Industry Overview

The beer brewing industry is separated into two main strategic groups. The major brewers in the United States are Anheuser-Busch and MillerCoors. These two companies enjoy 50 percent and 29 percent market share, respectively.[1] The major brewers' primary products consist of premium and sub-premium beer. The second strategic group is classified as "better beer" brewers and includes a variety of companies with small market share percentages. The beer in this group is considered premium or super-premium by the market, has a higher retail price, and tends to have unique characteristics. This segment consists of two different types of beer: beer classified as an import, as the brewers of this type of beer are headquartered outside the U.S., and beer classified as craft, such as Samuel Adams®. Craft brewers and import brewers have a similar target market and sell significantly less volume than the major brewers. Heineken is one of the main companies in this strategic group, as is Crown Imports, a joint venture between Mexico's Grupo Modelo and New York based Constellation Brands. Craft brewers such as The Boston Beer Company, Sierra Nevada and Craft Brewers Alliance also fall into this category.

Craft brewers, as defined by law, produce less than two million barrels per year.[2] The craft beer segment comprises about four percent of the total beer industry and consists of 1,595 companies (2009) that produce 3,000 different types of beer.[3] The craft beer segment has about $7 billion in revenues. With the increasing popularity of craft beer, the major brewers, MillerCoors and Anheuser-Busch, have also developed their own entrants into this field.

There are four major categories in the craft beer segment.[4] A brewpub is a restaurant that brews and sells most of its beer at its site. A microbrewery produces less than 15,000 barrels of beer per year and sells it to the public. A regional specialty brewery has the capacity to produce between 15,000 and 2 million barrels. They produce only specialty beer. A contract brewer contracts out the brewing of its beer but handles marketing, sales, and distribution itself.

From start to finish, the beer industry, as a whole, contributes $198 billion in output or 1.4 percent of GDP.[5] The industry consists of much more than simply brewers and consumers. The beer brewing process begins with farmers who produce barley, corn, rice and hops; continues to the brewers who produce the product; and then moves to the wholesalers who transport and store the finished product, ultimately selling it to various retail establishments including liquor stores, restaurants and bars, convenience stores, grocery stores and other establishments licensed to sell the product. Beer is also brewed overseas and imported. Domestically, nearly one million people are employed in the beer industry.[6]

<u>Porter's Five Forces Analysis</u>

An analysis of the industry shows that it can be an attractive industry to enter if planned and executed appropriately. Because two major brewers control nearly 80 percent of the U.S. market share, their influence on all strategic groups is significant. Entrance as a major brewer is difficult due to high start-up costs and a long brewing process, but mainly due to the vast resources of the two major brewers. Equipment and financial resources needed to produce, distribute, and sell over two million barrels per year present significant roadblocks. Additionally, beer takes time to brew so adding capacity must be planned for years in advance. Most prospective brewers have chosen to enter as craft brewers, as evidenced by the rapid entry into this industry in the late 1980's and early 1990's. While the major brewer strategic group has limited industry attractiveness, entrance in the better beer segment has potential. Less equipment, lower start-up costs and a smaller geographic focus allow new brewers to enter with relative ease. Yet, other forces may make staying in business not nearly as easy. The large number of companies in this segment and inability of the companies to achieve economies of scale due to their smaller production capacity cause this segment to realize lower profit margins than those of the major brewers.

The better beer segment benefits from the influence of the major brewers who have lessened the power of suppliers. Over 2,000 companies purchase their ingredients from numerous farmers across the country. Large volumes are purchased annually and the ingredients are readily available to the brewers from a number of farmers. Brewers producing more barrels per year can control the price of their ingredients easier than smaller brewers based on volume; yet, smaller brewers may purchase more of their ingredients from farmers close to their brewery, thus having influence, as well. These purchases benefit the brewer and the local farmer, alike, by reducing transportation costs and chance of spoilage. The local brewer may be the main customer of the local farmer, further reducing supplier power.

Whereas supplier power is low, buyer power is high. Buyers in the industry consist of wholesalers/distributors who, in turn, sell the product to various retailers. Developing strong relationships with distributors is vital to the success of a brewer. Because federal law states that brewers cannot sell directly to retailers or consumers, distributors are automatically given some amount of power in the industry. Distributors cover a regional area and typically have an exclusive arrangement with one major brewer. While they do carry multiple brands, including imports, craft beer, and non-alcoholic beverages, their main line is that of one of the major brewers. Distributors control access to the end-user by purchasing product for the retailers' shelves. The relationship between a major brewer and a distributor is one of mutual dependence; yet, without good distributors, brewers cannot access the consumer. Distributors have additional power over craft brewers and companies importing beer into the country because these brewers have significantly lower sales volumes. In addition to cultivating relationships with distributors, brewers also market directly to the consumer. Advertising expenditures are high for this industry, with the industry spending around $975 million on advertising in 2007.[7] Incentives to switch and development of a brand image are common advertising tactics. Prices in the better beer segment tend to be higher than the brands of the major brewers, and marketing messages promote high level taste and a unique image. While craft beer tends to command a higher price than premium or sub-premium beer produced by the major brewers and is in line with the price of beer offered by the import brewers, the great variety in craft beer brands allows buyers greater power than they had over the major brewers. The increase in popularity of craft beer caused numerous craft brewers to enter the market very rapidly. Over the last few years, the sales growth in craft beer has been greater than the growth in premium or sub-premium brands. However, limited distribution of certain craft brands, inability to consistently find a certain craft brand, and desire of consumers to try multiple types of craft beer also contributes to increased buyer power.

Although approximately 85% of all alcohol purchases are beer, wine and spirits are also notable competition and substitutes. While the per capita consumption of beer has remained constant or decreased slightly over the last ten years, wine and spirits consumption has increased per capita.[8] As a response to consumers' changing preferences, brewers developed non-beer malt beverages or "malternatives." While these beverages have become popular, it may have been at the expense of beer rather than wine or spirits.[9] Beer is a mature industry, while both wine and spirits are in growing industries. This heightens the threat of substitutes.

Rivalry in the overall industry is high with thousands of varieties of beer, many brewers, the perishable nature of the product, and low switching costs for consumers. This rivalry extends across the entire industry where all companies are fighting to gain market share in an industry where sales have remained relatively flat. Gains in market share are only achieved by taking it from another brewer. Promotions, clever advertising, and new product features are continuously introduced by the major brewers. Additionally, the major brewers' introduction of "craft" beer is a method to lessen the impact of craft brewers and solidify their presence in this segment of the industry. The better beer segment seeks to broaden its niche by using advertising messages that show an appealing lifestyle image and highlight the benefits of "trading up" to this level of beer. Numerous craft brewers strive to capture market share and gain sales amongst peer competitors and the other strategic groups in the industry. Craft brewers aim to capitalize on their "small company" or "local" roots to give consumers of their products a sense of pride and ownership.

Key Success Factors

The beer industry is constantly changing while industry sales remain flat. Mergers and acquisitions have narrowed down the number of brewers but varieties of beer have increased. The major brewers have the resources to compete in nearly all facets of the industry. Imports have gained market share in the U.S. and new craft beer varieties are continually introduced. With these dynamics, companies must focus on the following factors in order to be successful:

- Offering great VARIETY in flavors and categories
- Building good relationships with DISTRIBUTORS
- Using innovative MARKETING & ADVERTISING strategies to build a BRAND
- Controlling and reducing manufacturing COSTS.

The consumer's palette has become more sophisticated and they desire unique tastes in beer, wine, and other spirits.[10] With the increased interest in import and craft beer came an increased interest in variety. Books, magazines, and internet sites devoted to beer have gained popularity as beer drinkers chose to learn more about the beer and the brewing process. The beer aficionado now learns which beer pairs well with which food.[11] Seasonal flavors appeal to unique tastes and add to the allure of specialty beer. Yet, variety in the industry does not apply to the better beer segment alone. Major brewers offer different choices of beer throughout the premium and sub-premium categories such as ice beer, light beer, and red beer. Additionally, they offer great variety in beer brands and produce brands that compete with the better beer segment. Import brewers offer variety while, at the same time maintaining their "elite" status among beer. And while the average consumer is spending less on beer in recent years, many still choose craft beer for unique flavors and variety.

Because of the numerous brands and varieties of beer and the potential for substitutes, relationships with distributors are imperative to gaining access to the market. Distributors understand which products sell quickly and want to be sure those products are always available to their customers. Retailers put demands on wholesalers for products that sell well. New brewers must demonstrate that there is or will be demand for their product because both retailers and wholesalers know that taking shelf space away from a brand with high turnover is a bad business decision. Once relationships with distributors are established, the brewer's sales representatives must continuously cultivate the relationship. Additionally, promised quantities must be available when requested and a product of superior quality must consistently be delivered.

Marketing by brewers is done in two ways. One is by developing relationships with distributors, or a "push" strategy. Another is by marketing directly to the consumer, or a "pull" strategy. Creative marketing strategies can attract new customers and build loyalty with existing customers. Offering incentives to entice consumers to purchase specific brands is not uncommon. Marketing directly to the consumer creates demand for the product, thus increasing the likelihood that distributors will purchase it. An IBISworld industry report states that development of a brand image will be critical to a company's success due to the large selection of beer and also increased competition from wine and spirits.[12] The long-advertised campaign of "Tastes Great, Less Filling" argued that light-beer can still taste good. Coors' "Cold Activated Can," Miller's "Vortex" bottle, and Anheuser Busch's "Bud Bowl" all are attempts to develop a brand image that differentiates a brand from its competitors. Craft and import beer brewers promote "trading-up" to a *better beer*. Because of the higher retail price of the brands in the better beer segment, these brewers use variety and taste to convince the consumer that the higher price is worthwhile. Of course, these smaller brewers have significantly smaller advertising budgets than the major brewers. While some, like the Boston Beer Company, advertise nationally, most craft brewers use regionally focused advertising. Craft brewers' small company status, local community involvement, and unique flavors aid in setting these companies apart from other brewers. Focus on both "push" and "pull" strategies can increase awareness, and thus, demand for a brewer's products.

In recent years, the beer industry as a whole has seen flat or declining sales. While some companies closed, others worked on process improvements to reduce manufacturing costs. Major brewers, SAB-Miller and Molson Coors, merged and achieved production efficiencies, thereby reducing costs. Other brewers made acquisitions or consolidated operations. Import and craft brewers have grown sales and gained market share. Reducing manufacturing costs will allow brewers in all parts of the industry to stay in business and gain market share as other less efficient brewers close their doors.

Driving Forces of Change

The constant activity in the beer industry presents a challenging environment in which to conduct business. Some of the forces acting to change the industry include:

- Entrance of new brewers
- Mergers, consolidation and joint ventures among brewers
- Consumer taste preferences
- Stricter enforcement of drunk driving and underage drinking laws
- Consumer focus on reduction in alcohol abuse
- Federal and state beer taxation
- Consumer focus on living healthy lifestyles
- Changing demographics and generational differences
- Technological advances

- Reduction in natural resources requiring companies to reduce energy use and their impact on the environment
- Globalization

The number of brewers entering the industry climbed quickly throughout the 1990's. Most entrants were in the better beer segment, and specifically as craft beer brewers. Competition increased considerably and remains high today. While many new craft brewers were formed in the last 15+ years, some existing craft brewers grew larger, and imports increased their presence in the U.S. Major U.S. brewers began consolidating operations or developing partnerships to achieve efficiencies and international companies invested in U.S. operations to grow their global presence.

To accommodate the consumer's maturing palette, brewers developed unique brands with varying tastes. Some of the first brewers to do this were craft brewers, but as their popularity grew, larger brewers introduced their options, as well. While consumers began to enjoy and appreciate diverse beer, they also became conscious of the impact of alcohol on society. An increase in beer "tastings" was coupled with an increase in enforcement of laws enacted to protect society. A crackdown on drunk driving resulted in a drop in alcohol related traffic accidents and fatalities. Underage drinking declined as society became less tolerant of the negative impact it could have on the nation's youth. Alcohol abuse, by people of all ages, has always been present in the background of society and treatment options have existed for years. The general public now has increased awareness of the prevalence of alcohol abuse. The impact on society from alcohol misuse has been complemented by some recent trends in consumer preferences. Specifically, many consumers now focus on maintaining a healthy lifestyle. Because of this, light beer now makes up about 40 percent of all beer sold.[13] Historically, the major brewers have responded to health trends by introducing or promoting a beer that meets the consumers' needs. Craft beer, however, typically has more calories than premium beer – whether regular or light. While some of the larger craft and import brewers have introduced a light beer, the smaller brewers have not.

Federal and state governments continually debate the necessity and structure of the beer tax. Opponents argue that this tax is recessive – taxing lower wage-earners more than higher wage-earners. Governments argue that an increased tax will reduce the amount of alcohol consumed and have positive societal and economic impacts. With recent legislation introduced to reduce the beer tax and enlarge the craft brewer segment, changes could soon be made.

Changing demographics in the U.S will continue to shape the beer industry. Beer consumption frequency and preference will change due to the growing diversity in ethnicity in the U.S. population. Different ethnic groups prefer light beer over regular beer, import beer over domestic beer, or craft beer over mainstream beer. As the population shifts toward one group or another, consumption patterns will change. The beer industry should experience positive results as "Generation Y" has recently begun turning 21. This group is substantially larger than the generation ahead of it. Additionally, the aging population will impact the amount of beer consumed as the over age 50 demographic purchases 30 percent of beer sold.[14] This may be positive; however this group also has a strong preference for wine. Specialty beer that can challenge the consumer's palette, as wine does, may compete successfully in this demographic.

Technological advances continue to change the landscape of the world and make processes more efficient. Brewery operations have benefitted from advancements in construction materials and systems including heating, cooling and packaging. Alternative packaging including aluminum cans that are bottle shaped and small “kegs” for a household refrigerator were made possible by improved technology. Beer cans that show a consumer that their beer is cold are one of the newest innovations. Technology can aid in building awareness for a brand, as well as competitive advantages.

Worldwide, people have seen the depletion of the Earth’s natural resources and have taken action to conserve what is available. The trend toward lessening our carbon footprint has led to innovations in reuse of resources, product recycling, and alternative energy sources. Many in the beer industry have changed their processes to reduce reliance on oil and use alternative energy sources. Many brewers have increased their recycling efforts with the larger brewers having a goal of “Zero Waste.”[15]

Global trends have impacted the beer industry and will continue to have and affect as globalization increases. No longer do companies compete only within their nation. Global competition exists for market share, employees, and production inputs. An increase in wealth in many developing countries has led to additional purchasing power in these countries. Globally, consumers’ preferences, attitudes, behaviors and beliefs will shape the future of the beer industry.

