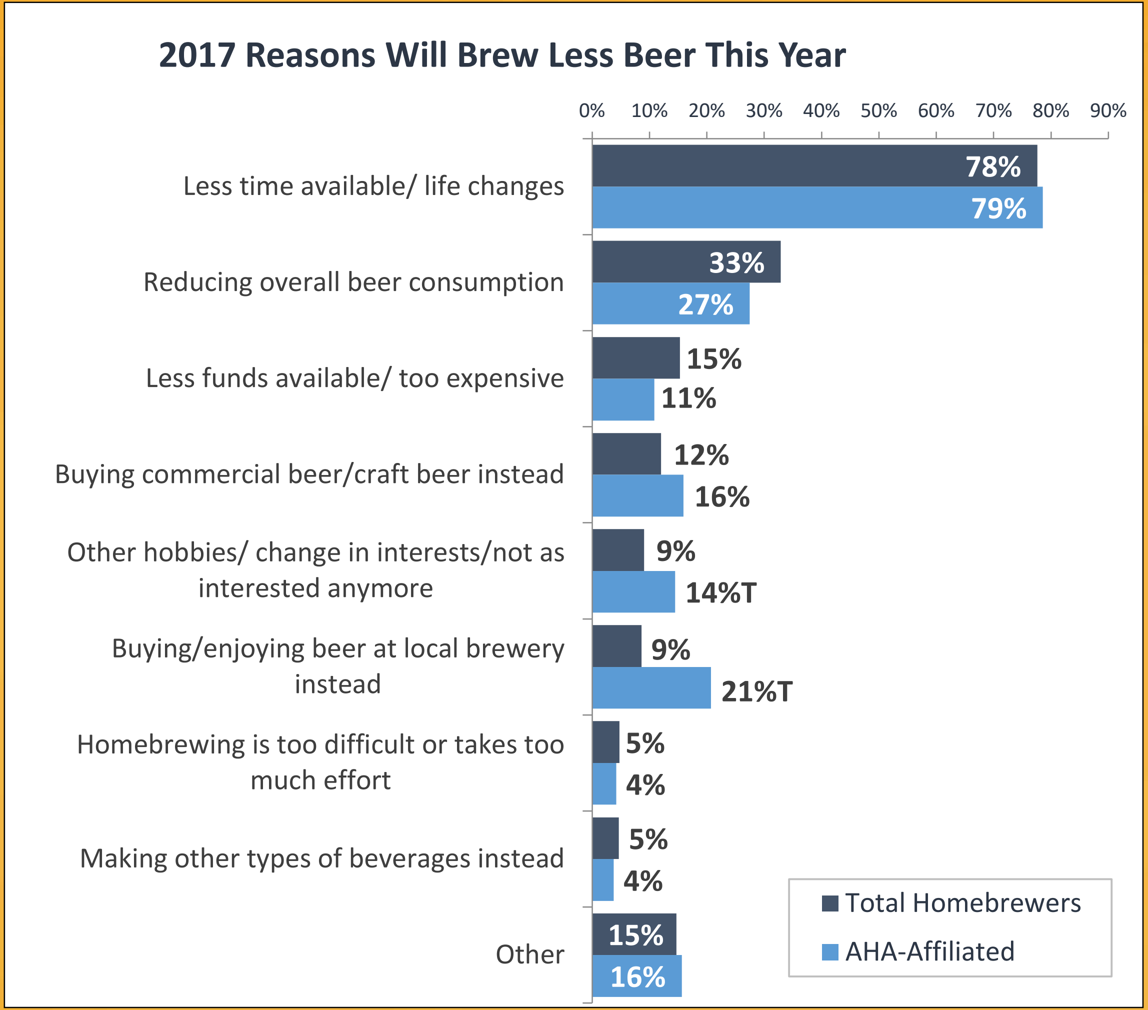
2017 General Homebrewer Survey

Beer - Reasons Will Brew Less

Among the 5% of Homebrewers who plan to brew less beer, the top reason is 'less time available/ life changes' (78%) and 33% are 'reducing beer consumption'

AHA-Affiliated are more likely than others to be 'buying from local brewery instead' (21%) or be 'less interested' (14%)

[IF BREWING LESS BEER ASK:] Q23. Which of the following factors would contribute to possibly brewing LESS beer this year?
Based on Beer Brewers Past 12 Months Who Will Brew Less: Total Homebrewers N=518, AHA-affiliated N=691

