Jan Saxhaug

Roll Out the Barrels

Minnesota's burgeoning craft beer industry produced nearly 391,000 barrels last year — an 83 percent increase in the past decade.

Earlier this year, Duluth Mayor Don Ness proclaimed the city to be the "Craft Beer Capital" of Minnesota. While somewhat tongue in cheek, the proclamation was grounded in the reality that Duluth, along with the rest of the state and country, is undergoing a craft beer renaissance.

In fact, 2,538 breweries are operating nationwide — the most in the United States since 1887. Sixty-five of those breweries are in Minnesota, and a wider audience is starting to take notice. In a 2011 story headlined "A Midwest Beer Tour to Cure the Winter Blues," the New York Times highlighted the explosion of new breweries along the western tip of Lake Superior, likening the Northland's brewery scene to a "north woods Napa Valley for the beer tourist."

PHOTO: DARIN BAINTER

Lake Superior Brewing's Don Hoag says competition is increasing awareness of locally made beers.

One Minnesotan who is not surprised about the craft beer boom is Don Hoag. Hoag is founder and co-owner of Lake Superior Brewing Co., a Duluth microbrewery that opened its doors back in 1994. According to Hoag, while Minnesota is home to a strong brewing tradition dating back to the 19th century with companies such as Schmidt, Grain Belt and Hamm's, the craft brewing industry of today is built on the trend to consume locally.

"There's just a growing sense of pride about things that are made locally," Hoag said. "When you are traveling, you want to try the local beer; that's the real opportunity for all the local breweries in Minnesota."

Brewers are taking advantage of local resources as well. Hoag said that's why Duluth is such a great beer town: "We have the fabulous confluence of great water [from Lake Superior] and access to supplies; our barley is grown right here in the Midwest."

Hoag had nothing but good things to say about the added competition that comes with each new brewery. "People have been asking us all year how we're doing with the increased competition," he said, "but 2012 was our best year yet in terms of sales, and so far in 2013 we're well ahead of that pace."

And why is that? Well, each new brewery that opens its doors increases awareness of locally made beer, and that outweighs the challenges that come with increased competition in the marketplace, according to Hoag.

The brewing boom is not just anecdotal. Craft breweries are slowly gaining market share in an industry that has traditionally been dominated by beer-making conglomerates Anheuser-Busch InBev and

MillerCoors. According to the Brewers Association, American craft brewers sold 13.24 million barrels of beer (6.5 percent of all beer sales in the country) in 2012.[1] That was up 15 percent from 2011.

The impact of the craft beer explosion goes beyond manufacturing. The increased demand for locally brewed craft beer has had a noticeable impact on the wholesale and retail sectors as well. Additionally, the Minnesota Legislature's passage of the so-called "Surly Bill," named after the Minneapolis brewery that spearheaded the legislation, changed the law to allow breweries to maintain tap rooms for sampling their beers. This significant change has led to the evolution of breweries from strictly production facilities to destinations in and of themselves. In fact, clusters of breweries in the Twin Cities and Duluth are leading to the emergence of a beer tourism scene where people hop from brewery to brewery on their own or as part of an organized tour.

Craft Brew Defined

So, what exactly is a craft brewery? The Brewers Association states that to be classified as craft, brewers must satisfy three conditions: They must be small, independent and traditional.

A brewery qualifies as "small" if it brews fewer than 6 million barrels of beer a year and "independent" if no less than 75 percent of the business is owned by a craft brewing company. A craft brewery is considered "traditional" if it has an all-malt flagship beer or if 50 percent of its total volume is in all-malt beers.[2]

Increased market share for craft breweries has forced the large brewers to take action. MillerCoors and Anheuser-Busch Inbev have begun buying up stock in craft beer companies, such as Goose Island in Chicago and Red Hook in Seattle, in addition to releasing their own "craft style" beers such as Blue Moon and Shock Top. While not classified as craft beer according to the Brewers Association, these beers are the establishment's reaction to a changing beer culture.

Minnesota Brewed

Long gone are the days when companies like Hamm's, Grain Belt and Schmidt ruled the Minnesota brewing scene. Nowadays, craft beer is king, and the economic impact of the craft brewing industry is growing larger by the year.