The above forces can be summarized into the following forces which will have the strongest influence on the industry over the next three to five years:

- Globalization
- Consumer Preferences
- Laws and Regulations
- Sustainability

Globalization creates a larger market for beer but also lends itself to additional competition. Globalization has positively impacted the large U.S. brewers and international brewers, giving them a larger market in which to compete. Consolidations and partnerships among large brewers have altered the dynamics of the industry creating larger companies with greater market share, concentration of revenues, and greater profitability. While these changes may be good for the major brewers, they may limit the power of smaller brewers, especially craft brewers with fewer resources. Major brewers with great financial resources could cause a squeeze on craft brewers' margins and market share. A result of this may be an interest from major brewers in acquiring successful craft brewers to complement their product line. This could change the entire craft beer segment. Currently, most craft brewers, except the few largest ones, compete locally or regionally. However, increased competition from international companies could have a large negative impact on craft brewers. Because craft and import beer are both classified in the better beer segment of the industry, consumers may choose new imports over craft beer. While competition may be difficult to manage within the industry, it may be beneficial to the consumer in the form of numerous choices and potentially lower prices.

With globalization and a larger market come additional consumers with ever-changing preferences. The beer industry has continually responded to consumer preferences whether by introducing lower calorie options, greater variety, or alternatives to wine and spirits. As wealth increases in developing nations, spending on leisure and entertainment should increase – a benefit to the beer industry. Adapting to changes in preferences on a global basis could differentiate one brand from another. Demand for the unique tastes of craft beer has grown substantially in recent years; however, the brands of the major brewers still claim majority of the market share. So, while some U.S.

consumers currently choose to “trade up” and purchase higher priced import or craft beer, majority are served primarily by the major brewers.

An important consumer preference, responsible drinking, will also put constant force on the industry. The consumption of alcoholic beverages is heavily regulated. Recent laws and actions to reduce drunk driving, underage drinking, and alcohol abuse have been successful in reducing alcohol related deaths. On each company’s website, both Anheuser-Busch and MillerCoors detail their involvement in programs aimed to promote responsible drinking. Alcohol misuse has been identified as a societal problem and legislators feel one way to address it is through taxation. The beer tax was increased substantially in 1991 and has been continually debated. Opponents argue it is a recessive tax that does not decrease alcohol consumption or misuse while proponents feel it is effective in managing consumption. New legislation has been proposed to make changes to the current law. This force will put pressure on the industry in varying degrees going forward.

Finally, conservation of the Earth’s natural resources has led to a focus on sustainability. The major brewers have already instituted programs to reduce, reuse and recycle materials used in the production process. Additionally, they have committed to long-term strategies to reduce their impact even further. These activities require much financial investment which can affect shareholder returns and company profitability. Implementing conservation strategies should positively impact the planet, but may have negative financial effects on brewers in the short-term. Additionally, small brewers may not have the financial wherewithal to implement multiple conservation efforts.

As the driving forces push on the industry, the attractiveness of the industry will change. Consolidations are shifting the power in the industry to fewer and fewer players making it more difficult to enter. Competing on a global basis will be left to a few major brewers in each country – each having the financial resources to keep new entrants out. Large brewers have had many years to build their presence and market share in the U.S. market. Production of over 200 to 300 million barrels does not come without years of planning and strategic development. Entrant as a craft brewer remains attractive as growth in the overall beer industry has been seen here. Establishing a small company and competing locally or regionally will still have the potential for profitability. Craft brewers who consider increasing their size may find they have to redefine their company. The "craft" status is seen as beneficial to many in the industry, differentiating them from the brands of the major brewers and causing them to be viewed in line with the brands of import brewers. Overall, the industry should still hold allure for those who plan to enter, yet entrance at the craft beer level still holds the greatest potential.

For further analysis and supporting arguments, please view Appendix C.

Appendix A: Industry Analysis/Porter's Five Forces

Supplier Power

Various farmers supply the hops, barley, corn and rice used to produce beer. In 2008, there were 2,053 companies that purchased these ingredients.[16] The overall beer industry sold nearly 206 million barrels of beer in 2009.[17] For major brewers, the volume of ingredients purchased, the large number of farmers available to purchase the ingredients from, low switching costs on the part of the brewer, and inability of the farmers to forward integrate, supplier power in considered low in regard to the major brewers. Craft brewers who purchase fewer ingredients and sometimes more specialized ingredients may cause supplier power for this segment of the industry to be somewhat higher; yet, overall, suppliers have put limited pressure on price and supplier power is LOW.

Barriers to Entry

Investment in the equipment, buildings, ingredients, recipes, and human resources to produce over 2 million barrels of beer per year is significant, but not a barrier on its own. Additionally, once a brewery is constructed, it has few other uses. The major brewers control about 80 percent of the U.S. market share. Because of this, they have substantial financial resources that are available to invest in marketing, acquisitions, or other methods to discourage new entrants. Barriers to entry as a major brewer are HIGH. While it may be difficult to enter as a major brewer, entry into the better beer segment, producing under 2 million barrels per year, is relatively easier. This is evidenced by the entrance of over 1,600 companies over the last 60 years. Small, micro-breweries and brewpub restaurants are supported by their local customers and typically serve a certain region. Offering a product with a unique taste is one trait of a craft brewer. Customers have responded well to craft beer and the industry has seen rapid growth. However, major brewers with substantial resources also contribute to discouraging new entrants in the better beer segment. The economies of scale achieved due to their large production capacity gives the major brewers higher profit margins than smaller brewers. With additional profits, these companies can reinvest in new facilities and equipment, do additional marketing, or even acquire smaller brewers. Smaller brewers with limited resources are not able to do these things. Because of the ability to enter with smaller investment and serve a smaller market; yet, recognizing the number of craft brewers in the country and power of the major brewers, barriers to entry in the better beer segment are considered MEDIUM.

Buyer Power

Once brewers produce their product, it is sold to wholesalers, who transport and store it and sell it to restaurants, bars, liquor stores, grocery stores, convenience stores, and other licensed outlets. From there it is purchased by the end user – the consumer. Consolidation among wholesalers has been great in the last 15 years and currently about 2,850 wholesalers serve this industry.[18] Wholesalers carry multiple brands and purchase from all three strategic groups but typically only represent one major brewer. Wholesalers tend to be regionally focused.[19] Because of the market share dominance of the major brewers, it may seem as if the wholesaler would have little power. However, regional wholesalers tend to dominate their market and provide the brewers access to retailers and the ultimate end user. Additionally, federal law regulates the process by which beer reaches the end user. Brewers cannot sell directly to retailers or consumers; they must use a wholesaler. So, while the consumer may have minimal control over price, the wholesaler does have some control in all segments of the industry. This power reduces the overall profitability of the brewer. Now, with limited market share and numerous companies competing for it, the import and craft beer segments may experience even higher buyer power than the major brewers. Beer wholesalers tend to represent one of the major brewers and, through feedback from their customers, have a good idea of the amount of beer from the major brewers that will be demanded by consumers; yet it may be difficult to estimate the amount of import or craft beer that will sell. Beer retailers have limited shelf space and multiple companies to choose from. Additionally, specialty beers from the major brewers compete against the craft beer segment. Because of the control over access to the consumer and competition within the industry for shelf space, buyer power for both the major brewer segment and better beer segment is considered HIGH.

Threat of Substitutes

Beer accounts for about 85 percent of all alcohol sold in the United States. [20] Other alcoholic beverages competing with beer would include other malt beverages, wine, and liquor. A Gallop Poll in 2009 found that 40 percent of respondents most often drink beer, followed by 34 percent wine and 21 percent spirits.[21] Although beer still appears to be the drink of choice, wine and spirits have made steady gains. While the per capita consumption of beer has remained constant over the last ten years, wine and spirits consumption has increased per capita.[22] Brewers of all sizes are affected by these substitutes and may need to adjust their pricing or do additional marketing to give consumers additional incentives to purchase beer over wine or spirits. This reduces profitability in the industry. While some better beer may be positioned as higher-class and in line with wine, these products still present a significant threat to this segment of the beer industry. Because of the gains in consumption levels of both wine and spirits, threat of substitutes is considered MEDIUM.

Degree of Rivalry

As stated above, two major brewers control the U.S. beer industry with about 80 percent market share, and around 1,600 small, specialty brewers are also part of the industry. While a high concentration ratio typically leads to a low degree of rivalry, other factors lessen the degree of rivalry in this industry. Breweries have high fixed costs with large investments in plant and equipment. Because of these large costs, the major brewers and other smaller brewers in the industry strive to produce near capacity to achieve economies of scale. This increases rivalry as each brewer strives to produce and sell more product. While the major brewers do not tend to compete on price, their ability to increase prices is limited by the pricing of other similar products. This caps potential profitability. Instead of competing on price, the major brewers attempt to develop a brand image. In 2007, the beer industry as a whole spent $975 million on advertising. The major brewers accounted for over $700 million of the total.[23] Additionally, beer is a highly perishable product. With pressure to grow production to achieve economies of scale and then sell the product as quickly as possible, rivalry is greatly increased.

Consumers have numerous choices within the industry as well as other non-beer choices such as wine and spirits. Switching costs are low for consumers, again, increasing rivalry. Finally, exit barriers in the industry are high with specialized equipment designed around the production of one product – beer or another malt beverage. So, although the concentration ratio in the industry is high, the high fixed costs, high exit barriers, low switching costs for consumers, and the perishable nature of the product, degree of rivalry is considered HIGH.

Overall Industry Attractiveness

The threat of substitutes, the power of buyers, and the degree of rivalry are considered high for this industry in all segments. While barriers to entry are high for the major brewer segment, they are substantially lower for the better beer, specifically craft beer, segment. Additionally, suppliers have minimal power over price. Yet, overall industry attractiveness depends on the strategic group a business plans to enter. Investment in equipment, buildings, recipes, ingredients and processes is a sizeable barrier to entry into the category of major brewer. While this portion of the industry typically enjoys high levels of sales and profits, the significant market share of the two major U.S. companies makes attractiveness of the major brewer group very low. However, this is significantly different for craft brewers. Lower investment is required making it easier to enter. Yet, considerable competition exists upon entering this industry. This results in reduced profit margins in the better beer segment. Producing and selling product locally or regionally is dependent on creating awareness of the brand. Even though the unique nature of the craft brewer's product is attractive to many consumers, it is difficult to develop brand loyalty in this segment. Many consumers who prefer craft beer enjoy tasting multiple brands. However, as brewers grow larger, brand loyalty can develop. Although also classified in the better beer segment, import brewers reviewed in this analysis produce a significantly greater number of barrels than craft brewers. Attractiveness of this level of production is not nearly as great as the craft portion of the segment. Production of over two million barrels of beer requires a significant level of lead-time as well as solid distributor relationships. Based on these factors, overall industry attractiveness is medium with the better beer segment (specifically craft brewer) having the most attractiveness and the major brewer segment having the least attractiveness.

Appendix 2: Strategic Group Map

Please review the attached spreadsheet and graphs for Strategic Group Map information.

Company revenue was first reviewed as a possible measure of the position of a company in a strategic group. The economic impact of the industry is measured in total sales. Brewers with a high level of sales typically have higher profits and access to resources that brewers with a lower level of sales do not have. Higher sales allow companies to invest in tools that can aid in the development of efficiencies. Increased advertising expenditures may be the result of sales or the cause of sales. While the industry is analyzed in terms of revenue generated, brewers are also classified by the number of barrels produced. At the federal level, producing over 60,000 barrels and then over two million barrels subjects brewers to different levels of taxation. Federal law states that the craft brewer classification is reserved for brewers producing under two million barrels per year.[24] Because of the industry standard in measuring the size of brewers by the number of barrels produced annually, this measure was used in the strategic group map.

Market share is another primary measure of the beer industry. All market share data was taken from the Beer Industry Overview for 2008[25] and the Beer Industry Update for 2008.[26] Market share measures the prevalence of the company's product in the market.

Finally, sale price of the product can be used to classify brewers in the appropriate strategic group. Terms such as premium, sub-premium, super-premium, import, and craft beer are constantly used to describe the beer produced by companies in the industry. Classifying the companies based on the price of the product will aid in determining which companies sell which kind of beer.

<u>Strategic Map Placement</u>

The main U.S. brewers, as well as the import brewers who are primary competitors in the U.S. were evaluated and placed on the strategic map. The craft beer segment has a significant number of low volume brewers, so a representation of this segment was created by calculating average sales and average barrels sold. Additionally, three of the largest craft brewers were included.

Anheuser-Busch[27]
With $37 billion in sales in 2009 and 50 percent market share, Anheuser-Busch is the largest of all brewers located in the U.S. Although no longer headquartered in the U.S., the company maintains its breweries in the U.S. and conducts much of its business in the country. With the largest U.S. market share of all brewers, it must be included in the strategic map in order to see an accurate picture of the industry.

MillerCoors[28]
The joint venture between SAB-Miller and Molson Coors formed the second largest brewer in the United States. Now, MillerCoors is the largest brewer headquartered in the

country. The second of the two major brewers, MillerCoors had $21 billion in combined revenues in 2009 and 29 percent market share.

Crown Imports[29]
A joint venture between Mexican company, Grupo Modelo, and Constellation Brands, headquartered in New York. Beer brands such as Corona, Negro Modelo, and St. Pauli Girl are the primary offerings of this company. Crown maintains about a five percent market share and had combined sales of over $2 billion in for the most recent fiscal year ended February 28, 2010.

Heineken[30]
With its headquarters in The Netherlands, but having a U.S. division, Heineken produces super-premium brands such as Heineken, Dos Equis, Newcastle, and Amstel Light. Heineken produced revenues of over $20 billion in 2009 and holds four percent of U.S. market share.

Pabst[31]
Though it experienced tough times and loss of market share in the late 1990's and early 2000's, Pabst may be poised for a comeback with its recent purchase by well-known investor C. Dean Metropoulos. Recent reports show Pabst at $500 million in sales and having a notable three percent market share. Barrels produced topped out at 18 million in 1977, but sunk to around one million in 2001. The company currently contracts with MillerCoors to produce its beer. Recently, Pabst has been experiencing growth and consumers have developed a new appreciation for the brand, so barrels produced has grown in recent years.

Boston Beer Company[32]
Known as the largest craft brewer in the country, the Boston Beer Company just surpassed the two million barrel mark in 2009, producing 2.2 million. Revenues in 2009 were $415 million, continuing the growth trend of the last five years.

Sierra Nevada[33]
Boasting that it is the largest privately-held craft brewer in the United States, California-based Sierra Nevada has grown from a microbrewery to a craft brewer since its inception in 1979. It was reported to have sold around 700,000 barrels of beer in 2005 and was estimated to have sales of around $100 million.

