

## Craft beer stakes out shelf space

Microbrewery Sales Unique To Regions

Karen Mazurkewich, *Financial Post* Published: Monday, June 15, 2009



Graham Hughes/National Post

President of McAuslan Brewing Co., Peter McAuslan, sits among his products at his brewery in Montreal

Peter McAuslan is a little steamed these days. His Montreal-based micro-brewery Brasserie Mc-Auslan was having a good season. Sales for his unique brews ranging from St. Ambroise pale ale to his apricot wheat and scotch ales were up 11% in stores and 6% in pubs -- ample evidence beer remains a recessionary proof luxury.

But two months ago, his sales team put him on alert. Mr. McAuslan, who can now distribute beer in grocery stores due to relaxed liquor laws in the province, was told IGA recently cut a deal with the major breweries "that has really restricted the amount of space that's available to the smaller brewers," he said. IGA, which has many owner-operated stores, was an important chain for the independent breweries. Mr. McAuslan is worried this move will dent his sales figures.

Still having been engaged in turf wars for 20 years, he isn't ready to concede defeat: "We are fighting it out." That means sending guys in on weekends to stock shelves. "If the stocks are turning over faster, and you can get in a restock, you can maintain a growth cycle," he said.

# FINANCIAL POST

Given flat beer sales across North America, the elbows are up in the world of beer. Canadian sales grew only 0.5% between 2002 and 2007, according to the Brewing Association of Canada. On the whole, domestic beers are feeling the pinch. Imported beer sales jumped 10.7% in that time, suggesting Canadians are not all that patriotic when it comes to beer consumption. But that statistic doesn't tell the full story. The fastest growing segment is the niche craft beers: breweries that limit volumes to brew distinctive flavours that can range from heavy stout to orange peel and pumpkin brews.

The US\$6.3-billion craft beer business in the United States rose 5.9% (by volume) in 2008, compared with 0.6% growth in non-craft domestic beer. The Liquor Control Board of Ontario sold \$16.9-million of the province's craft beer for its fiscal year ending March 31, 2009, a 46.5% rise from the previous year. Ditto for British Columbia, where craft sales jumped 33.4% from 2005 to 2008.

While the pool of beer drinkers is not getting bigger, they have become more discriminating. Chris Layton, media relations co-ordinator at the LCBO attributes growth at their stores to the fact people are buying more premium beer because they are starting to pair beer with food.

Cam Heaps, co-founder of Steam Whistle Brewing, has a more more simple explanation: "People are no longer married to one brand like they were years ago."

The Canadian beer landscape has changed significantly since the days when Bob and Doug McKenzie of SCTV fame took to the airwaves extolling the virtues of Canadian brew, dominated in the early 1980s by Molson and Labatt. Today, those brands are no longer Canadian-owned and the No. 1 beer in the country is Coors Light. While the big two still control roughly 95% of the Canadian market (they also distribute imports), microbreweries and brew pubs are mushrooming despite the challenges of getting their products noticed.

Ontario's latest entry, Railway City Brewing Co., was opened in St. Thomas in April, 2008, by the former brewmaster of Creemore Springs, a microbrewery bought by Molson.

# FINANCIAL POST

British Columbia, which has 45 microbreweries and brew pubs, including new openings this year: Driftwood Brewery in Victoria, Surgenor Brewing in Comox and the Triple Island Brewing Co. in Prince Rupert.

With a \$2.5-million investment, and seven employees, Bob Surgenor, an industrial electrical contractor, got into the brewing business and is pumping out 120 hectolitres a week. His goal is modest: He wants 1% of the beer sales on the north island of Vancouver. And he is well on his way to getting it. He began selling kegs to local bars and pubs in April, and recently started shipping bottles to retailers. In less than three days, we are getting restocking orders from the cold beer and wine stores, Mr. Surgenor said. "Some stores that originally took two flats have ordered 20."

Every province has its own issues; each brewer a unique beef. In Ontario, where all liquor sales are government controlled, the issue is not one of access but promotion.

"The Beer Store has an inherent conflict of interest to increase their shareholders value," said John Hay, president of the Ontario Craft Brewers Association, referring to the fact the beer store is jointly owned by the three major beer companies: Molson Coors Brewing Co., Labatt Breweries Ltd. and Sleeman Breweries Ltd.

The sale of craft beers in The Beer Store is growing, but the rise is not nearly as dramatic as at the LCBO, which supports 101 provincial micro-beer brands through in-store displays and print promotions.

"We know when the consumer can find our products it grows faster than anyone else," Mr. Hay said.

While microbrewery sales are growing, owners express little desire to take on the majors. Toronto's Steam Whistle Brewery continues to reach out to customers most recently selling beer in cans and tapping into the Alberta and B.C. markets and its market share grew 19% this year. Nonetheless, Mr. Heaps says he wants to continue to grow organically: "Craft brewers don't need a million customers.

"Historically breweries have been landmarks, and we want to be a community brewery for the city," he said. More than 80,000 people a year come in through Steam Whistle's front door to sample and buy beer, and the City of Toronto is helping turn its historic

location into a tourist destination with a museum and track for trains. Mr. Heaps is in no rush to export to the United States. "We want to get 1% of the Canadian market first," he said, adding that could take five or 10 years.

Joesph Tuer of Stratford Brewing Co. has even more modest goals. Four years ago, he bought second-hand brewing equipment from a defunct Cincinnati brew pub and started making his signature Pilsner. Most of his beer sells locally at The Stratford Shakespeare Festival venues, some of the trendy bars and pubs around town and a handful of LCBO outlets.

The location, on an industrial back street, is difficult to find. There's no sign. No place for visitors to sit and no place for tastings. Mr. Tuer, who works alone says he's looking for a permanent home in downtown historic Stratford so he can get more foot traffic.