An unofficial count shows 65 regional brewing companies operating in Minnesota.

PHOTO: JUDY PARKER

According to Alcohol and Tobacco Tax and Trade Bureau statistics, in 2012 there were 57 active brewery permits in the state, up from 26 in 2004. The amount of beer produced by the state's breweries has increased by 83 percent over the past 10 years, growing from 218,691 barrels in 2003 to 390,962 barrels in 2012. More than half of the state's production comes from its two regional breweries, Summit Brewing Co. in St. Paul and Schell's Brewing Co. in New Ulm. The remaining production comes from a variety of smaller microbreweries, brewpubs and contract brewing companies (see

Brewery Glossary

Microbrewery: A brewery that produces fewer than 15,000 barrels of beer annually, with 75 percent or more of its beer sold off-site. Microbreweries sell to the public by one or more of the following methods: the traditional three-tier system (brewer to wholesaler to retailer to consumer); the two-tier system (brewer acting as wholesaler to retailer to consumer); and directly to the consumer through carry-outs or on-site taproom or restaurant sales.

Brewpub: A restaurant-brewery that sells 25 percent or more of its beer on site. The beer is brewed primarily for sale in the restaurant and bar. The beer is often dispensed directly from the brewery's storage tanks. Where allowed by law, brewpubs often sell beer "to go" or distribute to off-site accounts. Note: The Brewers Association re-categorizes a company as a microbrewery if its off-site (distributed) beer sales exceed 75 percent.

Contract Brewing Company: A business that hires another brewery to produce its beer. It can also be a brewery that hires another brewery to produce additional beer. The contract brewing company handles marketing, sales and distribution of its beer, while generally leaving the brewing and packaging to its producer-brewery (which, confusingly, is also sometimes referred to as a contract brewery).

Regional Brewery: A brewery with annual beer production of between 15,000 and 6 million barrels.

Regional Craft Brewery: An independent regional brewery that has either an all-malt flagship or has at least 50 percent of its volume in either all-malt beers or in beers that use adjuncts to enhance rather than lighten flavor.

Large Brewery: A brewery with annual beer production of more than 6 million barrels.

Source: Brewers Association

sidebar for definitions) spread throughout the state, with notable concentrations in the Twin Cities and Duluth.

According to the Minnesota Department of Employment and Economic Development's (DEED) Quarterly Census of Employment and Wages (QCEW) data, employment in the brewing sector has grown by 104 percent since the third quarter of 2004 (when 250 people were employed at six breweries) to the first quarter of 2013 (when 512 people were employed at 24 breweries).[3] Other than two years of decline due to the recession in 2008 and 2009, the industry has posted positive employment growth every year since 2004, the first year industry statistics are available.

The Bureau of Labor Statistics classifies all occupations under a set of Standard Occupational Codes (SOC), with brewers classified under SOC 50-9012, Separating, Filtering, Clarifying, Precipitating, and Still Machine Setters, Operators, and Tenders. According to DEED's Occupational Employment Statistics (OES) data, in the second quarter of 2013 there were 730 workers with this occupational code working in Minnesota's manufacturing sector, earning a median wage of $17.71 per hour. In 2013 workers employed at breweries earned $5.32 million in total wages, up from $2.45 million in 2004, according to QCEW data. That's a significant economic impact from wages alone.

Founded in 1986, Summit Brewing Co. in St. Paul not only pioneered the craft beer industry in the state, but in the nation as well. Because of that, Summit founder Mark Stutrud has a unique perspective on where the business has been and where it's going.

"Our goal was to survive," Stutrud said. "We started a brewery in a point of context with no other examples to go by; we were ahead of the curve."

At that time, Summit was a small operation brewing around 1,500 barrels a year. Today, Summit is a successful regional brewery producing well over 100,000 barrels of beer and recording annual revenues of around $25 million.

When the company bought its current property from the city of St. Paul for $1 in 1996, it came with a pledge to create livable wage jobs, a commitment Stutrud takes very seriously. Today Summit employs 62 people, 50 of whom are full-time workers.

"Our compensation is very strong," Stutrud said. "People who are working 30 hours a week are considered full time, and they are eligible for full benefits."