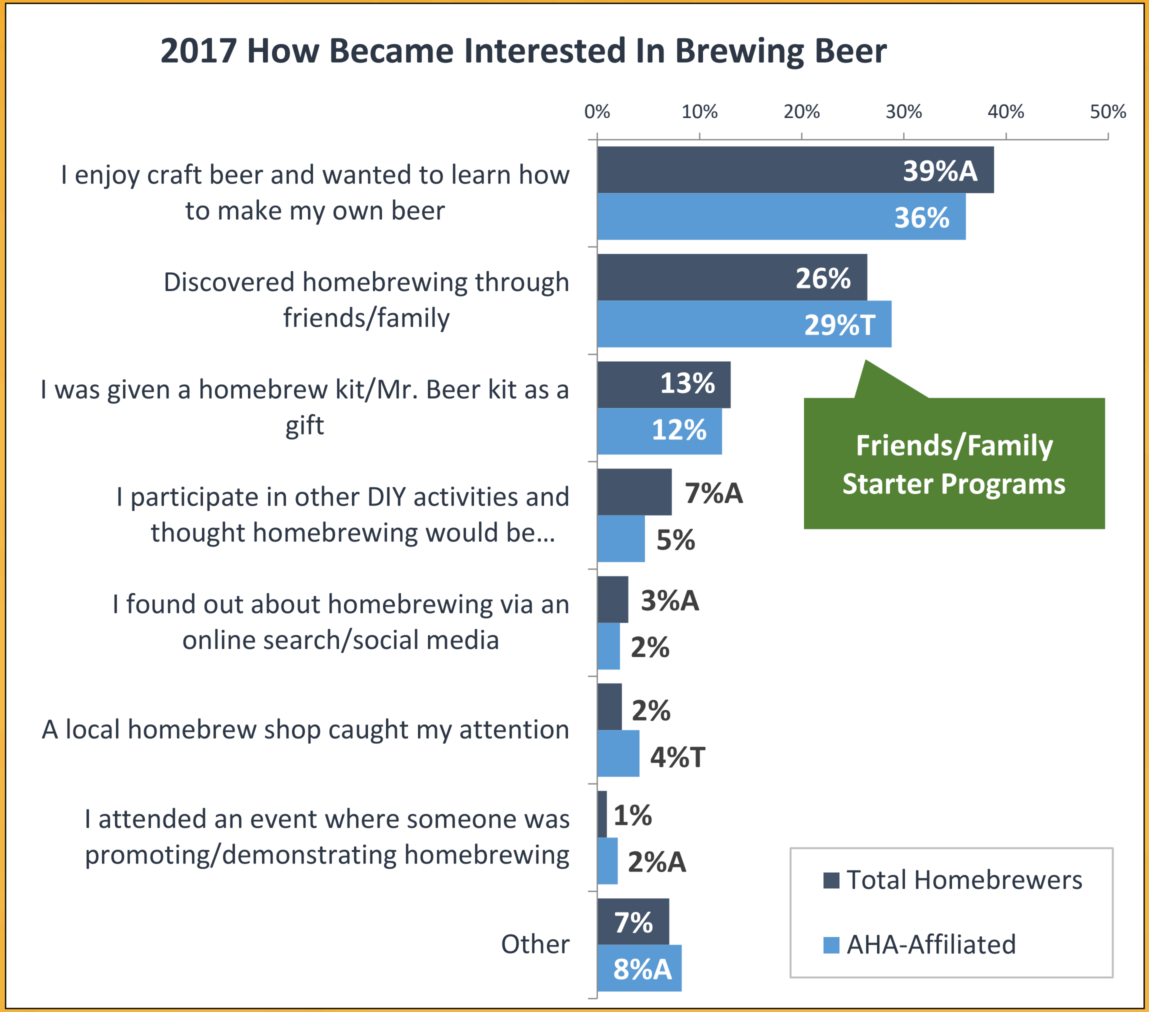


Beer - How Became Interested

Nearly 40% of all Homebrewers became interested because they 'enjoy craft beer'

Yet, a quarter 'discovered homebrewing through friends/family', especially AHA-Affiliated (nearly 30%)

Q21. How did you first become interested in homebrewing beer? Please choose the one option that most accurately reflects your situation.
Based on Beer Brewers Past 12 Months: Total Homebrewers N=10,098, AHA-affiliated N=9,180



2017 General Home Beer & Wine Maker Survey

- Activities & Demographics
- Home beverage making activity/frequency/volume
- Shopping/Spending on Homebrewing
- First Time Homebrewing & Preferences Now
- Homebrewing Passion & Change in Beer
- Reasons for Homebrewing