Craft Brewers Alliance[34]
A consolidation of Redhook Breweries and Widmer Brothers Brewery, Craft Brewers Alliance produces and distributes its products regionally in Oregon, Washington, and New Hampshire. It also distributes the products of Kona Brewing Company. In 2009, it was listed as the eighth largest brewer in the United States with $132 million in revenues and 582,500 barrels sold.

Average Craft Brewer[35]
The size of the average craft brewer was estimated by using 2009 data on craft brewers, including: 1,595 total brewers with $3 billion in sales and 9,115,635 barrels sold.

Results
The two major brewers stood out significantly in their own strategic group with a high level of sales, both in dollars and barrels. Another strategic group was identified which consists of the import brewers and craft brewers and was termed the "better beer" group. This term has been used in the industry and is reflected on the Strategic Group Map. While these companies produce lower revenues and fewer barrels than the major brewers, the sale price of a 12-pack is greater. One prominent company in the industry, Pabst, did not fall into either group. Interestingly, while revenue and barrels sold is significantly lower than that of the major brewers, Pabst has claimed a market share higher than most in the better beer segment. However, it has positioned itself as producing sub-premium beer which is reflected in its lower retail price. While the major brewers also produce beer classified as sub-premium, their primary products tend to be in the premium range and have higher prices.

Appendix 3: Macro-Environmental Analysis

Economic Activity

The brewing industry as a whole accounts for $198 billion in output or 1.5% of U.S. GDP.[36] The brewing industry in the United States consists of two major brewers: Anheuser-Busch and MillerCoors. SABMiller and Molson Coors formed MillerCoors as a joint venture in 2008; while, also in 2008, Anheuser-Busch was purchased by InBev, a Belgian company. Another strategic group in the beer industry consists of brewers that produce substantially less beer and have significantly less market share than the major brewers yet sell products with a higher retail price. This group consists of two different types of companies. Some companies in this group are not headquartered in the U.S., thus, their beer is classified as imports. Heineken and Crown Imports are two of the companies that fall into this category. Imports have gained market share in recent years and were reported to have a 14% market share in 2007 with almost 30 million barrels sold.[37] Other companies in this group are classified as craft brewers with small, independent breweries producing unique beer. This group has, by far, the largest number of brewers and biggest variety of beer. Companies such as The Boston Beer Company, Sierra Nevada, and Craft Brewers Alliance are included in this group.

In 2009, beer sales in the U.S. were down 2.2 percent, while sales of craft or specialty beer were up 10.3 percent.[38] Despite flat or somewhat declining sales since the early 1980's, activity in the industry has been vast. Rapid entry of small, craft brewers shifted the focus from premium and sub-premium beer to multiple varieties of unique, craft beer. As of July 2010, there were 20 traditional breweries and 1,599 specialty/craft breweries in the United States. Of the specialty/craft brewers, 994 are brewpubs, 534 are microbreweries, and 71 are regional craft breweries.[39] While traditional breweries have steadily decreased from 403 in 1948 to 93 in 1968 to 31 in 1988 to the present number of 20; specialty/craft breweries increased slowly and then exponentially from zero in 1947 through 1965, then one entering in 1966, another entering for a total of two in 1977, then growing to eight in 1980, 150 in 1988, 1,277 in 1996 and finally, to the present number.[40] In the 1990's and early 2000's the industry also saw explosive growth in brewpubs and microbreweries.[41] U.S. brewers have about 81 percent of the U.S. market share.[42] This market share has dropped slightly over this same time period as imports gradually increase their market share.[43]

While there are a large number of brewers in the country, there is also a large variety of beer brands. In 2007, there were 139 premium and sub-premium brands of beer and 1,583 imports/craft beer brands.[44] Currently, 39 percent of the adult population drinks beer regularly and 31 percent buy beer once per week or more.[45]

The recent economic downturn has affected the beer industry. Unemployment rates have climbed over the last two years from six percent in September 2008 to over nine percent in September 2010.[46] Under-employed and discouraged workers who have given up searching for work are not included in this number. Some believe that, if they were, real unemployment would jump to 17 percent.[47] Long-term unemployment has become more prevalent, as have the resulting negative economic and social implications. Disposable income for those still employed has remained relatively constant over the same time period, with no inflationary increase.[48] Of concern has also been the suspected erosion of the middle class. This phenomenon has been brought to light again with the recent recession as individuals who have high levels of education and had been earning a good income have also lost their jobs and have had difficulty finding new ones.[49] Economic conditions will have an impact on any industry, including the beer industry. The affects tend to be positive in a good economy and negative in a bad economy. However, beer has been said to be "recession-proof." Because flat or somewhat declining sales do not support this argument, beer may instead be "recession-resistant."[50] Although one may expect the better beer strategic group would feel a negative impact first, it has actually been the major brewers who have felt much of the impact. While some shift to sub-premium brands has been seen, a new trend has been toward purchasing large packages of beer to save on a per-can/bottle basis.[51] However, in addition to these changes, purchases of craft beer, typically sold in six-pack bottles have been steady. Additionally, import beer has grown its market share in the U.S. So, while consumers have become more cost conscious in a difficult economic environment, they still remain taste conscious and may be willing to pay a little more for variety.

Law and Ethics

Since the legal drinking age of 21 was established in 1984, underage drinking has declined. In fact, 26% fewer high school seniors drink now than in 1983. However, 43% of high school seniors still report drinking.[52] A 2008 study shows that 74% of underage youth (ages 12-20) do not drink. Additionally, the percentage of college freshman drinking declined from 73.7% in 1982 to 39.5% in 2008.[53] Community groups such as MADD and SADD started the push to control underage drinking. Since then, other groups have joined and many brewers, themselves, choose to be involved in this movement. Because underage drinking has been identified as a societal problem and the consumption of alcoholic beverages is heavily regulated, industry-wide movements such as "We Don't Serve Teens" (www.dontserveteens.gov) have been pioneered. The Beer Institute, which represents the industry in federal and state government as well as in public discussions, supports this effort and keeps its members involved in its activities.

Stricter enforcement of drunk driving laws has also had an effect on the beer industry. Penalties for driving under the influence (DUI) have been increased and law enforcement has been more diligent in its efforts to apprehend those who do not follow the law. Additionally, all states have lowered the legal blood alcohol concentration limit to .08.[54] Because of these actions, drunk driving fatalities have dropped from 21,113 in 1982 to 11,773 in 2008.[55] Fatalities with teen drunk drivers have also dropped dramatically from 4,214 in 1982 to 1,130 in 2008. Both of these trends occurred despite an increase in the number of drivers, an increase in the number of miles driven, and an increase in the number of registered motor vehicles. While these are positive trends for both society and the beer brewers, these trends may contribute to flat or declining sales in the overall industry. Major brewers have taken an active role in promoting responsible drinking. SAB-Miller, for example, has implemented an internal education program aimed to prepare its employees to sell and market its products responsibly. The company has developed a website to promote its efforts at www.talkingalcohol.com.[56] Other brewers have implemented similar programs, as well.

In addition to reducing the number of drunk drivers on the roads, focus is also on providing resources to heavy drinkers to help them lessen their consumption of alcohol. While under ten percent of U.S. citizens fall into the category of heavy drinkers,[57] the economic costs of alcohol abuse to society are estimated at $184 billion.[58] These costs come in the form of increased health care costs, higher occurrence of accidents and crime, treatment expenses and lost productivity. The impact of alcohol abuse on society, as a whole, lends itself to constant scrutiny and the potential for additional legislation limiting the use of alcohol.

At the federal government level, the Alcohol and Tobacco Tax and Trade Bureau (TTB) regulates all breweries, distilleries, and wineries in the U.S., as well as importers and wholesalers.[59] Additionally, each state has different laws that further regulate the industry which include taxes at the state level as well as licenses to manufacture and sell the product. The federal beer tax is currently $18.00 per 31-gallon barrel produced. Brewers who produce less than two million barrels receive a discounted rate of $7.00 on the first 60,000 barrels and then pay $18.00 per barrel after 60,000.[60] This provides significant savings to craft brewers, especially local microbreweries and brewpubs. States also have varying beer taxes in addition to the federal tax. The taxes are ultimately passed on to the end user. In fact, taxes make up 40 percent of the retail cost of beer.[61] In 1991, when Congress doubled the federal beer tax, most brewers raised prices to cover it, as profit margins are insufficient to absorb increased costs.[62] Another concern about increased beer tax is the loss of brewers as operations are closed or moved overseas. When InBev purchased Anheuser-Busch in 2008, a caveat in their contract stated the company could close plants in the U.S. if federal or state beer taxes increased substantially.[63] Because of its large U.S. presence, market share, and economic impact, this could have a sizeable effect on the U.S. economy. Although this is only one brewer, the benefits of the company's size extend to all strategic groups in the industry. Recently, some states have chosen to increase their state tax. In 2009, the Brewers Excise and Economic Relief (BEER) Act was introduced. It called for a reduction in the federal excise tax from $18.00 per barrel to $9.00 per barrel. Another bill introduced in 2009 proposes to further reduce the tax for smaller brewers from $7.00 per barrel to $3.50 per barrel for the first 60,000 barrels. Additionally, it would raise the number of barrels produced to qualify for the reduction from two million to six million.[64] Legislators have said that as health care costs rise, the federal deficit increases, and states continue to feel fiscal pressure, the beer tax will continue to be a topic of discussion.[65]

Advertising and labeling of products is also closely regulated by the TTB. The Beer Institute set forth advertising guidelines for its members to aid in compliance with the law.[66] Being advertising is so closely regulated, brewers must be cautious and prepared for challenges of their practices.

All laws and regulations discussed could impact the entire industry negatively if they are not followed. The TTB has the power to penalize or close brewers that do not comply with regulations. Each brewer's response to existing and additional laws and regulations will determine the positive or negative impact each business receives.

Diversity

Demographic

The U.S. population is approximately 310 million as of October 2010.[67] It is projected to grow to 439 million by 2050.[68] The consumer demographic for beer in the U.S. is primarily men who account for 80 percent of consumption.[69] Additionally, most of these beer drinkers are white. White men tend to prefer light beer over regular beer and both over imported beer. The black and Asian populations tend to prefer regular beer over light beer. It is interesting to note that the Hispanic population in the U.S. has increased considerably over the last 20 years and that this ethnic group prefers imported beer over domestic regular or light beer.[70] The overall preference for beer in the U.S. is split almost equally between regular and light beer at 27.3 percent and 28.5 percent of the population, respectively, drinking each. Additionally, 25.3 percent of the population reports to drink imported beer while 9.4 percent drink micro/specialty beer.[71] In the craft beer segment, it was found that 26 percent of craft beer drinkers were age 25 to 34 and 38 percent have incomes of $100,000 or more.[72] This differs substantially from the overall industry, where those individuals with under $50,000 in annual income account for about 50 percent of beer consumption.[73] Additionally, while men tend to be interested in domestic regular and light beer, women tend to be more interested in craft and specialty beer than in the major brand names.[74]

Traditionally, the target market for the beer industry has been those at the legal drinking age of 21 through their late 20s. This group is on the rise as the 79.5 million strong "Generation Y" began to turn 21 in 2006.[75] Those in "Generation X" have shown a preference for specialty and craft beer, yet this is a much smaller group.[76] The Beer Industry Overview study conducted by the grocery industry correctly anticipated significant increases in the Latino and Asian population, as well as in the age 50+ population.[77] These changing demographics have had mixed effects on the industry. The age 50+ population currently accounts for 30 percent of alcohol purchases; however, 42 percent of those aged 55 and older report wine as their preferred drink with 30 percent reporting it as beer.[78] As this segment of the population continues to grow, this could negatively impact the beer industry. Additionally, both Mexico and many Asian countries rank lower than the U.S. in alcohol consumption.[79] It remains to be seen if this trend changes because these individuals live in the U.S.

Beer brewers have felt the pressure from increased ethnic diversification in the form of increased consumption of imported beer. This has caused an erosion of the market share of major brewers and other brewers in the better beer segment. The growing "younger" age group should have a positive impact on the overall industry simply because more consumers exist and still 39 percent of the general population reports drinking.[80] Of concern for the industry is the growth in the "older" age group, as beer is the preferred drink of choice by only 30 percent of them.

Cultural

Laws enacted to reduce underage drinking, drunk driving, or even alcohol abuse resulted from a cultural shift toward less tolerance of these activities. According to a recent PEW study, 61 percent of those surveyed felt excessive drinking is morally wrong. [81] With the prevalence of the internet and social media in society, information is shared quickly and spreads rapidly. As society continues to share information and voice their opinions, the voice of the consumer has more influence on businesses.

In the early 2000's, beer drinkers wanted healthier options. Healthy lifestyles became important and consumers shifted toward lower fat, lower calorie choices. A greater focus on physical fitness and exercise coupled with a desire to continue enjoyment of beer propelled the demand for light beer. While light beer had always had a significant presence in the beer market, it gained additional footing during this time and now makes up about 40% of the market.[82] Women drink a larger percentage of light beer than men and the 35-44 age group drinks more light beer than other ages.[83] Regular beer can have a significantly higher number of calories than light beer. Anheuser Busch's Budweiser has 145 calories, while MillerCoors offers Miller Genuine Draft (MGD) with 152 calories or Coors with 149 calories.[84] Both companies offer light counterparts to each brand with Bud Light at 110 calories; MGD Light at 110 calories or new MGD 64 at 64 calories; and Coors Light at 104 calories. With full-bodied offerings, the products of the craft beer segment tend to have a significantly higher calorie count. For example, Samuel Adams Boston Lager has 160 calories, while the company's light version has 124 calories.[85] Also in the early 2000's, many new diet options were introduced with a focus on low-carbohydrate foods. As a response to this, many beer brewers introduced low-carbohydrate options and continue to market these offerings as a "healthier" choice. Although some of the diet options may have been passing fads, the health trend has proven not to be.

Social

American culture is ever-changing. Ideals and beliefs shift as each generation comes of age. The U.S. (as well as the rest of the world) has four distinct generations: Traditionalists, Baby Boomers, Generation X and Generation Y/Millenials.[86] The differences among all generations are vast. As the Baby Boomers approach retirement, it is expected a large amount of knowledge and expertise could be lost. Employers may be faced with loss of efficiencies and intellectual property. Although younger employees may make up for some of this with new ideas, strategies for minimizing the impact of retirements are necessary in all industries. A cultural shift has been seen in marriage rates with many choosing to marry later. This can affect spending behaviors both in the short-term and in the long-term when marriages do take place. Generational differences in alcohol consumption will have an effect on beer sales. Where currently 50 percent of 18 to 34 year olds prefer beer over wine or liquor, 50 percent of those aged 55 and older prefer wine over beer or liquor. Forty-four percent of the 35 to 54 age group prefers beer over wine or liquor.[87]

Diversity in values, beliefs, attitudes and ethnicity could have a major impact on the industry as a whole. Consumer preferences such as healthy living and the intolerance of alcohol misuse, demographic trends such as a diversifying and an aging population, and generational differences in preference and spending will all force brewers to adapt their products and processes.

