

COLD BEER • BIÈRE FRAÎCHE

IMPORTED BEER • BIÈRE IMPORTÉE

Photos courtesy of LCBO



TALE of the ALE

Consumer tastes and demographics are just two of the factors changing the face of Canada's beer industry • BY JACK KOHANE

Canada has had an ongoing love affair with beer ever since Jean Talon built this country's first commercial brewery in 1668 in Quebec City. Later, those with a nose for the malty nectar eventually became Canada's beer barons. They include John Molson, who established his first brewery in Montreal in 1786; Alexander Keith, who founded a brewery in 1829 in Nova Scotia; and 11 years later Thomas Carling opened his Brewing & Malting Company in London, Ont. In 1847, Labatt entered the scene also in London, Ont.



Today those names remain prominent on the labels, synonymous with suds success in a market where Canadian consumers spend more than \$11 billion a year on beer (representing domestic expenditure in bars, restaurants and at home), and dominated by two players – Molson and Labatt, both sharing about 90 per cent of coast-to-coast beer sales.

But over the past five years, the big brands have lost some of their equity in a market that's becoming increasingly polarized, says Chris Robertson, beer category manager for the Liquor Control Board of Ontario (LCBO), which carries over 300 beer SKUs (70 of which are from Ontario micro-breweries), and represents about 17 per cent of retail beer sales in the province through its 598 retail outlets. "Consumers are either trading up to super premium-priced labels, or trending down to value brands, depending on the occasion," he says. "When quenching their thirst, many beer lovers believe a cold beer tastes much the same as the next, regardless of whose name is on the bottle. They're saying – why pay \$10 more for a case of 24?"

Teresa Cascioli, president and CEO of Lakeport Brewing

Corp., agrees. Lakeport is a leader in the bargain beer sector with its flagship brands (Honey Lager, Pilsener and Lakeport Light) and the third-largest brewer in Ontario, headquartered in Hamilton. "We've seen a dramatic shift in the market over to quality ales that feature a lower price point," says the industry maverick, the first to offer a case of 24 at \$24 (with deposit). "That's almost \$12 less than top selling domestics like Canadian and Blue and about \$20 cheaper than imports." Cascioli insists the price is not a gimmick and will remain in effect as long as customers are buying. "We're reaching toward a nine per cent share of the Ontario market. We're pleased, and our pricing strategy continues."

Cheap beer aside, a key driver splintering the beer market, says Robertson, is demographics. "One group is the Baby Boom Echo, young drinkers just coming into the market. They aren't as traditional or brand-loyal as older beer consumers. Having been raised on soda pop, energy drinks and spirit coolers, their tastes are less sophisticated than their elders who, having travelled the world and experienced more styles of beer, are more discerning in their beverage choices."

Imported products are also fracturing the stranglehold mainstream beer makers have historically exerted on the market. Beers representing 41 countries, including the Philippines, Singapore, Kenya and South Africa, are stocked on the LCBO's shelves, contributing to the government-run retailer's accelerating sales of (non-U.S.) imported brands – reportedly up over seven per cent (YTD) over last year. “Europeans living in Canada come from countries with a very long history of beer making, and they want to continue savouring their native brews,” says Robertson, noting that Poland's Zywiec brand now ranks among the LCBO's top 10 best selling brands overall.

The latest beer import statistics tracked by Agriculture and Agri-Food Canada show that Mexico is the top importer into this country (with over \$80 million worth of brew docking here), followed by the Netherlands (at almost \$75 million) and the U.S. (about \$65 million). Total imports from all markets: \$355 million.

Monica Treidlinger, spokesperson for the Food Value Chain Bureau of Agriculture and Agri-Food Canada in Ottawa, highlights the fact that while beer imports flood in, our exports are slipping. “Especially to the U.S., our major outside market, Canada's exports have slumped from over \$380 million in 2001, to just over \$300 million in 2004.”

And domestic consumption of beer is also slackening, adds Treidlinger. From the beer barrel heydays of the late 1970s, when Canadian consumption was over 85 litres per capita per year, we went down to a more sobering 68 litres in 2004. “In short, aging boomers, once the largest chunk of the beer market, just aren't drinking as much ale, opting for other beverages such as wine and spirits when they're dining or entertaining family and friends,” she says.

Concerned less (perhaps) with swallowing up market share than spiking up flat beer sales, recent product innovations and mega-mergers have again propelled the major beer suppliers into the public limelight.

In June, Labatt launched its royal-blue labelled Blue Cold One into the Ontario market in a special can that, once chilled, is designed to keep beer colder, longer. The specially engineered wrap “Cool2Go,” created by DuPont in Wilmington, Del., is constructed of a high-tech, polymer insulation placed between two layers of DuPont trademark films. The patented process produces a thin thermal barrier that locks the frosty beverage in a thin, insulating layer, which protects beer from heat transferred from warm hands, condensation and outside temperature.

Trendy tangs for the taste buds are peppering up some new sales, including the so-called energy beers, such as Molson's

Kick brand and Labatt's Shok, made with guarana (a berry sourced from South America containing guaranine, a chemical substance offering the same stimulating characteristics as caffeine); cloudy beers, which are created by an extended fermentation process giving them a fruity taste profile; and even pumpkin ale and raspberry fortified concoctions.