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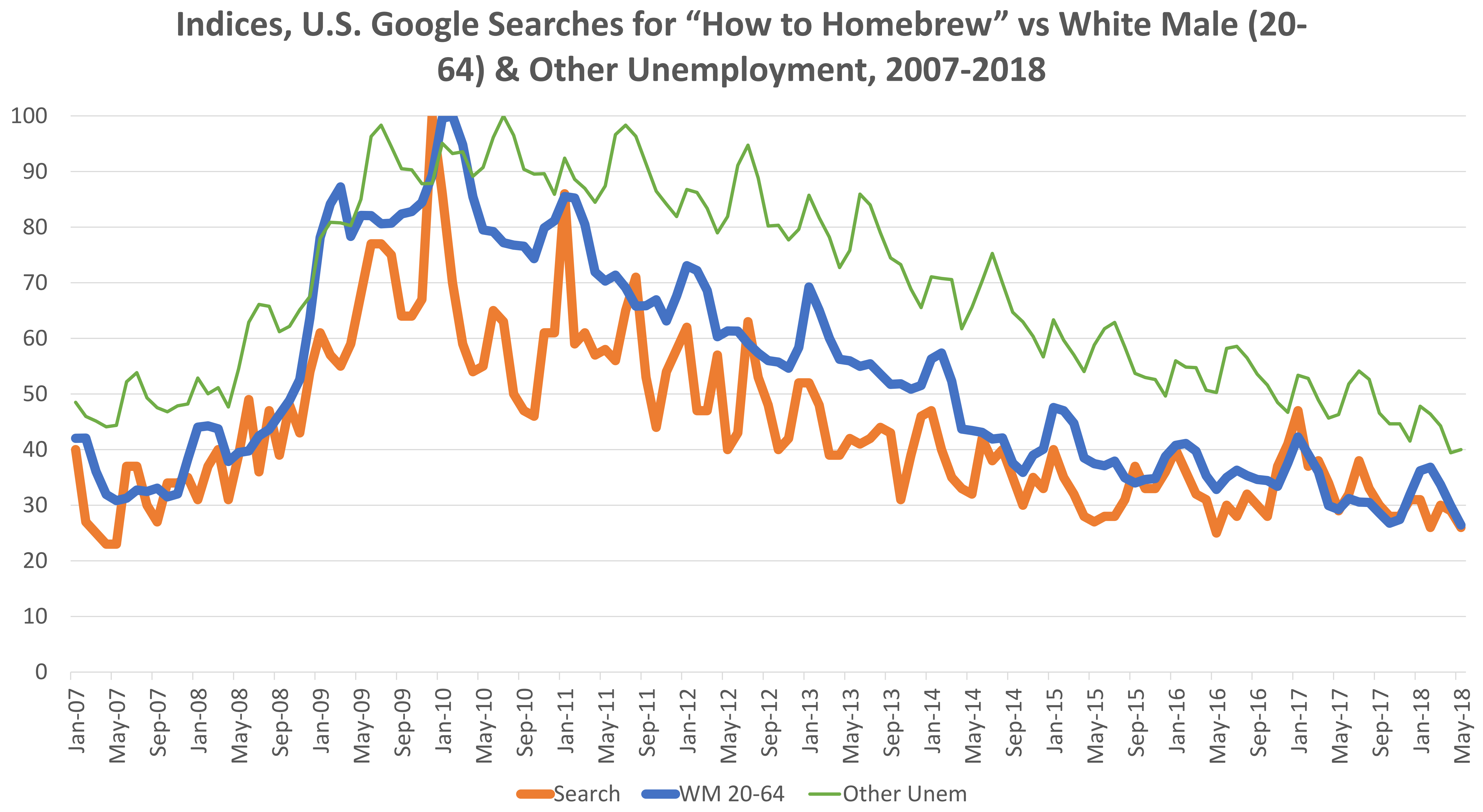
Indices, U.S. Google Searches for "How to Homebrew" vs White Male (20-64) & Other Unemployment, 2007-2018
100
90
80
70
60
50
40
30
20
10
0
Jan-07
May-07
Sep-07
Jan-08
May-08
Sep-08
Jan-09
May-09
Sep-09
Jan-10
May-10
Sep-10
Jan-11
May-11
Sep-11
Jan-12
May-12