Technology

The last two decades have seen major technological advances in all industries and beer production, transportation and storage have not been untouched. While major advances in the industry in the early 1800's included refrigeration and pasteurization, today's advances have to do with brewery equipment and quality control. Most breweries are constructed with stainless steel and have advanced heating and cooling systems.[88] As equipment becomes more specialized, it also becomes more expensive. Upgrades may be necessary in order to maintain competitive advantage; however, a reasonable return on investment may be more difficult to achieve.

As consumers debate the bottle vs. can battle, brewers have tried to offer alternatives to meet consumer demands. American consumers want cold beer, so companies have found ways to achieve this. Coors recently introduced the "Cold Activated Can" that turns the mountains on the can blue when the beer is cold. It now has a "Cold Activated Window" that allows the consumer to see inside the box to determine if the beer is cold. Miller Lite and Coors Light are now available in a 5.7 liter draft beer unit called "Home Draft" that allows consumers to keep beer on-tap in their refrigerator. Once opened, it stays fresh for 30 days.[89] Heineken has also developed its "DraughtKeg," of similar design.[90] Some brewers have also begun to use cans made with aluminum that are in the shape of a beer bottle. Craft brewers, with fewer resources, have not achieved technological advances of this caliber. However, all small brewers have seen benefits from the high investment in research and development made by the major brewers through the improvements in production equipment and processes.

Environmental Sustainability

One of the biggest natural resources used in the brewing process is water. It is the main ingredient in beer and is used throughout the brewing process. The growing global population is putting a strain on this natural resource with an anticipated global supply being only 40 percent of what is demanded by the year 2030.[91] The two major brewers have committed to reducing their water usage and many smaller brewers have followed suit.[92] In its 2009 annual report, SAB-Miller has formally committed to sustainable development and states that "flourishing, sustainable communities are the heart of development."[93] The company is focused on a 25 percent reduction in water used per hectolitre of beer produced.

Achieving energy efficiencies has been a big part of U.S. industry in recent years. Massive plants with high needs for electricity, heat, and other utilities make the beer industry a prime target for environmentalists. Additionally, brewery emissions are regulated similar to other industries and standards for the amount of harmful gases that are released into the air have been imposed. If not met, penalties such as monetary fines could be imposed. Another way brewers have been achieving energy efficiencies is in the reuse of waste. At a MillerCoors location, heat that normally would be released into the air is able to be reused in the brewery.[94] Anheuser-Busch began using alternative fuels to power one of its locations and now expects 70 percent of the fuel for this location will be supplied by alternative sources.[95]

Throughout the United States, environmental impact is a major concern. Along with reducing our carbon footprint comes an interest in recycling. Recycling glass, plastic, cardboard, paper and aluminum are a way of life for many individuals and offices. Recycling also gets much focus in the beer brewing industry. Because of the volume of materials large companies use and their ability to generate substantial amounts of waste, companies turn to recycling to lessen their environmental impact and potentially generate monetary savings. The major brewers both have recycling policies and boast that nearly 100% of all brewery waste is recycled or reused.[96] The Boston Beer Company has implemented a recycling program where it washes and sanitizes returned, used glass bottles and re-uses them in the bottling process.[97] While cost savings may be achieved in the long-run, initial implementation of these systems and policies may be expensive. Smaller brewers with limited financial resources may not be able to implement such sophisticated systems; however, some effort at recycling is expected by many U.S. consumers today.

Global Issues and Trends

Population growth is a major global trend with the global population expected to surpass seven billion this year.[98] Majority of this growth will be in developing countries. Cities are getting larger as urbanization increases and the number of mega-cities has grown and will continue to grow, as well.[99] Wealth in the global economy is “shifting” to Eastern and Southern countries.[100] Consumers in developing countries see improvements in their quality of life and accumulation of material goods because their disposable incomes and discretionary spending are growing.

Along with the growth in population, globalization continues to increase. Companies now compete on a world-wide basis, not only nationally. Globalization is having and will continue to have profound effects on the entire beer industry. Global competition and the expanding global market will be a larger issue for the major brewers and import brewers, bringing both positive and negative results. While new and emerging markets are accessible, additional competitors are also on hand to serve them. The two major U.S. brewers already conduct business on the global market and global consolidation among large brewers has been a dominant force in the industry. This has been done as a way to increase volume and also achieve efficiencies which decrease costs.[101] Combining production, packaging or shipping processes may help the large brewers achieve economies of scale. This global environment also means that non-U.S. based brewers can compete in the U.S. The increasing U.S. market share of import beer shows that these brewers do present formidable competition for the entire industry both domestically and worldwide. These companies also tend to have a significant presence in their home country, in addition to a presence in other countries. While consolidations in the industry and increased global presence should be beneficial to the larger brewers, these trends could lessen the ability of smaller craft brewers to compete. Most U.S. craft brewers have a regional or local domestic focus. Unlike other craft brewers, The Boston

Beer Company, the largest craft brewer in the U.S., does have a small international presence.[102]

Changes in preferences and attitudes toward beer consumption throughout the world will impact how much beer is consumed, what type of beer is consumed, and what brands thrive.

Overall Economic Analysis

The beer industry has been through much change in recent years with numerous entrants in the better beer segment and consolidation among larger brewers. Focus on responsible drinking has led to stricter enforcement of laws related to alcohol use. New legislation has been proposed to change the industry structure. An increase in the older population could negatively impact the industry if these consumers continue to show a preference for wine; yet, the growing group of those turning age 21 could prove to be positive. And, recent economic conditions have resulted in declining sales in the overall industry. A company's ability to identify and capitalize on consumer preferences, changing technologies and untapped global markets could differentiate it from its competitors. The macro-environment creates challenges in this mature industry that must be addressed with financial and operational resources.

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Strategic Group Map
Input Data

Brewer	Product	Total Company Revenue	Total Barrels Sold	Price/12 pack	Market Share
Boston Beer	Samuel Adams Boston Lager	$ 415,100,000	2,200,000	$ 27.99	1%
Anheuser-Busch	Bud Light	$ 415,100,000	348,198,364	$ 22.70	50%
MillerCoors	Miller Lite	$ 21,020,000,000	221,478,440	$ 21.89	29%
MillerCoors	Coors Light	$ 21,020,000,000	221,478,440	$ 21.89	29%
Heineken	Heineken	$ 20,515,500,000	21,000,000	$ 27.99	4%
Heineken	Dos Equis	$ 20,515,500,000	21,000,000	$ 25.69	4%
Craft Brewers Alliance	RedHook Sampler Pack	$ 132,000,000	582,500	$ 31.98	0%
Crown Imports (e)	Corona	$ 2,256,200,000	25,000,000	$ 27.99	5%
Crown Imports (e)	Negra Modelo	$ 2,256,200,000	25,000,000	$ 31.99	5%
Pabst (e)	PBR	$ 500,000,000	1,000,000	$ 16.89	3%
Sierra Nevada (e)	Pale Ale	$ 100,000,000	723,880	$ 30.00	0%
Average Craft Brewer*		$ 1,880,878	5,715	$ 27.99	0%

Hectolitre = 26.4172052 gallons
31 gallons per barrel

Revenue and Barrels Sold data for Boston Beer Company is taken from the company's 2009 10-K and Annual Report.

Revenue and Barrels Sold data for Anheuser-Busch, Miller Coors, Heineken, and Craft Brewers Alliance is taken from each company's 2009 10-K report and/or most recent annual report.

Revenue and Barrels Sold data for Crown Imports is estimated using data from Constellation Brands most recent 10-K report

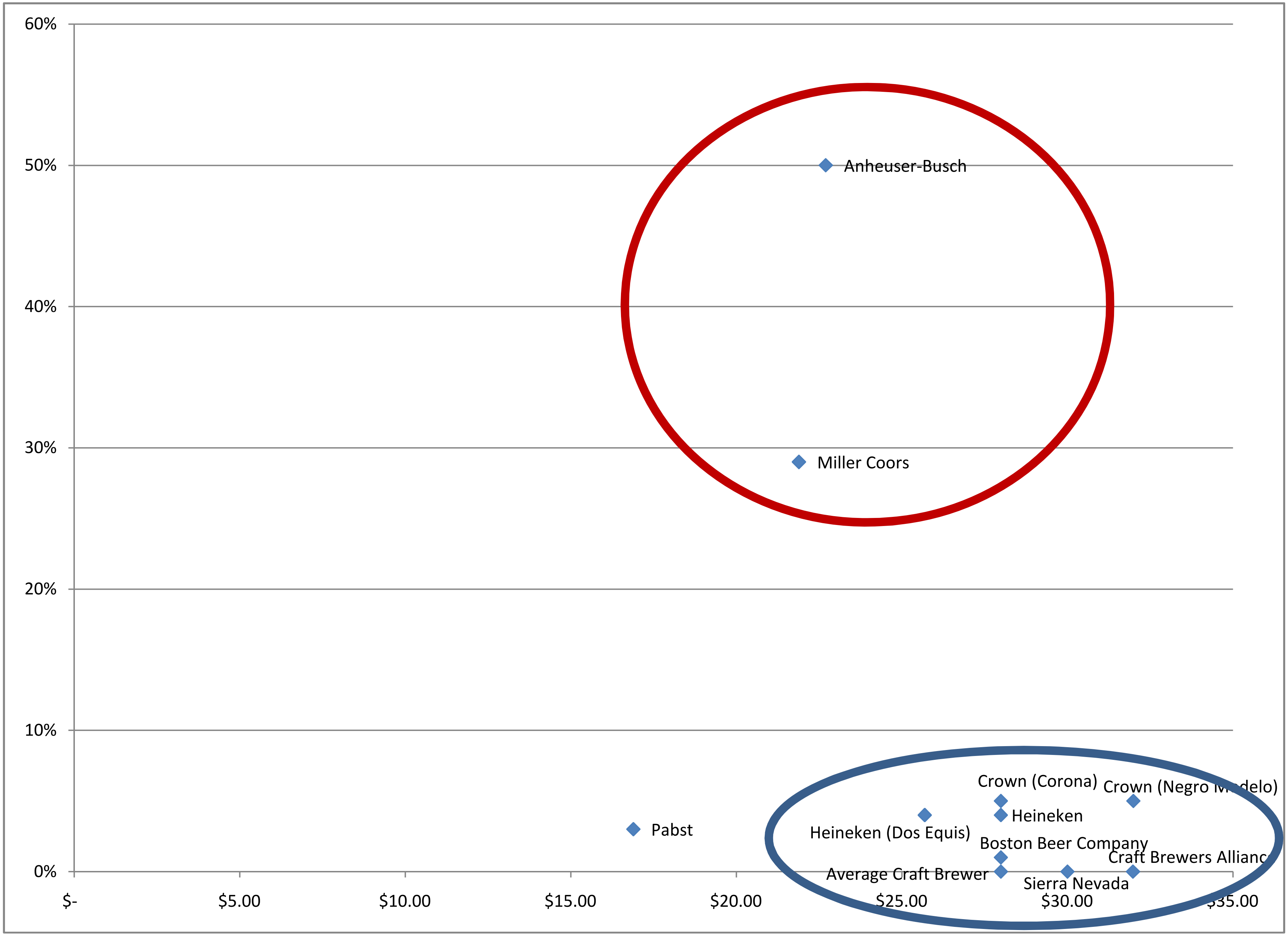
Revenue and Barrels Sold data for Sierra Nevada is estimated using data gathered from:
http://www.cnbc.com/id/39233398/The_10_Biggest_US_Craft_Breweries?slide=11

Market Share data was found at http://www.beerinstitute.org/statistics.asp?bid=220
Price data was found at http://capecodpackagestore.com/webupdate/typeindex.htm

**Average Craft Brewer was found using data from the Brewers Association at* http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts
-Average sales estimated by taking 2009 industry sales ($3 billion) divided by number of craft brewers (1,595).
-Average barrels estimated by taking the 2009 total number of craft barrels sold (9,115,635) divided by number of craft brewers (1,595).
-Used price of Samuel Adams 12-pack for average price.

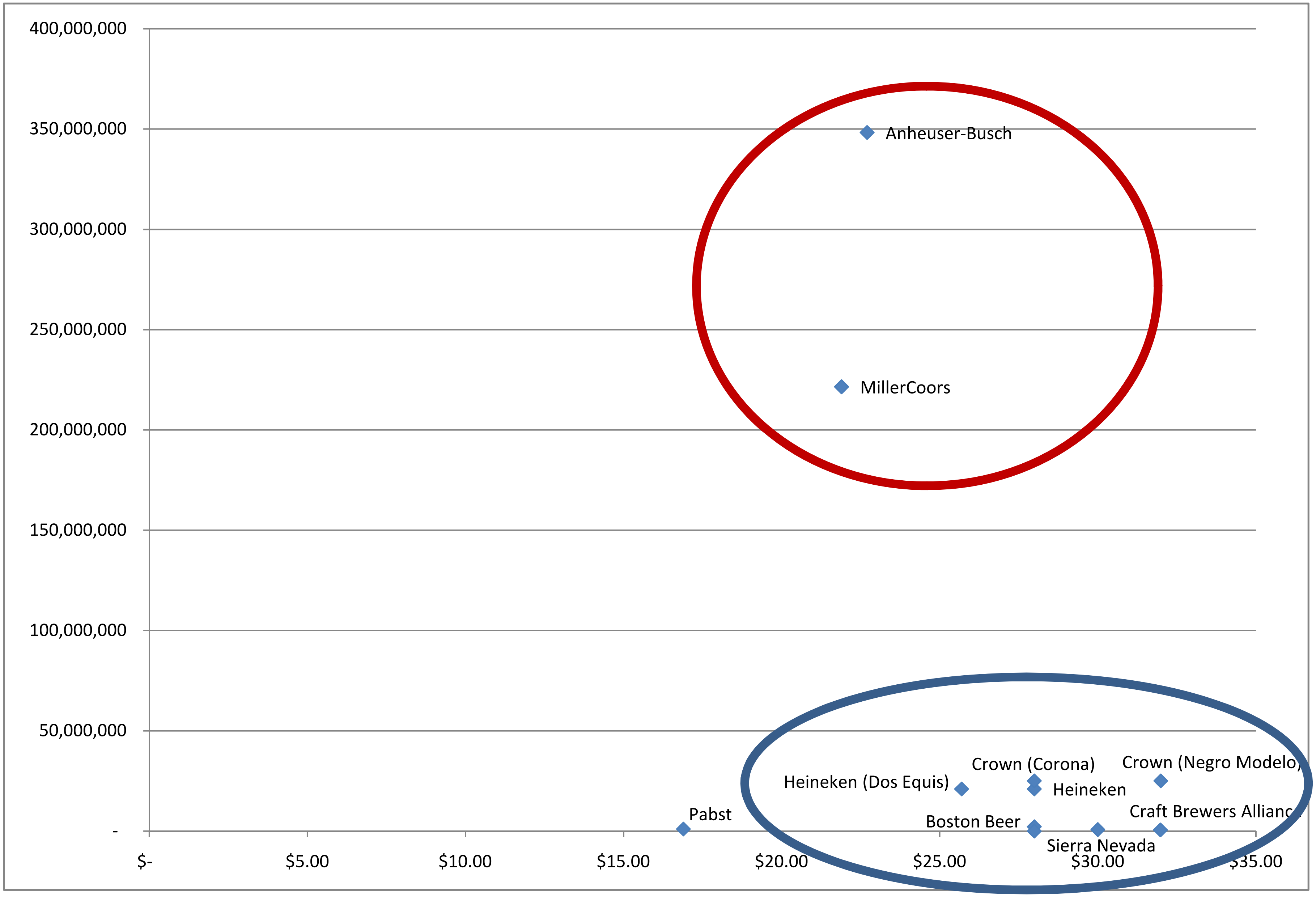
Strategic Group Map

Market Share and Price per 12 pack



Jennifer Pontinen

5/20/2011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Crown (Corona)
Heineken
Crown (Negro Modelo)
Craft Brewers Allianc
Boston Beer
Sierra Nevada

