

# Paradigm Shift

## Why Technology has changed America's taste in beers

By John Conlin, president of Conlin Beverage Consulting, Inc.

First a disclaimer by the author. I offer analysis, not my desires and wishes. Only by looking at the facts can we hope to devise a successful strategy for dealing with the realities we face.

That said, is technology killing America's beer industry?

No. But it's changed America's taste in beers, probably forever. The big losers? The mega-brands that have dominated the industry for more than a generation. It's not that the consumer no longer desires the likes of Bud Light, Coors Light, Budweiser, and Miller Lite, the top four brands in the country, but rather that the consumer for which these products were developed is rapidly transforming.

It wasn't that long ago that one of every four beers consumed in this country was a Budweiser. Even today, one of every five beers is a Bud Light. These mega-brands and their mass produced and mass marketed appeal ruled the beer world. Similar mega-brands ruled most consumer products, killing off their smaller regional and local competitors over the past few decades. But many of these mega-brands are seeing falling sales as consumers race to other brands and products.

Are we seeing the end of the mega-brand? Yes and the culprit is technology. Technology is remaking of the very essence of the American consumer. The impact of this technology skews toward youth but it is impacting all of us, regardless of age.

Technology has brought choice and personal customization to almost every area of our lives. It is remaking of the very essence of the American consumer. That in turn has changed what we buy and how we buy it.

Look at TV entertainment. First came the change from three networks to hundreds of channels. And now the Internet has transformed the entire concept of visual entertainment. Today, we can pick the time and source of what we'll watch—and the device we'll use to watch it.



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There are very few "mega-brand" TV entertainment shows any longer. As a result, viewers are watching very different things.

And how about the ubiquitous smart phone? Here is a product which has already become the most important item in many people's lives. It is the primary means that they use to interact with the

world around them. And it allows almost complete personalization. Almost every aspect of it can be changed to fit the user's desires. And it can easily be changed tomorrow and the next day and the next. You can listen to the music you want when you want. You can watch video entertainment of your choice and time. Smart phones offer immediacy. The explosion of apps, there are now almost one million, offers people ways to use these powerful computers in their personal and professional lives that was unimaginable only a few years ago. The iPhone was introduced only six years ago!

Which brings me to my observation; to believe that this consumer, and all who follow, will be drawn to some mass-produced, mass-marketed mega-brand is beyond wishful thinking. The foundation of a mega-brand is built on a consumer who is becoming rarer each and every day. From a manufacturer's perspective, the problem isn't with the product. The problem is that the consumer for whom the product is designed is becoming more and more scarce.

Not only is this technology changing the expectations and desires of the average consumer, it is also allowing these desires to be met. Advances in technology and manufacturing now allow small players to produce world-class product, for relatively small investments. This is true for manufacturing, packaging, labeling... the whole nine yards. And although there still might be some economy of scale advantages for the mega-manufacturer, and these have historically been quite large, these advantages are shrinking all the time. And all evidence is that this will only continue. In addition, in a world where customer choice and personalization is king, being smaller, nimbler, and local is an advantage, not a weakness. The huge plant built on the concept of very large production runs might be turning into an albatross, not a competitive advantage.

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The Internet ties directly into both changes allowing a free flow of information and opinion from both consumers and manufactures. Put all these together and you have a contradiction. The present consumer mega-brands and their manufacturing infrastructure simply aren't built for the world in which they find themselves. And nothing they can do will change this reality.

In the beer industry, we see it with the explosion of craft brewers and the share declines of the mega-brands. Of the top 4 brands; Bud Light, Coors Light, Budweiser, and Miller Lite, only Coors Light is eking out a volume increase.

On the other hand, the Brewers Association reports that as of June 2013 there were 2,538 breweries in the United States, more than at any time in our history. Over 400 came on-line in 2012 alone. More are coming.

This craft industry was up 15 percent by volume and 17 percent by retail sales dollars in 2012; this in an industry which was up around 1% in volume in 2012. And the move to these smaller, more personalized brands is accelerating.

Some mistakenly believe this softness in the mega-brands and the incredible craft beer renaissance is due to changing consumer tastes and that light lagers are dying. Or that they are finally paying the price for years of sexist advertising. Or their creative material is lacking. Or pricing is too aggressive. Or the foreign ownership of the big two brewers, Anheuser Busch InBev and MillerCoors. These and many other reasons are being tossed about in an attempt to explain the present situation in the world of beer.

Although there might be some truth to each, the underlying reason is far deeper. The power of technology has profoundly changed our expectations of the brands we consume. The one-size-fits-all mega-brand is simply not in sync with this transformed consumer. This is true in almost every consumer products arena.

Craft distilling is exploding. Artisanal products are taking off. Natural and organic products, almost always from smaller manufacturers are taking share from their larger, national competitors; and these new kids on the block are doing this all with almost no advertising or marketing.

The country is headed back to a time when small local and regional manufacturers command the consumer's affections. These consumers desire choice and are drawn to authentic, unique, and local products and brands, not mass produced products with ubiquitous national advertising.

This will hit large national/international manufacturers hard with share losses coming primarily from the big national brands that have dominated the market for the past few decades. Ironically, it's their size and dominance that make them vulnerable.

In the beer world, expect to see continued declines in the mega-brands as they fight what is most likely a long-term losing war. Gimmicks with packaging and less (or more) sexist ads won't change this reality. The consumers these mega-brands were developed for are quickly changing to become adverse to their value proposition.

Technology that has enabled small manufacturers to succeed in the marketplace has transformed many industries in a very short period of time. And that includes the beer industry.

Will the Big 4 beer mega-brands die overnight? Not likely. But their future is one of tough times. Consumers have changed and are never going back. More and more, they expect and demand the ability to personalize all the important brands and products in their lives—including beer.

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## Mission Brewing debuts one-quart "cannon" cans

San Diego's Mission Brewery debuted the first quart-sized cans to be used by a microbrewery at the Great American Beer Festival.

Mission's Shipwrecked Double IPA and El Conquistador Extra Pale Ale are packaged in the one-quart cans, which are now available at retail in California and Colorado.

"We're always looking for ways to make better beer and have more fun," says Mission founder Dan Selis. "The quart cannons make us 'the little brewery with the huge package.'"

## Paulaner bar opens in Boston

The first ever Paulaner Bar in the United States opened its doors last week on the train platform in North Station, at Boston's TD Garden. "TD Garden North Station has annual foot traffic exceeding 8 million people," said Joe O'Grady, v.p. at Paulaner HP USA. "The opportunity for the Paulaner brand to be seen by this volume of people in our target demographic is a perfect fit for us." Interior appointments of the bar were custom built in Germany, including custom-made copper and brass draught towers and oak and maple-topped tables like those in Paulaner's traditional Munich outlets. The bar serves Paulaner and Hacker-Pschorr beers.