Sep-12
Jan-13
May-13
Sep-13
Jan-14
May-14
Sep-14
Jan-15
May-15
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Sep-16
Jan-17
May-17
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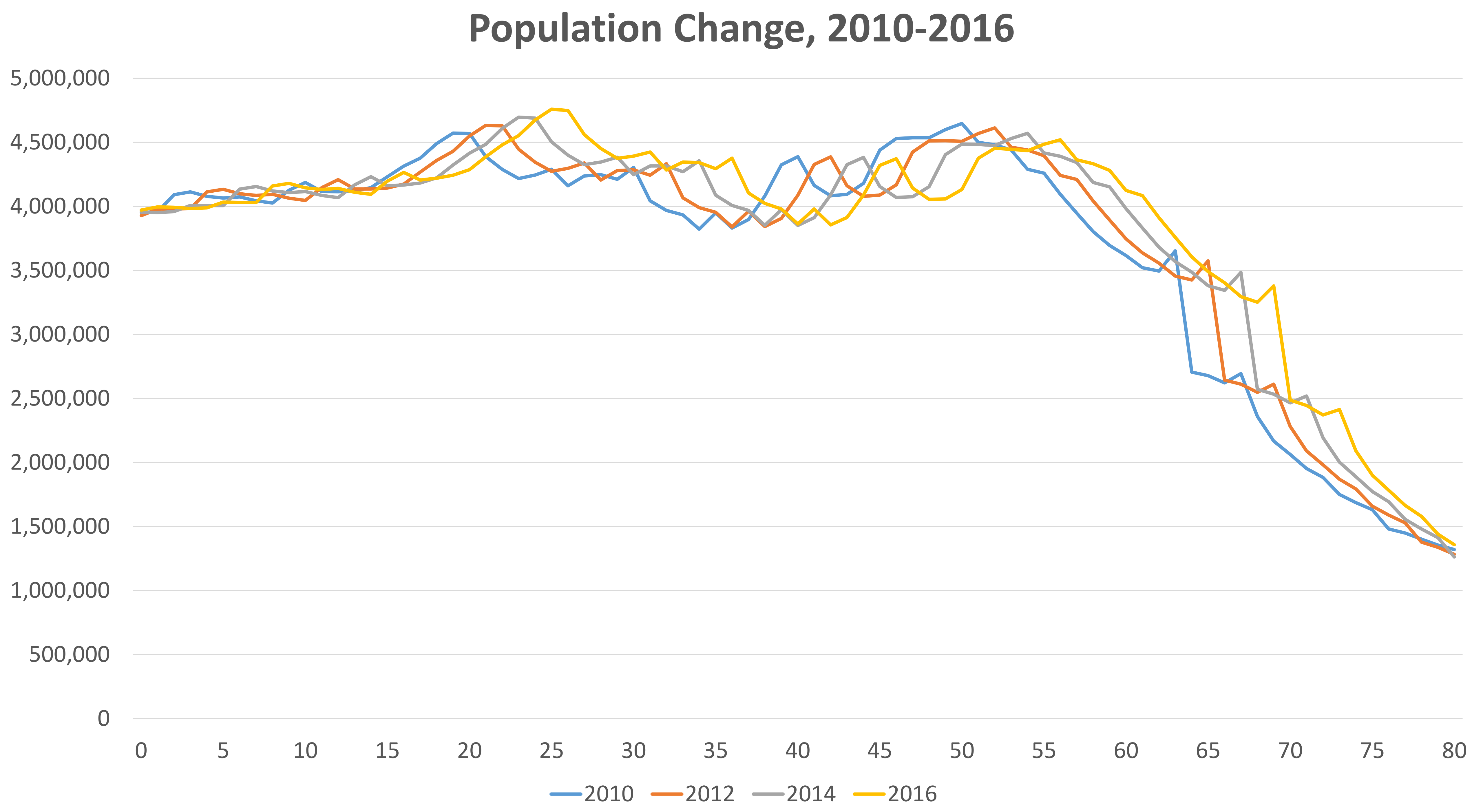
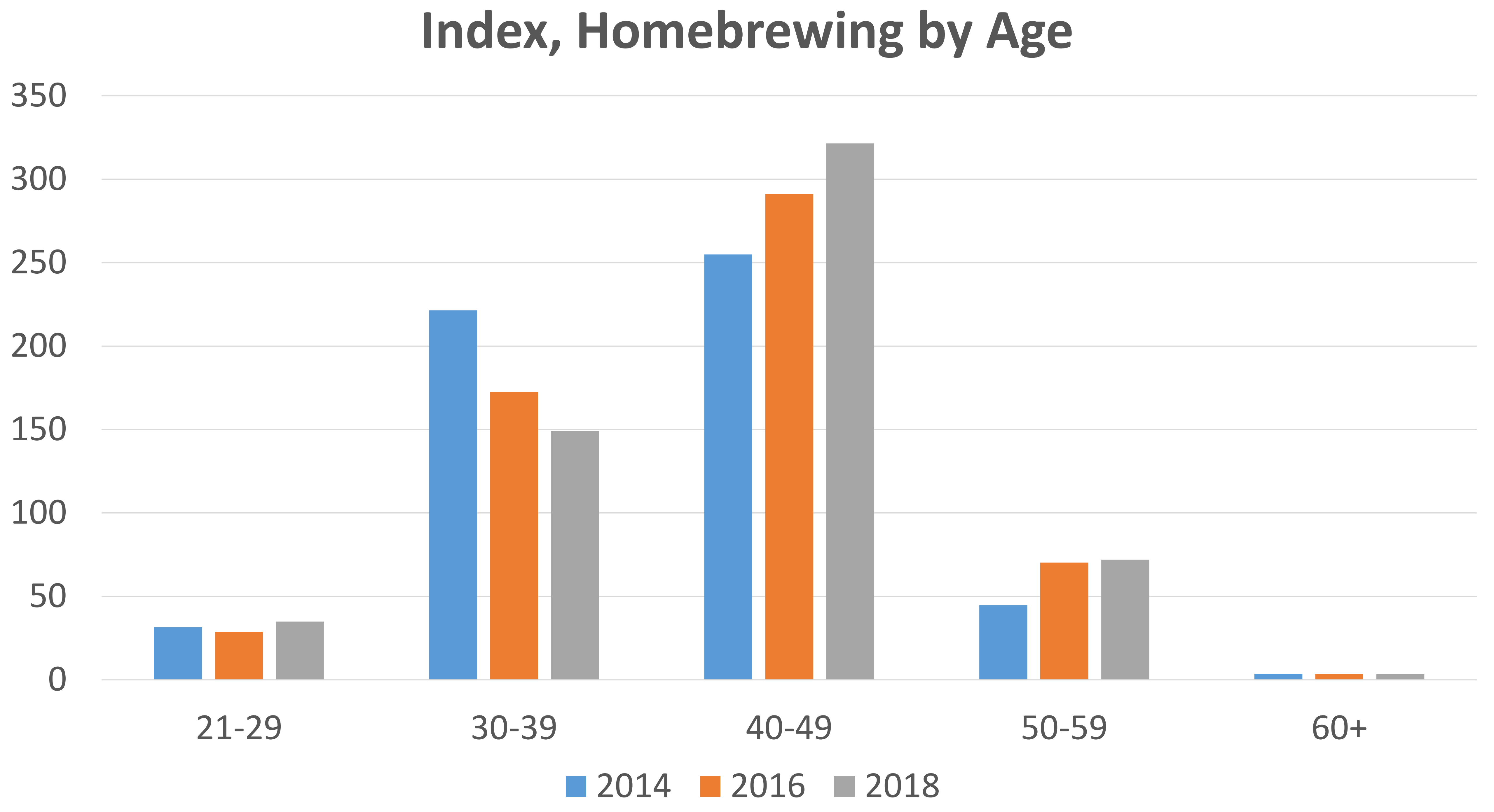
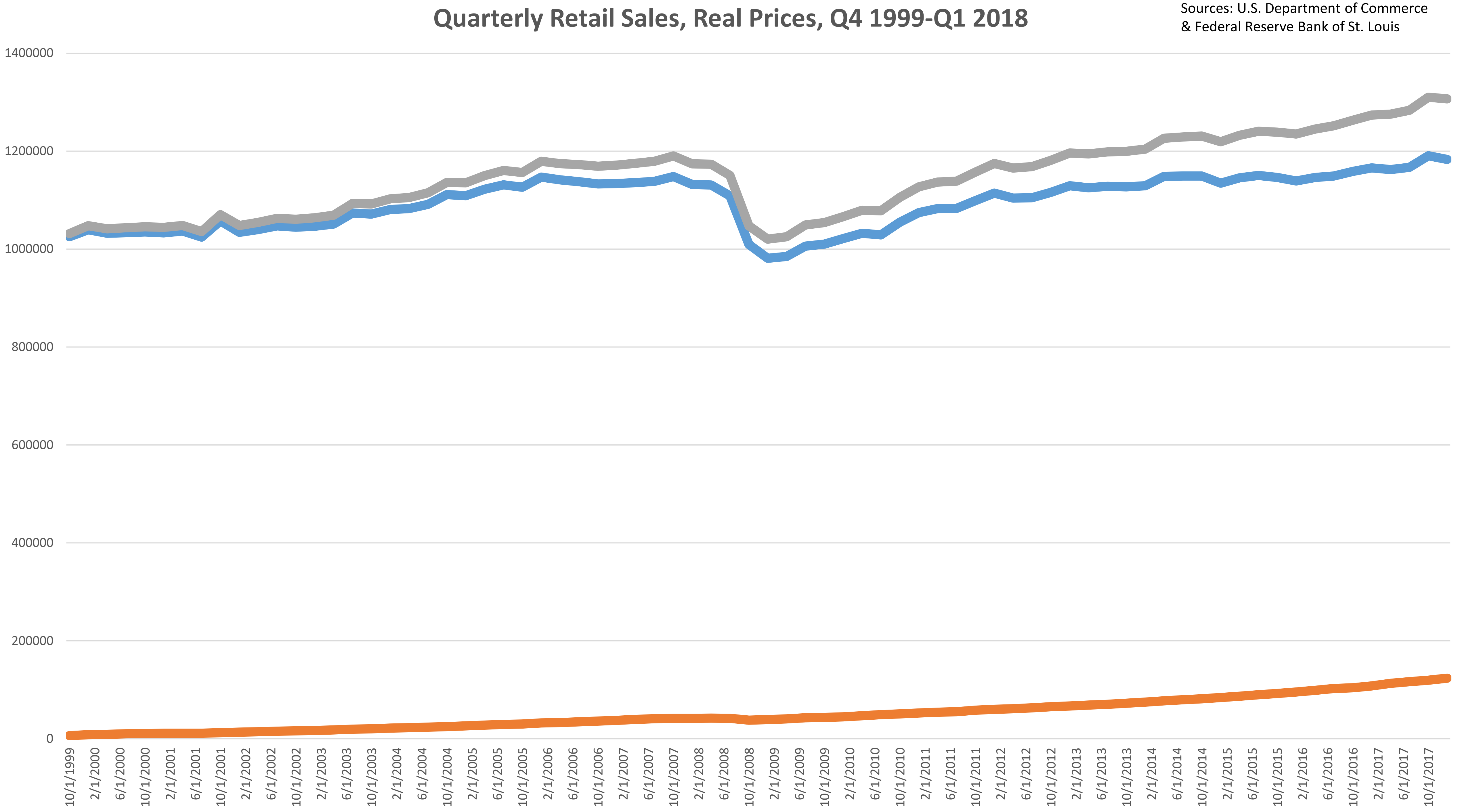
Jan-18
May-18
Search
WM 20-64
Other Unem