Introduction

The Boston Beer Company has grown rapidly from sales of 500 barrels in 1985 to over two million in 2009. From the start, founder, Jim Koch, insisted on a focus on quality which began with using the world's finest all natural ingredients. Still today, Koch and other company executives travel around the world to hand-select the highest quality ingredients. The Boston Beer Company is now the world's largest craft brewer with numerous unique beer tastes – from Cherry Wheat to Harvest Pumpkin Ale to Chocolate Bock. In 2009, Boston Beer sold 30 varieties of Samuel Adams beer.[1] Production of its beer is done at three company breweries – Boston, Pennsylvania, and Cincinnati – and also on a contract basis with other brewers.

As discussed in the external analysis, the U.S. beer industry consists of two main strategic groups. The major brewers include Anheuser-Busch/InBev and MillerCoors. In 2008, major changes took place in this part of the industry when Belgium's InBev purchase Anheuser-Busch and SAB-Miller and Molson Coors embarked on a joint venture. These brewers produce multiple product lines and 200 to 300 million barrels of beer each year. They enjoy nearly 80 percent of the market share in the U.S.[2] The second group is classified as the better beer segment and includes import brewers and craft brewers. Import brewers in this group include Heineken and Crown Imports. These companies are headquartered outside the U.S. which is why their beer is classified as an import. Craft brewers produce less than two million barrels per year and consist of nearly 1,600 companies across the U.S. They are noted for producing beer with distinct flavors and unique tastes and include companies like The Boston Beer Company, Sierra Nevada and Craft Brewers Alliance. The retail price of both import and craft beer is comparable and both produce significantly fewer barrels of beer than the major brewers. Boston Beer has classified itself as a "better beer" and the Strategic Map makes this distinction clear. While this category consists mainly of craft and import brewers, some of the major brewers also produce specialty beer that would qualify for this category. Ultimately, the industry's two strategic groups are: major brewers that produce large quantities and have numerous beer brands in the premium and sub-premium categories and better beer brewers that produce smaller quantities of specialty, “better” beer.

When compared to other craft brewers, Boston Beer has some distinct competitive advantages. Innovation and continuous development of a large variety of flavors is the cornerstone that the company was built upon. The company seeks constant renewal of its product line by adding new flavors and removing unsuccessful ones. Seasonal flavors offer added allure when they become available. The Boston brewery operation serves as a testing ground for potential flavors before they are introduced to the general public. The company has been recognized with awards for product innovation dating back to the very beginning of the company. Another advantage is the transferability of its brewing process. The Boston Beer Company historically contracted out the brewing of most of its product. In order to assure the product was brewed precisely to its standards, using traditional recipes, the company developed a brewing process which could be easily replicated. This resulted in greater product consistency and enabled the company to more easily move majority of its brewing process in-house. If, at some point, it becomes necessary to rely on contract brewers again, the company can more easily adapt. A final competitive advantage is in the company’s ability to reach its target customer. Relationships with wholesalers and retailers are vitally important to the company as good relationships mean access to shelf space or a place at a restaurant or bar. The company’s large, highly-trained sales force is responsible for developing and strengthening relationships with distributors. Distributors control access to retailers who control access to shelf space and ultimate sale to the end user. As the company’s products are not the primary product for majority of its distributors[3], Boston Beer practices differentiation in its sales methods, as well, by providing education to distributors, retailers, and consumers alike.

Company Strategy

The Boston Beer Company aims to be different. Starting at the corporate level, Boston Beer chooses to focus on one purpose – building a better beer. The company employed a focus strategy upon entering the craft beer segment, acknowledging that it is different than the major brewers offering beer with a unique taste, a higher price, and a distinct image. The name of the company's beer, Samuel Adams®, speaks of proud, American heritage. The company capitalizes on the success of its flagship brand, Samuel Adams® Boston Lager, by promoting it in much of its advertising. Additionally, the company continues to develop and introduce new brands to the market while staying focused on this distinct image. Differentiation of itself and its product is another component of the company's strategy. Continuous innovation is a norm at The Boston Beer Company. The Samuel Adams® "Brew Crew" consists of nine individuals skilled in selecting ingredients, developing flavors, and brewing the beer. Creativity is rewarded in the company and consumer involvement is recognized as an important part of the process. The company constantly seeks to expand its product offerings to meet the needs of consumers and to gain additional customers. It uses special, high-quality ingredients including Noble hops from Germany and the Czech Republic and proprietary strains of yeast. Growing its market share domestically is a priority, while international expansion has less, but ever-increasing, focus. The company's international strategy has been applied using recent cooperative strategies. A strategic alliance with Moosehead Breweries in Canada gives Boston Beer a presence in the Canadian market. Additionally, the company has teamed up with Weihenstephan in Germany, the world's oldest brewer, to create an exclusive, "champagne style" beer.

<u>Financial Analysis & Assessment of Strategic Effectiveness</u>

Sales growth has been considerable over the last three years, growing about 41% over this time period. Growth in the number of barrels sold has contributed mainly to the increase in sales, with the company reaching over 2 million barrels of core product sold in 2009. Additionally, sale price per barrel has also increased in recent years. While sales have grown, gross profit margin has fluctuated. In 2008, the company voluntarily recalled some of its product, resulting in over $9 million in additional costs and $13 million in lost revenue.[4] As a result, gross profit margin dropped considerably from 2007 to 2008. In 2009, the company was able to control costs and generate energy efficiencies at its breweries to generate a gross profit margin of nearly 52%. While this is still less than gross profit margin in 2007 of 55%, the company hopes to continue to achieve efficiencies by brewing majority of its product itself at its own breweries and expects a high gross profit margin in 2010.[5] Operating expenses have dropped consistently over the last three years, reaching 38% of sales in 2009. Company earnings recovered from a lean year in 2008 and, in 2009, were $31 million or $2.21 per share.

Due to the purchase and renovation of the Pennsylvania brewery in 2008, fixed assets increase by $91 million to $150 million. Stockholder equity has grown steadily and the company has no long-term debt. Because the company has no obligation to pay back equity, this financing is favorable to debt. However, stockholders expect a return on their investment either in the form of dividends or a steadily increasing stock price. While the stock price at December 31, 2008 of $28.40 was down from the December 31, 2007 price of $37.65, it grew significantly in 2009 to $46.60 by December 31. Management has achieved operational efficiencies by maintaining inventory at appropriate levels, collecting quickly from customers, and issuing timely payments to vendors. Return on investment at the end of 2009 was 31.40%, a return superior to many investment options.

Financial performance as of the most recent quarter ended June 26, 2010 shows similar results. Sales are up slightly compared to the same period in 2009 but barrels sold are down. However, this is due to the termination of the company's brewing agreement with Diageo. Sales of the company's core products are actually up quarter-to-date. Gross profit margin is up over two percent and net profit margin is up nearly three percent – both positive signs.

Comparison of the company to other companies in the industry also reveals positive news. The company has significantly greater liquidity and significantly less debt. Gross profit margin is better than the industry, while net profit margin is slightly low. The company seems to manage inventory and accounts receivable better than the overall industry and pays its vendors similar to the other companies.

Boston Beer Company has managed considerable sales growth over the last three years by investing in fixed assets, increasing equity, incurring no debt, following sound operational policies, and managing costs and expenses. The company seems well managed and financially responsible.

Resource and Competences Analysis

The Boston Beer Company has numerous resources that aid in its success. As discussed above, the strong financial position of the company allows it much flexibility in managing daily operations and pursuing expansion options. High cash reserves help the company manage seasonal swings in sales or pay for unexpected costs. This, coupled with no long-term debt, is viewed positively by lenders and increases the company's ability to secure long-term financing if needed. Additionally, sales growth, earnings growth, and an increasing stock price are all positive from an investing standpoint giving the company opportunity to raise additional equity if needed. This financial structure allows the company flexibility in carrying out its strategy. Continually producing and experimenting with new varieties of beer requires financial resources. Brewers without a strong financial position do not have the level of flexibility that Boston Beer has. The company's focus strategy helped it achieve financial success. Financial success lends itself well to striving for differentiation.

Another resource the company has is Jim Koch himself. Koch's knowledge and expertise of the brewing industry has made the company what it is today. Koch is ever-preset in both daily operations and company marketing and has set high standards for the company to follow. Koch developed the strategy that the company was built upon. Having Koch as a resource gives the company an advantage over other brewers, but, more important is how the company translates his knowledge into company policies.

While product development has always been a focus of the company, expansion of its facilities has become more important in recent years. With the purchase and renovation of the Pennsylvania brewery in 2008, the company substantially increased its production capacity. Where, in the past, only 30 to 35 percent of its product was brewed in-house, now the company has the capacity to brew 95 percent in-house. This transition has been taking place with expectations to reach the 95 percent mark in 2010. While this differs somewhat from traditional company strategy, this is an important strategic move. The company's focus has not shifted from the production of better beer. Instead, its operations have changed to accommodate increased production. Greater control over the production process lends itself well to the pursuit of differentiation. This resource gives the firm a strong advantage over other brewers and helps maintain the integrity of the process and the product.

Where in-house production gained the company better control over the production process, it also helped protect the company's most valuable resource: its beer formulas. From the generations old formula for Samuel Adams® Boston Lager to the formulas for newer brews, this is the heart of the company. The company strategy for differentiation is played out in the development of new formulas and production of unique tastes. This resource is vitally important to the company's success. Without it, it could not exist.

Boston Beer also has numerous company competencies. Pursuit of a differentiation strategy requires commitment to innovation, and Boston Beer has done this well. New brands are constantly developed, unique partnerships are formed, and creative marketing is implemented. With much competition in the industry, the ability to innovate will set the company apart and give it a strong competitive advantage. Additionally, development of its brand image fulfills both strategies well. The Boston Beer Company has built its image as a distinctive company that produces high quality, high flavor craft beer that competes in the better beer segment. The Brewers Association defines a craft brewer as being "small, independent and traditional."[6] Boston Beer has taken this definition to heart, displaying it in its marketing literature and promoting the unique properties of craft beer. While the company's marketing has focused on building its brand, the company's sales force has developed important relationships with distributors. The company boasts of having one of the largest and most highly educated sales forces in the beer industry. Because distributors control access to the end-user of the product, these relationships are vital to the company's success. Company strategy is reflected in the company's ability to communicate how it is unique to both consumers and distributors. The strong focus on its sales force gives the company a strong advantage in the industry. Finally, while the beer formulas themselves were recognized as a company resource, the process in which beer is brewed is a solid company competence. Developing a transferrable brewing process helped the company achieve a consistent product when it contracted with other brewers. Now, as it brings the production in-house, this competence will make the implementation easier. Brewing multiple brands requires continuous change to the production process. The company's ability to manage this speaks to its dedication to differentiation. This competence gives the company an advantage over other brewers who do not brew internally or manage the production of fewer brands. Boston Beer can more easily adapt to changing industry trends.

Taken together, certain competencies complement each other and add symmetry to the company's actions. Its ability to manage innovation by producing a variety of beer brands is made easier by its ability to incorporate consumer expectations into its product line. The company's differentiation strategy is fulfilled in part by bringing together its competencies in brewing distinctive beer and successfully developing its brand image by using creative marketing channels to communicate. By bundling these competences, the company has a greater advantage over its competitors and an additional advantage over simply focusing on each competence individually.

Fit Analysis

Strategy and Internal Coherence

The strategies of Boston Beer include *focus* – on being a craft brewer in the better beer segment - and *differentiation* – with multiple and ever-changing brands. To carry out its strategy, the company uses innovative approaches to brewing, numerous unique brands, creative marketing techniques, and continuous follow up with and education for distributors. For the most part, the company's tactics do line up with its strategy. However, of concern is the company's high level of growth coupled with its desire to remain a craft brewer. Its actions in acquiring addition production capacity, increasing the number of barrels sold, and adding new geographic markets could quickly propel the company out of the craft brewer segment. In fact, based on the number of barrels sold, Boston Beer is on the brink of no longer being classified as a craft brewer according to federal law.[7] In this regard, the company's strategy is not completely coherent. However, coining the term "better beer" may have been the tactic used by the company to manage its status as a craft brewer in light of its level of growth.