When it comes to the craft brew sector in Minnesota, Stutrud believes there is still room for growth. Like Hoag, Stutrud is aware that Minnesotans have been drinking Minnesota-made beer for a long time.

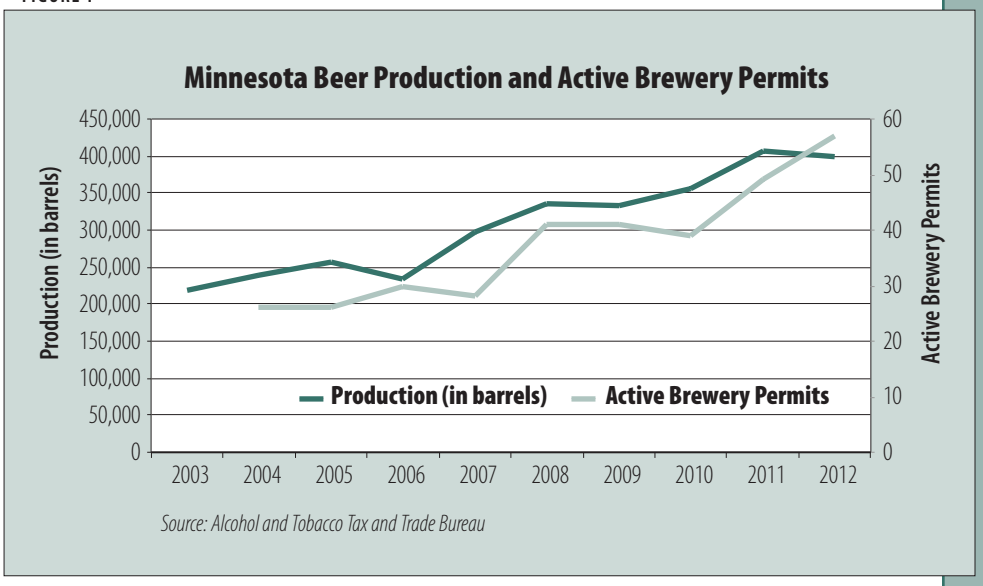
"There was a time when as an aggregate [Minnesota-brewed beers] had a majority of the market share in the state," he said.

These days, the majority of Americans are drinking American light lagers from companies like Budweiser and Miller, but if you ask Stutrud, that's good news because there is plenty of room to expand.

"One thing about this whole craft brewing segment is that it is still only about 6.5 percent of the market," he said. "For this segment to grow, it's going to come at the expense of the bigger brewers. And that is going to take some work."

That plays right into what Stutrud believes is the key

FIGURE 1



Source: Alcohol and Tobacco Tax and Trade Bureau

PHOTO: JUDY PARKER

Summit's Mark Stutrud says there's room for growth in the craft beer sector.

component of the emerging brewery scene in Minnesota. "I'm a firm believer in regionalism," he said. "The appetite for the consumer today, they are not only learning about beer and beer styles, they also want to learn about where it is produced and where it's coming from."

Like Hoag, Stutrud believes this will give locally brewed beers an advantage in the coming years.

Wholesale Improvement

Growth in the craft brewing sector has also spawned an increase in the Beer and Ale Merchant Wholesalers sector. This industry — responsible for the distribution of the full range of fermented malt beverages to liquor stores, bars and restaurants — has seen employment jump by 18 percent from 1,390 jobs in 2000 to 1,639 jobs in 2012.

Total wages paid also saw a large jump during the same period, growing from $53.11 million in 2000 to $83.47 million in 2012. Continued growth in the craft beer sector should mean continued growth on the wholesale end as well. In fact, according to DEED's employment projections, employment in the Alcoholic Beverage Merchant Wholesalers sector is projected to grow by 22.3 percent by 2020.

Gary Barby is the director of emerging beer brands for Bernick's Beverages and Vending in St. Cloud. Throughout his career in the beer wholesale industry, Barby has observed two major waves of craft beer growth. The first was back in the late 1980s and early 1990s when companies like Summit, Sam Adams and Sierra Nevada came onto the scene. This initial wave was characterized by rapid growth and an equally rapid decline.