Population Change, 2010-2016
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
0
5
10
15
20
25
30
35
40
45
50
55
60
65
70
75
80
2010
2012
2014
2016


Index, Homebrewing by Age
350
300
250
200
150
100
50
0
21-29
30-39
40-49
50-59
60+
2014
2016
2018


Quarterly Retail Sales, Real Prices, Q4 1999-Q1 2018
Sources: U.S. Department of Commerce
& Federal Reserve Bank of St. Louis
1400000
1200000
1000000
800000
600000
400000
200000
0
10/1/1999
2/1/2000
6/1/2000
10/1/2000
2/1/2001
6/1/2001
10/1/2001
2/1/2002
6/1/2002
10/1/2002
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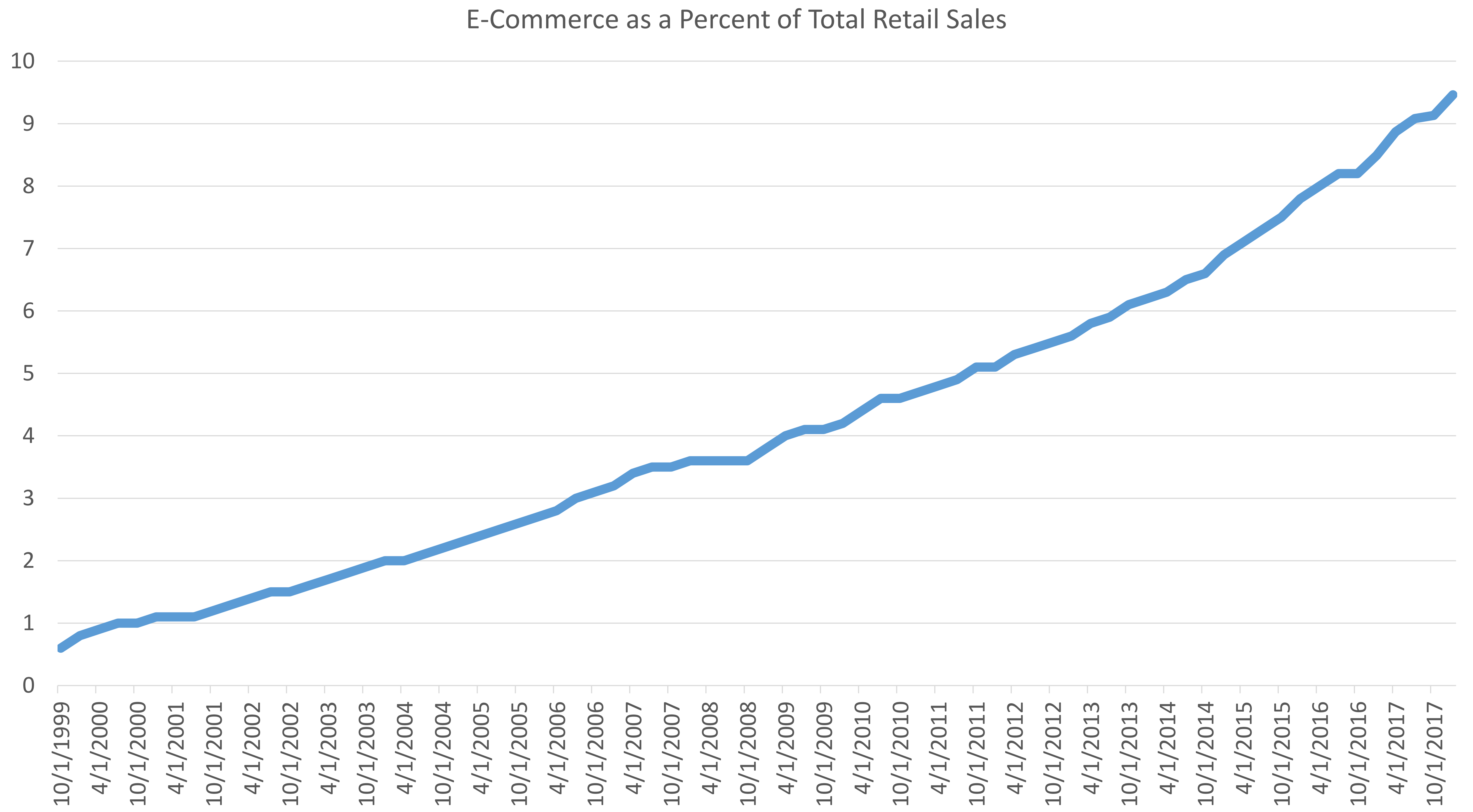
6/1/2017
10/1/2017