Strategy and External Environment

The Porter's Five Forces analysis conducted in the external analysis details the characteristics of the beer industry today. The barriers to enter this industry vary depending on which strategic group a business plans to enter. Entry as a major brewer is very limited as two brewers control this group domestically and their substantial resources alone may inhibit new entrants. However, the craft segment has seen numerous entrants over the last twenty years as it has notably lower barriers including a smaller investment and automation of the brewing process. Due to the large number of suppliers of ingredients and many brewers to purchase these ingredients, supplier power was identified as low. While striving for quality, Boston Beer may give some additional power to suppliers to set price because the ingredients the company requires may not be readily available from multiple suppliers. While suppliers have limited power, buyers have a high level of power, controlling access to retailers and ultimately consumers. Large selection in the beer industry, and specifically the better beer segment, lends itself to increased buyer power. However, consumers are demanding unique brands and Boston Beer recognizes consumer desire to "trade up."[8] Maintaining consumer involvement in the crafting and selection of its beer brands also gives Boston Beer an advantage in the industry. Threat of substitutes is medium and has potential to be a larger threat, as wines and spirits have increased their market share in recent years. Rather than challenge or ignore this trend, Boston Beer has positioned its beers on a similar level with wine and spirits.[9] The company feels beer is something to savor, should be enjoyed paired with carefully selected food, and should challenge the palate. Each of the Five Forces causes a high degree of rivalry in the industry. Boston Beer's strategies of focus and differentiation are necessary to distinguish itself in this vast industry. Thus, its strategies are a good fit based on the current conditions in the overall beer industry and the better beer strategic group.

Current and future macro-environmental conditions must also be addressed as the company evaluates its strategy and determines its future direction. The constant activity in the beer industry presents a challenging environment in which to conduct business. While the beer industry as whole is classified as a mature industry, the craft segment still has potential for growth as evidenced by positive sales growth in 2009 while the industry as a whole was down.[10] So, despite the economic downturn in recent years, the higher price of better beer has not stopped customers from buying it. The company has successfully offered brands in line with consumer preferences. Consumers still expect variety and the popularity of craft beer is expected to remain high in the near future.[11] While the number of craft brewers, brewpubs and microbreweries increased rapidly in recent years, it has leveled off in the most recent few years.[12] Yet, mergers, acquisitions and joint ventures have occurred frequently over the last five years or so. Boston Beer has consistently grown the company with its differentiation strategy and has been successful in offering a product that consumers want. Changing demographics, including a growth in people over age 50 and in the number of people ages

21 to 27,[13] have been addressed by the company in its positioning of the product. Its beliefs that beer should be enjoyed and savored help it compete with wine, which is the preferred drink of the older population.[14] Recent cultural changes include a focus on healthy lifestyles. Because craft beer is known to have higher calories than premium or sub-premium brands, Boston Beer introduced Samuel Adams® Light. Surprisingly, this brand has not become a huge seller, with consumers still preferring other Samuel Adams® flavors.[15] It seems as if the consumer's desire for a healthy lifestyle is somewhat in conflict with their desire for taste. This is favorable for Boston Beer. While Boston Beer has addressed the above macro-environmental conditions, it has not formally addressed the potential for changes to laws that affect the industry, a global focus on sustainability, and increased globalization. Boston Beer supports legislation that was recently introduced to increase the annual barrel limit for craft brewers.[16] This, and other legislation related to taxation of the industry, and enforcement of drunk driving or underage drinking laws continues to be at the forefront of the industry. While Boston Beer has not developed formal programs or policies to address these issues, as a member of the Brewer's Association, it has access to member resources to use as needed. Additionally, the Beer Institute provides research in this area.[17] Globalization continues to broaden the market for the beer industry. Boston Beer has a U.S. presence and has worked to establish itself in other countries, as well. Its partnership with Weihenstephan may increase its presence in Germany and provide guidance for developing other international partnerships. And finally, achieving sustainability in operations has become commonplace in the beer industry with the major brewers committing to reductions in their environmental impact. Boston Beer has taken a step toward sustainability by instituting a bottle-washing program at its breweries and reusing glass bottles that are returned.[18] The company seems aware of these important macro-environmental trends and has addressed or has developed plans to address many of them.

Boston Beer has implemented financial and marketing strategies in recent years that are in line with its overall strategy and cognizant of current and future environmental conditions. In 2008, the purchase of the Pennsylvania brewery began the process of bringing production in-house. Additionally, changes to the company's marketing strategies in 2008 and 2009 resulted in cost savings and additional sales.[19] Increased profits can be used in one of three ways: reinvestment in the company, payment dividends to shareholders, or payment of debt. Because the company pays no dividends and has no long-term debt, it is obvious the company is reinvesting its profits.[20] Boston Beer is positioning itself for additional growth and has the financial ability to respond to changes in the macro-environment. It is on solid financial footing with an effective strategy for the current and future environment.

Strategy and Resource Base

Boston Beer has focused on building a resource base consisting of financial resources, innovative processes, multiple brewery locations and strategic marketing efforts. This resource base supports the company's strategies of focus and differentiation. Boston Beer has never strayed from its focus as a beer brewer. Investment in breweries and brewing equipment has been a priority. Diversification of its operations into other products or processes has not been pursued. Continuous introduction of new products speaks to the company's competence in its brewing process and commitment to its differentiation strategy. Consumers and distributors recognize Samuel Adams® beer fills a niche – one that many are interested in as evidenced by the growth in this segment. However, one inconsistency present in the company's actions is its level of growth beyond the two million barrel mark. The number of barrels sold has steadily increased each year since the company's inception. Currently, according to law, Boston Beer is too big to be considered a craft brewer[21], yet too small to compete with the major brewers. If Boston Beer continues to grow, it will further distance itself from the significantly smaller craft brewers.

While Boston Beer may be struggling to figure out where it fits in the beer industry, it has continued to achieve solid financial results. Although 2008 presented financial challenges due to the necessary product recall, the company has improved its financial performance in 2009. Increasing sales during a time when the major players in the industry are declining is a testament to Boston Beer's quality and variety. Internal operations and the attraction of additional equity investment have financed the acquisition of resources and development of new products.

Environment and Resource Base

The beer industry is constantly changing while overall industry sales remain flat. Mergers and acquisitions have narrowed down the number of brewers but varieties of beer have increased. The major brewers have the resources to compete in nearly all facets of the industry. Imports have gained market share in the U.S. and new craft beer varieties are continually introduced. With these dynamics, companies must focus on the following factors in order to be successful:

- Offering great VARIETY in flavors and categories
- Building good relationships with DISTRIBUTORS
- Using innovative MARKETING & ADVERTISING strategies to build a BRAND
- Controlling and reducing manufacturing COSTS

Boston Beer has embraced the culture of being unique. The consumer's continually evolving palate represents a great opportunity for Boston Beer. The company is continually developing new beer brands with unique appeal. In 2009, the Samuel Adams® Barrel Room Collection was introduced. Inspired by Belgian brewing traditions and bottled in glass bottles with cork closures, each beer offers a different taste experience.[22] This is but one distinctive offering by the Boston Beer Company. The constant focus on what's best for the beer encourages creativity within the company. The Boston Beer "Brew Crew" is not afraid to brew a new flavor on a whim to see if it gains popularity.

Getting the word out about the beer has been done through traditional beer industry advertising channels such as television and distributor relationships. The company has built a large sales force that communicates with distributors regularly providing them with industry education and company promotions. However, some of Boston Beer's best advertising may come from its involvement in its programs and contests such as the Longshot® American Homebrew Contest® or Samuel Adams® Brewing the American Dream.[23] The company also created a Hops Sharing Program in 2008 as a response to the worldwide shortage of hops. Knowing small craft brewers would have difficulty obtaining hops, Boston Beer developed a program that would allow small brewers to buy hops directly from Boston Beer, at the company's cost. The company gains positive publicity and increased consumer loyalty from these creative marketing channels.

The company's acquisition of the Pennsylvania brewery put it in a position to further capitalize on industry trends. Consolidations in the industry in recent years reduced the capacity of contract brewers. By bringing majority of its production process in-house, Boston Beer has better control over the production process and relies little on other brewers. Additionally, this acquisition leaves the company additional room for growth, delaying the need for the acquisition or construction of other brewing facilities. The company has achieved efficiencies by brewing in-house and has implemented cost-savings strategies enabling it to realize substantial energy savings. The company realized increased margins in 2009 due to these changes and expects an additional increase in 2010.[24]

Boston Beer has implemented strategies that are in line with the key success factors in the industry; however, industry challenges must also be addressed. The consolidation in the beer industry has been somewhat addressed by the company by bringing most of its beer production in-house. It will be important for the company to constantly be aware of this trend as mergers, acquisitions, and joint ventures put the power in the industry in fewer and fewer hands. In 2008, the Anheuser-Busch acquisition by Belgian company, InBev, and the joint venture between SAB-Miller and Molson Coors consolidated numerous beer brands and created two companies with a large global presence.[25] Additionally, major brewers have seen the opportunity in craft beer and have introduced varieties of their own. While the Better Beer segment is different from the major brewers, it will still be influenced by the actions of companies with larger market presence. Heineken's announcement in January of its acquisition of Mexican company, Femsa Cerveza, solidifies the company as the largest in the better beer category and second-largest brewer in the world.[26] Boston Beer has a formidable competitor in the better beer category on a global basis. Boston Beer has established itself as the largest craft brewer in the U.S., has developed numerous distributor relationships, and has delved into joint ventures of its own. The resources possessed by the company now will be useful in addressing these threats. Additional brewing capacity and incremental increases in market share, both domestically and internationally, will help Boston Beer better position itself.

Leadership and Management Issues

Three major management issues face the company right now. Most importantly, the company must determine its capacity to manage internal production of its product. Until the purchase of the Pennsylvania brewery in 2008, only 35 percent of the company's beer was produced in-house. While, at times, there were problems related to contracting with other brewers to produce the company's product, for the most part company management was successful in managing these relationships. Since 2008, the company has increased its in-house production and should produce nearly 95 percent of its product in-house. Efficiencies in operations have already been achieved; yet, management is unproven in its ability to fully manage production. If the company can successfully transition from management of contract brewers to management of complete brewing operations, it could increase the number of barrels produced which could lead to increased sales and greater market share. If a solid plan for managing production is not implemented, the company could sink rapidly. However, handled correctly, this increased capacity could enable the company to grow within the better beer segment. Additionally, the ability of leadership to sustain the level of growth the company has enjoyed must also be examined. While the company has made short-term decisions to increase marketing efforts and build its brand, a plan for the continuation of these efforts must be developed and the appropriate personnel must be trained or hired to carry it out.

The second issue is apparent lack of a succession plan. Although a formal succession plan may actually be in place, the emotional fall-out of Jim Koch no longer being involved in the company will have an unknown impact. Preparing the company and its employees and implementing a slow transition is imperative in order to let the impacts of change sink in. A leadership team that is actively involved and has authority for day-to-day decision-making and communicates regularly with Koch is necessary to successfully move the company beyond Koch's leadership. Related to this, the company must evaluate its ownership structure. Jim Koch currently owns 100% of Class B voting shares, giving him voting preference over Class A shares. If not addressed, this could limit the attraction of additional equity. Additionally, as Koch sells his shares and the ownership structure changes, the company must be conscious of the impact this will have or new owners may lead the company in a different direction.

The final issue is the company's status as a craft brewer. A craft brewer is defined by law to produce less than two million barrels of beer per year. In 2009, the company produced nearly this amount and is in jeopardy of losing this legal status. While loss of this status has financial consequences arising from higher taxes, more importantly is the consumer view of the company. Jim Koch feels the craft brewer status is the essence of what the company is all about. If the company outgrows this status, consumers may view its beer as less distinctive than that of other craft brewers. While holding on to the importance of the craft brewer status, the company has moved itself into the self-created better beer segment. Positioning itself in this category allows room for growth but could also change the brand image.

To ignore these issues could lead to the company's demise. Good management decisions up to this point have led to success. To continue the company's success, the company must address these issues.

Appendix A: Strategy Analysis

Corporate/Business-Level Strategy

The Boston Beer Company has chosen a single-business strategy as its main over-arching corporate-level strategy.

On a business-level, Boston Beer has chosen to follow both a focus strategy and a differentiation strategy. In 1984, the company began by using traditional recipes passed down for generations in the Koch family and continues to brew its trademark brand, Samuel Adams® Boston Lager with the same recipe. The company chose to focus on one niche in the beer industry – craft beer. The craft beer segment consists of brewers who are small, independent, and traditional.[27] Jim Koch, the company's founder, believes the craft description is part of what makes the company unique and recognizes that craft brewers have traits exclusive to their segment of the industry.[28] Building on the success of the unique characteristics of its beer and using the best ingredients gathered from around the world, the company continually strives to be different. The company takes pride in its beer and company leaders, brewers and employees are passionate about the beer they develop. Boston Beer always tries to do "what's best for the beer"[29] and continually seeks innovation in its brands and processes. The company's nine-person "Brew Crew"[30] continuously reviews its product line and, in addition to developing new brands to add to the product line, discontinues brands when they feel it is necessary. Review and input from its customers is an important factor in determining if a newly created beer stays in the product line. At its Boston facility, the company test brews beer and lets the drinker evaluate it. The company's original philosophy still holds true today: "Offer beer lovers a better beer and teach them what makes a beer great." According to the 2009 annual report, "The Company's business goal is to become the leading brewer in the better beer category by creating and offering high quality full-flavored beers. With the support of a large, well-trained sales organization, the Company strives to achieve this goal by increasing brand availability and awareness through advertising, point-of-sale and promotional programs."[31] The company boasts a sales force of 265 people (one of the largest in the industry) who are well-trained in the brewing process.[32] They are responsible for maintaining the company's 400 distributor relationships and cultivating new ones. While the main focus of the sales force is on distributors, salespeople use promotional tactics and educational programs aimed at both retailers and consumers, as well. The Boston Beer Company uses unique means to attract the targeted end-user of its product – the consumer. The company directs its advertising message to consumers who want to savor the taste of beer – true beer aficionados. Its website offers resources for food and beer pairings as well as education on the brewing process and ingredient choices and methods for tasting and evaluating beer. Additionally, it has developed the Longshot® American Homebrew Contest® which allows homebrewers across the country to submit their entries – six of which will be chosen to be part of a limited edition variety pack of Samuel Adams® beer. This event creates positive public relations and is a unique marketing strategy targeted directly at its preferred drinker.

But, overall, the focus of the company is always on the beer. According to Jim Koch's father, Charles, "Good beer makes its own friends."[33]

Cooperative Strategy

Recently, Boston Beer has formed two strategic alliances to help achieve the company goals. At the end of 2009, the company developed a distributor relationship with Moosehead Breweries of Canada. Moosehead will be responsible for distribution throughout Canada. Developing this alliance is beneficial to both companies as both should achieve financial gains. Boston Beer is continuously seeking ways to increase its market share both domestically and internationally. Capitalizing on the relationships Moosehead Breweries has already developed with its distributors may help Boston Beer more easily achieve sales growth in Canada.

In 2010, Boston Beer announced it is teaming up with the world's oldest brewer, Weihenstephan in Germany to create a new beer that is a combination of German heritage and brewing method's and Boston Beer's innovativeness. Boston Beer strives to be different and on the cutting edge in the beer industry. This unique beer with more than 10 percent alcohol content attempts to meets that goal.