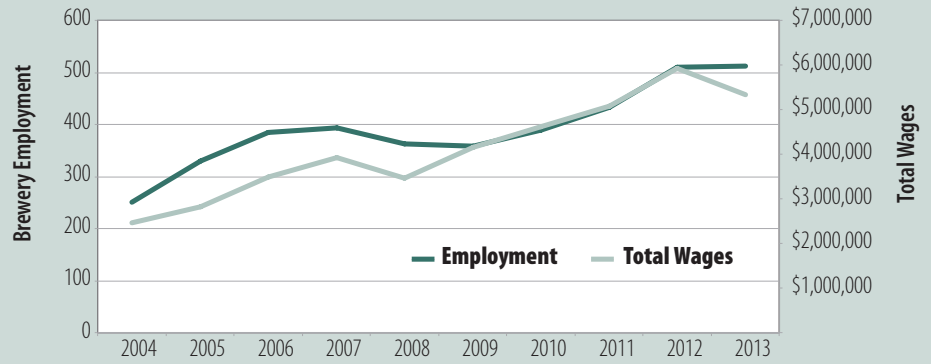
The decline happened for two main reasons. First, according to Barby, was the widespread use of inferior equipment. "Some of the breweries that came on-line didn't have good enough equipment to make the beer they ought to make, and consumers got wary," he said.

The second major reason was simply the nature of the business at the time. According to Barby, television advertising was king, and "the big guys [Budweiser, Miller, etc.] could really take advantage of this and really overwhelmed the smaller guys."

Eventually this combination of an inferior product and an inability to compete with the large brewers meant many of the smaller companies went out of business. Companies like Summit, Sam Adams, New Belgium, Dogfish Head and Sierra Nevada survived with innovative marketing and by making a quality product. Today these companies make up the successful ranks of large regional craft brewers that have paved the way for a new generation that has had the benefit of learning from their predecessors' successes and failures.

According to Barby, the big difference between then and now is, again, the equipment. "For

FIGURE 2



Note: This graph displays fourth quarter data for 2004 through 2012. Data from 2013 is for the first quarter.
Source: Quarterly Census of Employment and Wages

the new guys, the equipment has really changed, and they are all making really good beer."

As far as the advertising and marketing goes, Barby explained that social media have allowed the smaller companies to spread the word about their product much easier than they could in the 1990s. "Social media has made a big change; the big guys can't just put out TV ads [and dominate the market]," he said.

Barby is optimistic about the direction of the craft brew sector. He pointed out the success that craft beer is having in other markets.

"If you look at the Portland market, 40 percent of the beer they sell out there is craft. In Colorado, it is 20 percent. It really depends on the area you live and if the population is willing to consume that [craft beer]," he said.

Barby said beer drinkers in Minnesota are a little more conservative: "We're at about a 5 share," he pointed out, "but [craft beer] could possibly grow out another 5 to 10 percent of the market yet."

While the growth potential is great, it is the quality and innovation that really excite Barby. "What's really great about this is it brings a lot of excitement to the beer business. You can make something for everybody, and that's exciting."

Beer State

There is a limit to how much beer Minnesota can produce and distribute, but the state has yet to hit that point. While Minnesotans are increasingly shifting to locally produced brews, local craft brewers are looking to grow their markets inside and outside of the state. As a result, locals and outsiders alike are being introduced to Minnesota-brewed beer. These new customers will, in turn, be drawn to Minnesota's emerging beer brewing clusters in the Twin Cities, Twin Ports and everywhere in between as part of the state's burgeoning beer tourism movement.

We may never be Napa Valley, but then again we're Minnesota, home of Hamm's, Grain Belt, Schell's, Summit and Surly. We're a beer state, and we're proud of it. T

PHOTO: JUDY PARKER

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[1]One barrel of beer equals 31 gallons.

[2]According to the Brewers Association, all-malt beers are beers made entirely from mashed barley malt, without the addition of adjuncts, sugars or additional fermentables.

[3]As stated earlier, the actual number of breweries operating in the state is closer to 65. Since many of these establishments, however, are operated as sole proprietorships, they are not included in the data.