E-Commerce as a Percent of Total Retail Sales
10
9
8
7
6
5
4
3
2
1
0
10/1/1999
4/1/2000
10/1/2000
4/1/2001
10/1/2001
4/1/2002
10/1/2002
4/1/2003
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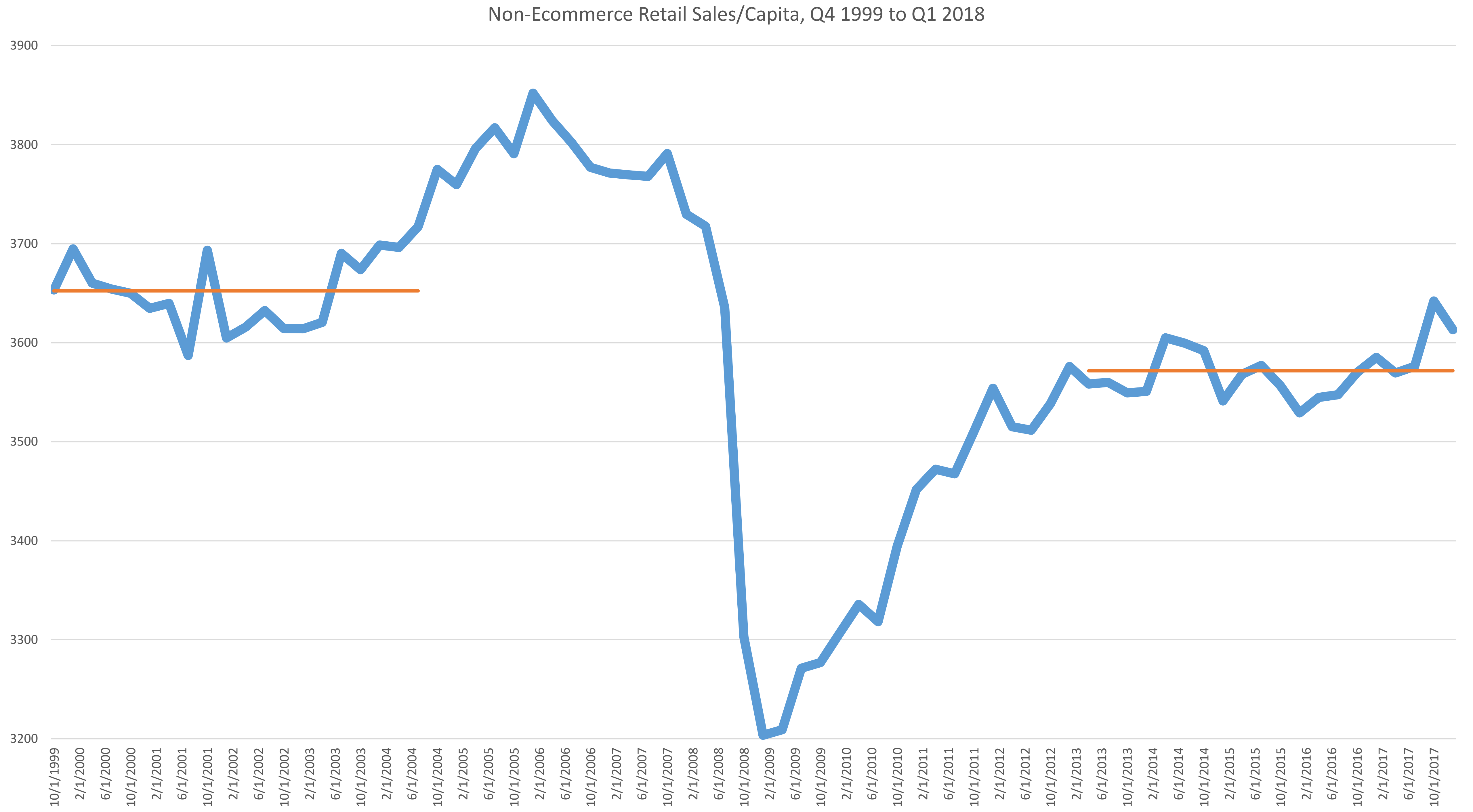
4/1/2017
10/1/2017


Non-Ecommerce Retail Sales/Capita, Q4 1999 to Q1 2018
3900
3800
3700
3600
3500
3400
3300
3200
10/1/1999
2/1/2000
6/1/2000
10/1/2000
2/1/2001
6/1/2001
10/1/2001
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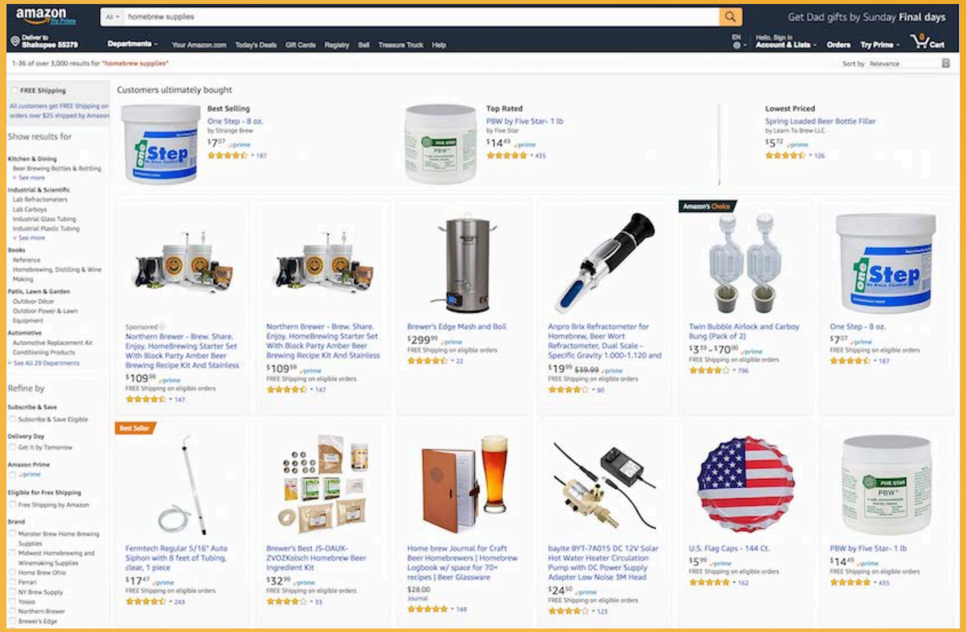
6/1/2015
10/1/2015
2/1/2016
6/1/2016
10/1/2016
2/1/2017
6/1/2017
10/1/2017