International Strategy

While 99 percent of its beer is sold in the United States, Boston Beer also has markets in Canada, Europe, Israel, the Caribbean, Pacific Rim and Mexico.[34] Although the international markets have been virtually untapped for company sales, many ingredients used in the production of Samuel Adams® beer are purchased overseas. Barley is purchased mainly from the U.S. and Canada and the companies Noble hops are purchased from companies in Germany and the Czech Republic, while others are purchased in England.

The Weihenstephan venture detailed above and the newly forged distributor relationship with Moosehead Breweries of Canada are part of the company's international strategy as it tries to increase awareness of the product as well as its international market share.

Appendix 2: Financial Analysis[35]

Sales in 2009 were $415 million, a 4.18% increase from the prior year. According to the 2009 Annual Report, this increase was attributed to an increase in prices. In 2008, the company initiated a voluntary recall of some of its product. When factoring out the impact of this recall ($13.2 million), actual sales growth was $3.5 million or 1%. [36] While modest, this still represents growth during a difficult economy. Additionally, the overall beer industry experienced a decline in sales in 2009, so this result is positive for the company. Sales in 2008 represented nearly a 17% increase over 2007. Total barrels sold in 2009 were 2.2 million, of which 2 million were core products. Sales per barrel for core products were $205 in 2009 compared to $200 in 2008 and $185 in 2007. Sale price per barrel can fluctuate depending on the packaging mix each year. If more beer is bottled and sold rather than sold in a keg, the sale price per barrel will be higher. Additionally, the company may increase prices each year.

Gross profit margin grew substantially – up 5.36% to 51.52%. Much of this increase can be attributed to the recall costs of $9.5 million that were recognized in 2008. When removed from the calculation, actual change in gross profit margin was 2.98%, still a significant increase. The company credits much of this improvement to lower energy costs at its breweries. Gross profit per barrel on core products was up from $92.31 in 2008 to $105.80 in 2009. Gross profit margin in 2007 was 55.43%. This extreme fluctuation in gross profit margin over the last three years can be somewhat explained by one-time occurrences in 2008. In 2008, start-up costs of the Pennsylvania brewery, the product recall, and penalties from not meeting the minimum brewing requirement with its contract brewers all contributed to higher costs, and thus, a lower gross profit margin. While the three year picture is not consistently positive, gross profit margin is greatly improved from 2008 to 2009 which is a good trend. Because the company was able to better control and reduce its costs, additional profitability was generated.

Total operating expenses in 2009 were 38.44% of sales, down 4.19% from 42.63% in 2008. Although the company had a full year of expenses related to operating the Pennsylvania brewery, compared to only seven months in 2008, the company seems to have achieved efficiencies in other areas to compensate for these increased costs. Operating expenses in 2007 were at 45% of sales. The company has been able to reduce expenses each year over the last three years. These results are reflective of good management decisions meant to control costs while still increasing sales.

Overall profitability was at $31 million or 7.5% of sales. This was up from $8 million in 2008. The company's ability to reduce its costs of goods sold and operating expenses, coupled with no recall in 2009 caused the company to generate significantly better results. Net profit was 6.6% of sales in 2007, showing the company was able to rebound from the 2008 recall and generate even better results in 2009. Earnings per share on an undiluted basis was $2.21 in 2009 compared to $0.58 in 2008 and $1.58 in 2007. All income statement measures show favorable results in 2009.

On the Balance Sheet, total assets in 2009 grew $43 million to $262 million. In 2007, total assets were $198 million. Significant current assets include cash which fluctuated from $95 million in 2007 to $9 million in 2008 to $55 million in 2009. To support additional sales, inventory grew each year from $18 million in 2007 to $23 million in 2008 to $26 million in 2009. Fixed assets remained nearly the same as 2008, showing little investment in property or equipment in 2009. In 2008, the company purchased the Pennsylvania brewery which caused fixed assets to rise by $91 million to $150 million. Minimal investment in fixed assets in 2009 comes as no surprise because the company completed its purchase and renovation of the Pennsylvania brewery in 2008 and focused on operating it in 2009, rather than pursue further expansion.

Working capital was $39 million in 2009 compared to $1 million in 2008 and $78 million in 2007. The company had excess liquidity each year, which is positive; however, this number dropped significantly in 2008. According to the company, the 2008 purchase of the Pennsylvania brewery was financed primarily by company cash, thus accounting for this decline.[37] The Current Ratio was 1.53 in 2009, 1.03 in 2008 and 2.29 in 2007. This ratio measures the ability of the company to pay its bills. In 2009, for every dollar of current liabilities, the company had $1.53 in current assets with which to pay it. This is positive and shows that at this point in time, the company is solvent and has liquid assets. The Quick Ratio measures the ability of the company to generate cash. It is similar to the Current Ratio except it only measures two of the most liquid assets – cash and accounts receivable – compared to Current Liabilities. The Quick Ratio was .99 in 2009, .40 in 2008, and 1.89 in 2007. While this number has declined from its high in 2007, the ratio in 2009 was still acceptable.

The company used a mixture of short-term liabilities and equity to finance its growth. Stockholders Equity grew from $134 million in 2007 to $140 million in 2008 to $173 million in 2009. The company has no long-term debt. The Debt-to-Equity ratio, which measures the mix of debt and equity used to finance company assets, changed slightly over the three year period. It was 0.48 in 2007, 0.57 in 2008, and 0.52 in 2009. Because Boston Beer is financed more by equity than by debt, the company shows financial strength and has flexibility in financing additional growth.

Management efficiency is measured by the ability of the company to use its assets effectively and generate a sufficient return on assets and a return on investment that is in line with what the investor seeks. In 2009, sales-to-assets was 1.58 compared to 1.81 in 2008 and 1.73 in 2007. Sales growth and the timing of investments in fixed assets have caused this number to fluctuate over the last three years. Because company profits were small in 2008, the 7.21% return on assets that year was unimpressive, yet the company's approximately 21% return on assets in both 2009 and 2007 was much better. The 2007 number is reflective of company operations and return-generating ability before the purchase of the Pennsylvania brewery, while the 2009 number is reflective of the company adjusting to and integrating the new operational methods into existing operations, developing efficiencies, and getting back on track. The approximately 31% return on investment in both 2009 and 2007, and an 11.31% return in 2008, reflects the above trends, as well. Considering that the stock market, as measured by the S&P 500 generated returns of 27.11% in 2009, -37.22% in 2008 and 5.46% in 2007, 31%, and even 11%, are excellent annual returns.[38]

Efficiency is also measured by the ability of the company to collect from customers, manage its inventory, and pay its bills. The average collection period in 2007, 2008, and 2009 was 19, 16, and 15, respectively. Assuming the company gives its customers 30-day terms, this shows that customers are paying on time. The positive trend shows customers are paying more quickly. Inventory turnover has fluctuated from 43 days in 2007, to 38 days in 2008, and to 46 days in 2009. The drop in 2008 can again be explained by the product recall. The average payment period for payment of bills was 42 days in 2007, 34 days in 2008 and 45 days in 2009.

The Boston Beer Company stock is publicly traded on the New York Stock Exchange under the symbol SAM. As of market close on December 31 of 2007, 2008, and 2009, the stock was priced at $37.65, $28.40, and $46.60, respectively. Evaluating stock data is important because it gives an indication of how the public views the company – either positively or negatively. In 2008, the recall negatively impacted the stock price, but 2009 performance made up for it with a much increased stock price. As shown with the analysis above, investors saw increased earnings per share in 2009 and a substantial return on investment each year. The company's price-to-earnings ratio was 23.76 in 2007, 48.90 in 2008, and 21.05 in 2009. This shows that investors see value in the stock and are willing to pay a high premium for this stock compared to its earnings.

For the most recent quarter ended June 26, 2010, the company reports sales of $224 million with 1.089 million barrels sold. Sales dollars are up slightly from the same period in 2009 while the number of barrels sold was down from 1.144 million. This was the result of a 13.3% increase in barrels of core products, but significant drop in sales of non-core products due to the termination of Packaging Services Agreement with Diageo North American in May 2009. Gross profit margin in 53.74%, up from the 2009 year-end number of 51.52%. Operating expenses as a percentage of sales were 37.22%, while in 2009, they were at 38.44% of sales. Improvement in gross profit margin and reduction in expenses resulted in a 10% net profit margin. The stock price has grown exponentially to a market close on June 25, 2010 of $70.10. The company has a high price-to-earnings ratio of 43.27, showing that investors continue to see value in the company's stock.

Financial analysis of the company would not be complete without evaluating it against other companies in the industry. For this analysis, the most recent fiscal year was used for: Anheuser-Busch/InBev, SAB-Miller, Molson Coors, Heineken, and Craft Brewers Alliance. Compilation of this data resulted in industry averages to use in comparison to the financial results of The Boston Beer Company. The company performed better than the industry on all Balance Sheet measures with positive working capital, significantly higher Current and Quick Ratios and significantly lower Debt-to-Equity Ratio. Boston Beer has greater liquidity than nearly all other companies analyzed. Additionally, while the overall measure of debt for the industry is nearly three times that of Boston Beer, two companies are skewing that number greatly. Anheuser-Busch has a Debt-to-Equity Ratio of 2.71 and Heineken is at 2.77. With both companies completing expansions and acquisitions in the last few years, this level of debt is understandable. However, it seems as if maintaining a low level of debt is an industry preference, one which Boston Beer shares. Gross Profit Margin for the company is nearly 5% higher than the industry average; however, Net Profit Margin is less by over 1%. While the company controls costs and pricing better than the industry, it has higher operating expenses. Sales growth of 4.18% seems low compared to the industry, yet further analysis must be done. SAB-Miller, Molson Coors, and Heinken all showed a drop in sales from 2008 to 2009. Craft Brewers Alliance showed a large increase of 65.4%. Anheuser-Busch also showed a substantial increase of 56.37%. Prior analysis of the beer industry in the external analysis showed that major brewers actually saw a significant drop in sales from 2008 to 2009, while craft brewers saw increases. This is illustrated by the results of SAB-Miller, Molson Coors, Heineken, and Craft Brewers Alliance. It is believed that the large increase for Anheuser-Busch was due to its acquisition by InBev in 2008 and subsequent consolidation of financial results. Boston Beer does significantly better than the industry in overall efficiency, achieving, in 2009, a 20.68% return on assets while the industry achieved 5.65% and a 31.4% return on investment while the industry achieved 15.47%. Specific efficiency measures include maintaining inventory of about ten days less than the industry, collecting accounts receivable nearly 36 days faster than the industry, and paying bills three days faster than the industry. From an investor's viewpoint, Boston Beer has earnings per share in the most recent fiscal year of $2.21 compared to the industry at $1.91 and the company's price-to-earnings ratio is comparable at 21.05 compared to 23.57 for the industry. When looking at individual company price-to-earnings ratios, Boston Beer is only lower than Craft Brewers Alliance and SAB-Miller. These measures are both positive indicators for the company.

The data used in this analysis was chosen because it is key in evaluating the performance of the company. All information for The Boston Beer Company was taken from the company's 2009 Annual Report and Annual 10-K reports filed with the Securities and Exchange Commission. Information on other brewers was taken from each company's most recent annual report, Annual 10-K reports, Google Finance, and Yahoo Finance. Evaluation of both the income statement and balance sheet is necessary to get the complete picture of financial performance. Analysis of the financial statements will answer questions about sales growth, cost and expense control, investment in assets, and changes in the financing structure of the company. Boston Beer Company has managed considerable sales growth over the last three years by investing in fixed assets, increasing equity, and managing costs and expenses. The company seems well managed and financially responsible.

See attached Excel spreadsheet for the complete analysis.

Appendix 3: Internal Analysis

The Boston Beer Company has many positive traits that have led to its growth and success. Yet, the following management issues (ranked in order of importance) must be addressed:

1. New production process and ability to sustain growth
2. Succession planning & stock ownership
3. Craft beer distinction

Since the company's inception, majority of its beer has been brewed under contract by other brewers. The company has historically brewed about 35 percent of total production in-house. With the purchase of the Pennsylvania brewery in 2008, that increased to 95 percent in 2009.[39] By 2010, the company expected to continue to brew 95 percent in-house.[40] While the company has successfully managed its contracts and grown sales through good marketing and distribution, it is not certain they have the ability to manage production. It is not apparent that in-house production fits with the overall company strategy of differentiation. This management issue must be addressed immediately as it could have immediate effects on the business. Appropriate planning will help ensure the effects are positive; however, there is much uncertainty that this was a fitting strategy. Rapid capacity expansion could negatively affect the company. Results to-date show that the company has achieved efficiencies by bringing production in-house. While the company has continually focused on a differentiation strategy, it had never had as part of its operational strategy the brewing of its entire product line. The company must ensure it modifies its functional strategies to accommodate this change. While the added capacity gives the company the room to grow, of more importance is its ability to manage and sustain the level of growth it has enjoyed since the company's inception. In this first quarter of 2010, the company spent $3.2 million more in marketing efforts than it did in the same period in 2009 in order to build its brand and stimulate future growth.[41] It is necessary to determine if the company has the appropriate functional strategies and personnel with which to carry them out.

Jim Koch is a very visible figure both within the company and in company advertising. As founder of the company and current chairman, Koch is very involved in day-to-day operations. Because he is such an important part of the company's success, it is necessary to evaluate the impact on the company if Koch was no longer involved. Research shows that Koch himself currently travels to select ingredients at the start of the brewing process and taste tests each batch before it leaves the brewery at the end of the process.[42] Koch's management style may be seen as being too involved, especially from the current viewpoint as the Chairman of the Board, not the company CEO nor a functional manager. In addition to a succession plan that outlines who would take over Koch's responsibilities, it is necessary to evaluate the impact on the company. How will employees react to new leadership? Would shareholders have faith in new management? Because he is such a figurehead for the company and ultimate decision making lies with him, succession planning is of high priority. While Boston Beer is a publicly traded company, under the symbol SAM, with over 13 million shares outstanding, Jim Koch currently owns 100% of the Class B voting shares of the company.[43] This gives him preference in voting over Class A share holders. While not as immediate an issue as the prior two, the ownership structure could be troublesome. Without Koch the company would not exist; however, this level of decision-making authority could limit the attraction of additional equity investment. With minimal long-term debt and steady increases in equity each year, this does not seem to be a problem yet, but it must be monitored. As Koch sells his shares, the direction of the company could change if new owners vote differently than he had. Research on the company's ownership structure identified this issue, and while it is not inconsistent with the company's strategy, it could affect the success of the company for the long-term. Developing a plan for management of the production process has immediate operational and financial impacts, so it has higher priority, but succession planning is a close second.