In the continuing saga of consolidation, headlines were blaring throughout 2004 about the heady and much-hyped Molson Coors merger that combined the sales of the two family-run companies, totalling US\$6 billion. The merger created a new brewing giant, making it the fifth biggest brewer in the world by volume (an estimated 60 million hectolitres).

Last April, Molson also picked up Ontario's Creemore Springs Brewery Ltd., producer of the regionally popular Creemore Springs lager, in a strategy to muscle Molson into the burgeoning microbrewery niche.

Given mixed reviews on Molson's penetration of the craft brewing sector, industry pundits point out that the small brewery model does not scale up well, and the attraction of a “boutique-style” beer fades in large-scale production.

“The appeal of craft beers is their locality,” explains Robertson. “They are promoted locally to satisfy local tastes.” These brands proudly proclaim their production of handcrafted beer, made in small batches, inspired by the brew masters' own formulations, or by recipes handed down through generations.

At the LCBO alone, notes Robertson, sales of craft-style brands have soared 40 per cent over the past several years, although the sector currently sips up only about four per cent of the total Ontario beer market.

That could change as consumer awareness of the craft beer alternatives strengthens and the distribution channels widen for microbreweries across Canada. The recently formed Ontario Craft Brewers (OCB), an association of 25 microbrewers, is spreading the word about the province's premium craft brewing sector and its brands.

“Our goal is a market share of about 12 per cent by the year 2014,” declares Jim Brickman, who founded the Brick Brewing Company in Waterloo, Ont., in 1984 and is credited with pioneering the craft-brewing renaissance in this country. Also on the OCB board of directors, Brickman speaks for the organization, stating that his members now produce about 260,000 hectolitres (one hectolitre = 12 cases of 24 beers). “Our goal is to ramp up the volume to over one million hectolitres by 2014. And with total sales of craft beers growing up to seven per cent per year, we believe our estimates are attainable.”

Five-year-old Steam Whistle Brewing is tooting its horn



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to attract drinkers. “We follow the European-style Pilsner in our products and a growing customer base is responding – we’re into double-digit growth year over year,” says Greg Taylor, one of the Toronto microbrewery’s founders. “That’s a reflection of a changing climate in the marketplace. Over the next decade, almost five million Ontarians will reach their prime consumption years (25 to 49) for premium beers. Our company is well-positioned to address the changing needs of the beer consumer, and we’re doing fine in this fiercely competitive market.”

Shaun Fraser, founder of Pump House Brewery, views his competition differently. “Up until now, there hasn’t been much choice in the Maritimes other than the majors,” says Fraser from his Moncton, N.B., brew house. “Out here, we’re pretty well it.”

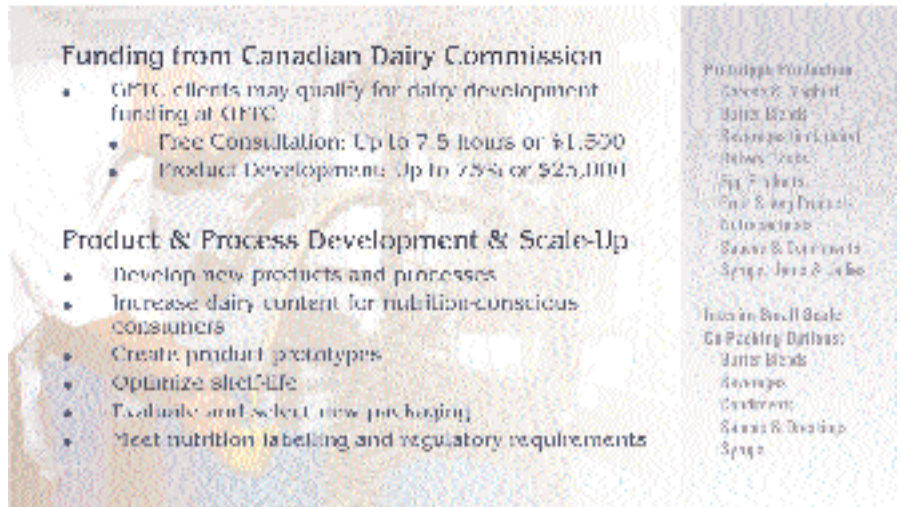
Starting in 1999, Fraser constructed a 8,200 sq.-ft production brewery and an adjoining 2,200 sq.-ft. bottle washing plant. From grain to glass, Pump House pumps out about 2,000 hectolitres annually of its blond-hued Blueberry Ale (made with New Brunswick blueberries), amber Scotch Ale and honey-laced Cadian Ale, even though its fermenting vats have the capacity to make 6,000. “We boast a 60 per cent growth since beginning our brewery, slicing off our fair share of the market in Eastern Canada,” says Fraser. “With excess capacity, we’re planning ahead for future expansion.”

Craft brewers are a breed apart, emphasizes Brickman. “We’re in friendly competition with one another, but united in our passion for making the very best beer we can.” Though he delights in nibbling at the heels of the major brewers, Brickman says: “As independent entrepreneurs, we’re not chasing the mass market. This is our home base, and we know our customers. As brew masters, we’ve done our job if more folks sample our products, like them and want to buy more.”

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