Amazon

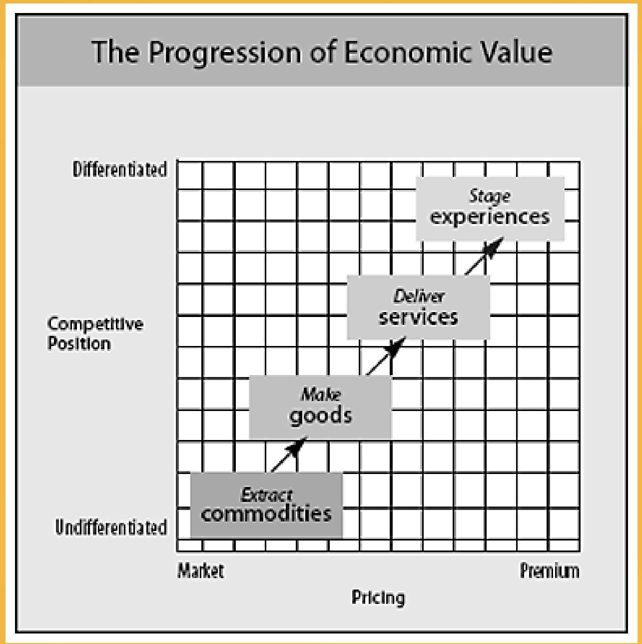
If it isn't on your mind, it probably should be…

1. Promoting Homebrewing to a much wider audience
2. Can't provide classes and trouble shooting as well as stores
3. Brands and Awareness – Brand Registry
4. Should you be there in some capacity?
5. Attend the talk!
    1. (Mis-) Adventures of Online Retail in the Age of Amazon



Competing in an e-commerce era

- What May Work (from least to most)
  - Service/expertise
  - Convenience
    - Bundling
  - Exclusivity/Niches
    - Local
  - Creating an experience
    - Entertainment business



Source: Harvard Business Review

- What Won't Work
  - Competing just on price
  - Competing just on broad selection

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Amazon vs the Bookstore

Bookstores

- One example: 85% of sales still books
  - But maybe not bestsellers…
  - Can't compete against scale
- But has to be about more than just the product

"In so many ways, we're a different business, and it seems very much like those stores are trying to replicate the online business, and we are trying to do something completely different."

- "Good energy, comfortable, friendly."
- "Selection, knowledge, environment"
- "Community, discovery, and beauty"

LTL Shipment Slowdowns

Expected slowdowns and challenges with LTL shipments

1. Lack of drivers - CDL driver openings in the U.S. that can't be filled
2. Amazon and ecommerce in general driving demands for traditional LTL
3. Market is tight because demand is high but supply is low (trucks, drivers)– higher rates, longer turn around
4. Fuel prices rising
    1. "Diesel prices could climb as high as $3.50 by the end of 2018, said Noel Perry, an industry analyst and principal with Transport Futures." – trucks.com – 5/22/18

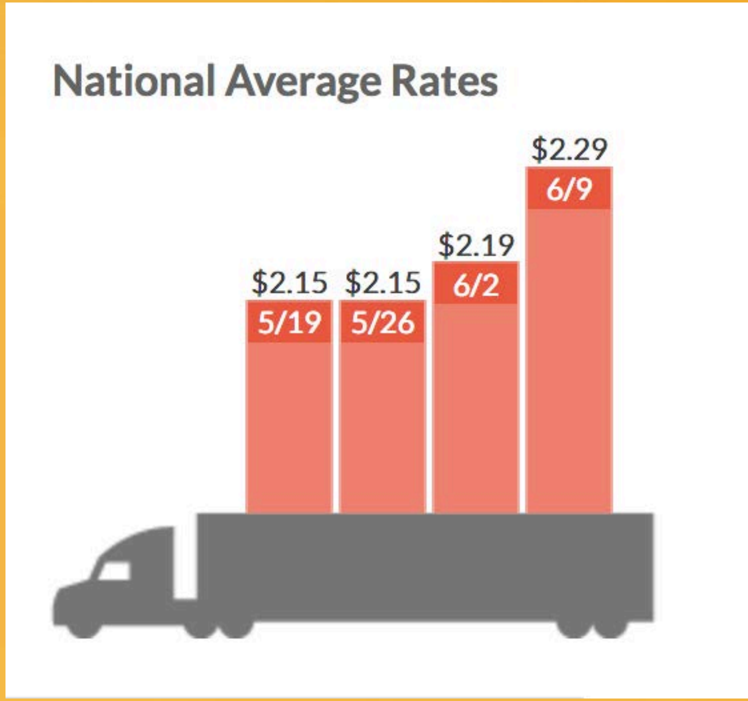
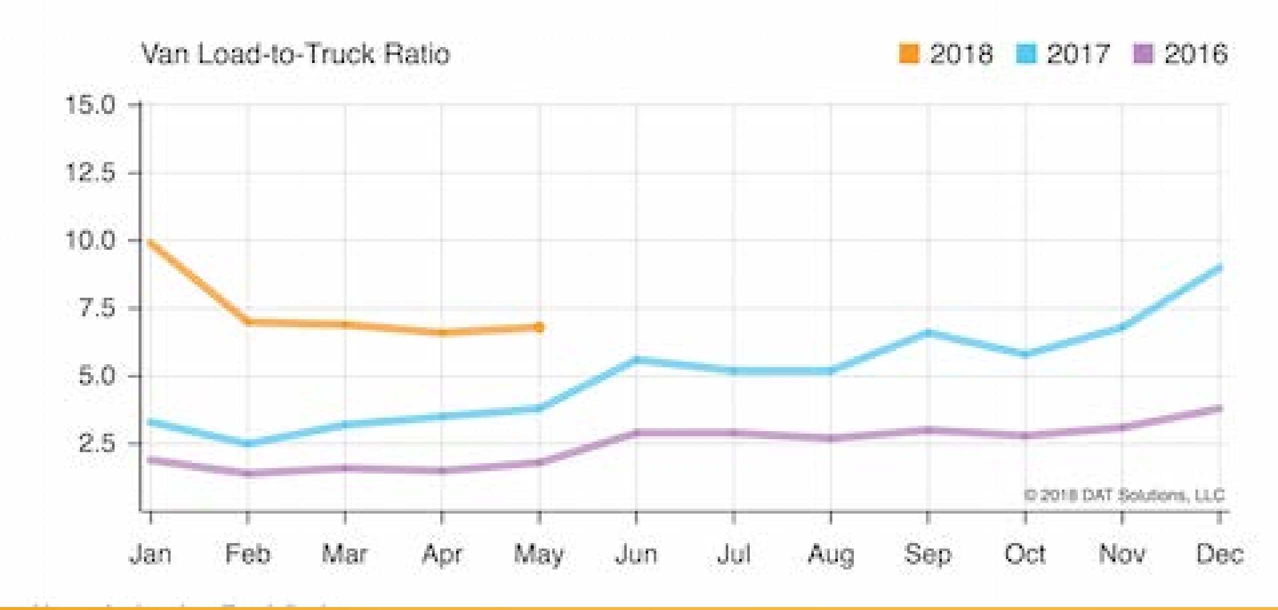
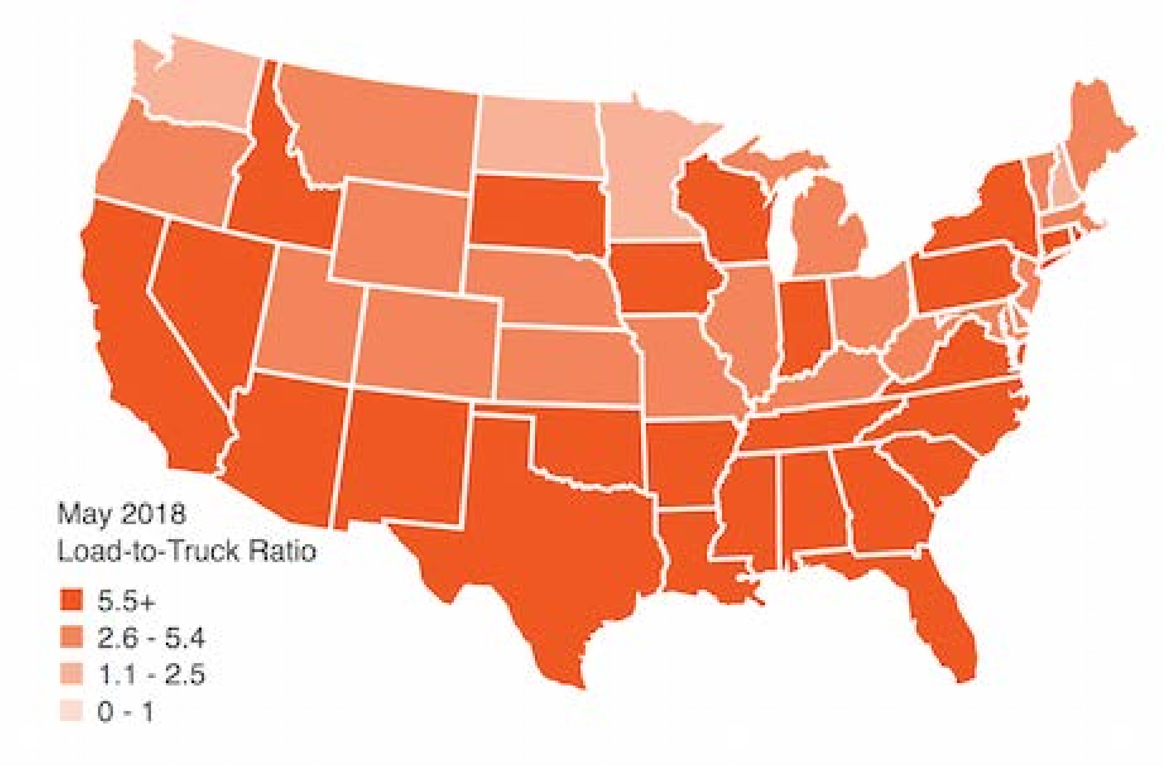


Image source – dat.com 6.14.18

LTL Shipment Slowdowns





https://www.dat.com/blog/post/what-is-the-load-to-truck-ratio

LTL Shipment Slowdowns

What to do?

1. Communicate and coordinate with suppliers, distributors and partners!
2. Plan for shipment windows
3. Set appointment with carriers
4. Consolidate orders (if you aren’t already)

https://www.dat.com/blog/post/what-is-the-load-to-truck-ratio

Nano Opportunities

Incremental sales & partnerships

1. Fastest growing segment of breweries – the smallest ones (according to the BA)
   A. ~900 brewing companies made 100 barrels or less in 2017
   B. Still 555 if you exclude 2017 openings
   C. At 200 barrels, those numbers are 1,680/1,127 brewing companies
2. Incremental sales opportunities
3. Partnerships with customer bases

Image – mprnews.org – Dangerous Man Brewing

AHA Resources

- State Beer Media Lists
- Seminar Recordings
- Annual & Quarterly Survey Data
- AHA Industry Forum
- Go Brew Yourself! Intro to Homebrewing Guide
- HomebrewersAssociation.org
- Coming Soon: Quarterly Webinars

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Thank you for coming!

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