The Boston Beer Company's website, annual reports, and company literature boast that the company is the largest craft brewer in America.[44] And while the company has successfully positioned itself this way it is in jeopardy of losing this distinction. Legally, brewers who sell more than two million barrels per year are not considered craft brewers. This equates to an increase in taxation on the first 60,000 barrels produced.[45] Initially, this loss of status will have increased financial cost to Boston Beer. Yet, of greater concern is the classification of the company in the consumer's view. Jim Koch coined the term "better beer" to include both craft beer and import beer.[46] This strategic move grouped his growing business with both small craft brewers and much larger import brewers, putting the focus on style of the beer, rather than size of the company. The effort seems to be working. Consumers have come to view both import and craft beer as belonging in the same category.[47] Now, even if growth causes the company, by law, to lose the craft brewer distinction, it may be able to further transition into the better beer segment and compete will multiple brands of flavorful, unique brands. While Koch's development of the Better Beer segment seems to be succeeding, the company still feels its status as craft brewer is important.[48] Recent legislation has been introduced to increase the limit from two million barrels to six million barrels, but promotion of itself as a craft brewer may be limited by law unless this legislation passes.

Appendix 4: Resource and Competence Analysis

Company resources include a strong financial position; expertise and involvement of the company founder, Jim Koch; multiple brewery facilities; and numerous proprietary formulas for beer.

The Boston Beer Company has a solid financial position including a significant cash balance, no long-term debt and availability of a $50 million line of credit.[49] While cash was down slightly at June 26, 2010 compared to the 2009 fiscal year-end, the company attributed that to an increase in its stock repurchase program. Having excess liquidity with which to repurchase stock also shows the company is on strong financial footing. As the company goes forward, it has much flexibility in securing funds for expansion. A strong equity position and significant, positive cash flow make securing long-term debt easier. Availability of the line of credit can be useful for opportunities that the company wants to act quickly on. By managing costs and expenses, financing growth internally, and managing inventory, accounts receivable and accounts payable, the company has achieved financial results that are favorable to long-term growth.

Company management has always believed that if a high-quality product was developed, customers would follow. The ability to evaluate and choose the best ingredients is a competence the company founder, Jim Koch, possesses and has instilled in other brewers in the company. Because of his knowledge, involvement and visibility in the company, Koch himself is a valuable resource of the company. Although it is not possible to quantify Koch's worth, it is easy to see that his involvement and attention has grown the company from 500 barrels to over two million barrels sold. Koch himself still tastes each batch before it is approved for bottling.[50]

Boston Beer has focused on capacity expansion by acquiring breweries and establishing operations in Boston, Cincinnati and Pennsylvania. When sales growth occurred quickly in the first few years, the company developed contractual relationships with other brewers to produce its beer. While the company was able to maintain control over the ingredients used, it gave up control of the brewing process for majority of its product. In fact, for many years, only 30 to 35 percent of its beer was brewed in house. With consolidations and acquisitions in the industry, other brewers excess capacity dropped and Boston Beer felt this would impact its ability to rely on other brewers to produce its beer. So, with its purchase and renovation of the Pennsylvania brewery in 2008, Boston Beer developed the capacity to produce about 95 percent of its beer itself.[51] This valuable resource will give the company greater control of the quality of its beer. This transition has taken place slowly over the last two years with about 95 percent produced in-house in 2009 and an expectation to produce 95 percent in-house in 2010.[52] The company also feels it has ability to expand its capacity another 10 percent over current production levels.[53]

Old Koch family formulas for beer were used to start The Boston Beer Company and these beer formulas are still used today. The company's flagship brand, Samuel Adams® Boston Lager was originally brewed by Jim Koch's great-great-grandfather. This beer is the best selling beer in the Samuel Adams® line and loss of this proprietary formula would be devastating to the company. Over the years, numerous other formulas have been developed, each with unique properties. Safeguarding the formulas is essential to the long-term success of the company.

Numerous competencies have helped the company grow successfully since its start in 1984. The most significant competencies include commitment to innovation; development of a brand image; well-established distributor relationships and the ability to strengthen them; and a well-managed and easily transferrable brewing process.

The Boston Beer Company develops beer with distinct tastes. Its beer is characterized as full-bodied and flavorful. Jim Koch's knowledge of the brewing industry and desire to offer something different shaped the strategy of the company. Over time, the company became proficient at creating, marketing and selling a number of brands. Innovation is a core competency of the Boston Beer Company and straying from the beer industry norm is a usual occurrence. Customer favorites plus a fresh lineup of new varieties are always available. Additionally, seasonal brands are available at certain times of the year. The company's differentiation strategy sets it apart from its competitors across the entire industry. This competence is a direct result of the company's strategy and makes it what it is today.

While it has always been important for the company to provide to quality product, it has also been important to provide a product that consumers want. The company solicits constant feedback from consumers regarding their opinions on new beer brands that are developed. Through its brewery operation in Boston, participants in the brewery tour can taste and evaluate new brands – sometimes even before they are bottled and sold to the general public. Development of this relationship with its customers benefits Boston Beer because it truly delivers the product the customer wants. Additional benefits come in the form of increased customer loyalty and inexpensive test marketing. The company knows how to manage consumer involvement. Using consumer involvement is one way the company builds its brand. It also holds its status as craft brewer in high regard. As one of the original craft brewers, and now as the largest craft brewer in the U.S., promotion of its uniqueness is at the forefront of its messages. Whether it be in the form of advertising, promotion of the programs and contests it has developed and sponsors, or in the innovative partnerships it develops, the company focuses on building a consistent brand image. The ability to develop and promote its unique brand is a key competence and vitally important as it competes with nearly 1,600 other craft brewers plus larger brewers with greater resources.

While marketing directly to the consumer is a solid competence, Boston Beer has focused even more on developing relationships with its main customers – the distributors. The company has been successful in developing over 400 relationships with distributors. These relationships are very important because the distributors' customers, the retailers, have limited shelf space and want to stock products that will turnover quickly. Additionally, many distributors have long-standing relationships with the major brewers and may be reluctant to add a new product to their line. Craft brewers who are successful in maintaining distributor relationships will ensure their product is readily available to consumers. These relationships give the company a significant advantage over other craft brewers.

Lastly, while the beer formulas are recognized as a valuable company resource, the ability to brew the beer from traditional recipes is a competence of the company. In the beginning, the company contracted out majority of the brewing of its flagship brand to other brewers. The ability to transfer the process to another brewer and receive the appropriate product is testament to the company's knowledge of the process and the inherent reliability of the process itself. As the company now brings majority of its brewing in-house, this will be valuable. Because the production process was not a main part of the company until recently, the transferability of the brewing process will aid the company in its transition to all in-house brewing. This competence is very important to the future direction of the company.

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The Boston Beer Company

HISTORICAL

INCOME STATEMENT

(000's)

	YTD 6/26/10 **2010**		**2009**		**2008**		**2007**	
GROSS SALES	223,593	100.00%	415,053	100.00%	398,400	100.00%	341,647	100.00%
Less: Cost of Goods	103,427	46.26%	201,235	48.48%	214,513	53.84%	152,288	44.57%
GROSS PROFIT	120,166	53.74%	213,818	51.52%	183,887	46.16%	189,359	55.43%
EXPENSES:								
Advertising.Promotion,Selling Expenses	64,228	28.73%	121,560	29.29%	132,901	33.36%	124,457	36.43%
General & Administrative Expenses	19,000	8.50%	36,938	8.90%	34,988	8.78%	24,574	7.19%
Impairment of Long-lived Assets		0.00%	1,049	0.25%	1,936	0.49%	3,443	1.01%
TOTAL OPERATING EXPENSES:	83,228	37.22%	159,547	38.44%	169,825	42.63%	152,474	44.63%
OPERATING INCOME	36,938	16.52%	54,271	13.08%	14,062	3.53%	36,885	10.80%
Other Income	11	0.00%	96	0.02%	1,778	0.45%	4,759	1.39%
NET PROFIT BEFORE TAX	36,949	16.53%	54,367	13.10%	15,840	3.98%	41,644	12.19%
Less: Provision for Income Taxes	14,419	6.45%	23,249	5.60%	7,752	1.95%	19,153	5.61%
NET PROFIT AFTER TAX	22,530	10.08%	31,118	7.50%	8,088	2.03%	22,491	6.58%
Barrels Sold								
Core Products			2,021		1,992		1,848	
Non-Core Products			201		349		28	
Total Barrels Sold	1,089		2,222		2,341		1,876	
Sale Price per Barrel	$ 205.32		$ 186.79		$ 170.18		$ 182.11	
Sale Price per Barrel - Core Products	$ 206.19		$ 205.37		$ 200.00		$ 184.87	
Gross Profit per Barrel	$ 110.35		$ 96.23		$ 78.55		$ 100.94	
Gross Profit per Barrel - Core Products	$ 110.86		$ 105.80		$ 92.31		$ 102.47	

Figures are taken from the Company's 2009 annual report, Annual 10-Ks, and Quarterly 10-Qs for the corresponding periods.

The Boston Beer Company
HISTORICAL
BALANCE SHEET
(000's)

		26-Jun 2010	2009	2008	2007
P/L	Gross Sales	223,593	415,053	398,400	341,647
	Net Profit After Tax	22,530	31,118	8,088	22,491
Assets	Cash	53,679	55,481	9,074	95,489
	Accounts Receivable	26,801	17,856	18,057	17,972
	Inventory	25,337	25,558	22,708	18,090
	Other Current Assets	14,651	14,135	19,015	6,342
	TOTAL CURRENT ASSETS	120,468	113,030	68,854	137,893
	TOTAL FIXED ASSETS	145,626	149,906	150,903	60,062
	TOTAL ASSETS	266,094	262,936	219,757	197,955
Liabilities	Accounts Payable	22,538	25,255	20,203	17,708
	Accrued Expenses	53,860	48,531	46,854	42,449
	TOTAL CURRENT LIABILITIES	76,398	73,786	67,057	60,157
	Deferred Income Tax	13,439	13,439	9,617	1,215
	Other Liabilities	3,705	2,556	3,055	2,995
	TOTAL OTHER LIABILITIES	17,144	15,995	12,672	4,210
	TOTAL LONG-TERM LIABILITIES	-	-	-	-
	TOTAL LIABILITIES	93,542	89,781	79,729	64,367
	STOCKHOLDERS EQUITY	172,552	173,155	140,028	133,588
	TOTAL LIABILITIES & STOCKHOLDERS EQUITY	266,094	262,936	219,757	197,955

The Boston Beer Company
HISTORICAL
RATIO ANALYSIS

Ratio	Formula	26-Jun 2010	2009	2008	2007	Significance
Balance Sheet Ratios						
Working Capital	Current Assets - Current Liabilities	$ 44,070	$ 39,244	$ 1,797	$ 77,736	Measures the excess of Current Assets over Current Liabilities.
Current	Current Assets / Current Liabilities	1.58	1.53	1.03	2.29	Measures Solvency: e.g. a ratio of 1.76 means that for every $1 of current liabilities, the Co. has $1.76 in Current Assets with which to pay
Quick	Cash & A/R / Current Liabilities	1.05	0.99	0.40	1.89	Measures Liquididity: e.g. a ratio of 1.14 means that for every $1 of current liabilities, the Co. has $1.14 in Cash & AR with which to pay
Debt-to-Equity	Total Liabilities / Owner's Equity	0.54	0.52	0.57	0.48	Measures Financial Risk: e.g. a ratio of 1.05 means that for every $1 of owner's equity, the Co. owes $1.05 in debt to its creditors
Income Statement Ratios						
Gross Margin	Gross Profit / Sales	53.74%	51.52%	46.16%	55.43%	Measures Gross Profitability: e.g. a ratio of 34.4% means that for every $1 of sales, the Co. produces 34.4 cents of gross profit
Net Margin	Net Profit Before Tax / Sales	16.53%	13.10%	3.98%	12.19%	Measures Net Profitability: e.g. a ratio of 2.9% means that for every $1 of sales, the Co. produces 2.9 cents of gross profit
Sales Growth	CY Sales-PY Sales / Prior Year Sales		4.18%	16.61%	19.70%	Measures the percentage change in sales (+ or -) from year to year.
Overall Efficiency Ratios						
Sales-to-Assets	Sales / Total Assets	0.84	1.58	1.81	1.73	Measure Efficiency of Total Assets in Generating Sales: e.g. a ratio of 2.35 means that for every $1 invested in total assets, the Co. generates $2.35 in total sales
Return on Assets	Net Profit Before Tax / Total Assets	13.89%	20.68%	7.21%	21.04%	Measure Efficiency of Total Assets in Generating Net Profit: e.g. a ratio of 7.1% means that for every $1 invested in total assets, the Co. generates 7.1 cents in Net Profit Before Tax
Return on Investment	Net Profit Before Tax / Stockholders Equity	21.41%	31.40%	11.31%	31.17%	Measure Efficiency of Stockholders Equity in Generating Net Profit: e.g. a ratio of 16.1% means that for every $1 invested in stockholde equity, the Co. generates 16.1 cents in Net Profit Before Tax
Specific Efficiency Ratios						
Inventory Turnover	Cost of Goods Sold / Inventory	4.08	7.87	9.45	8.42	Measures the Rate at Which Inventory is Being Used on an Annual Basis: e.g. a ratio of 9.81 means that the average dollar volume of inventory is used up almost ten times during the fiscal year
Inventory Turn-Days	360 / Inventory Turnover	88.19	45.72	38.11	42.76	Measures the Average Number of Days that Inventory Remains in Stock: e.g. a ratio of 37 means that the Co. keeps an average of 37 days worth of inventory on hand throughout the year.
Accts. Rec. Turnover	Sales / Accts. Rec.	8.34	23.24	22.06	19.01	Measures the Rate at Which Accts. Rec. are Being Collected: e.g. a ratio of 8.00 means that the average dollar volume of Accts. Rec. ar collected 8 times during the year
Avg. Collection Period	360 / Accts. Rec. Turnover	43.15	15.49	16.32	18.94	Measures the Average Number of Days that the Co. Must Wait for Its Accts. Rec. to be Paid: e.g. a ratio of 45 means that it takes the 45 days on average to collect its receivables
Accts. Pay. Turnover	Cost of Goods Sold / Accts. Pay.	4.59	7.97	10.62	8.60	Measures the Rate at Which Accts. Pay. Are Being Paid: e.g. a ratio of 12.04 menas that the average dollar volume of Accts. Pay. are paid about 12 time during the year
Avg. Payment Period	360 / Accts. Pay. Turnover	78.45	45.18	33.91	41.86	Measures the Average Number of Days that a Co. Takes to Pay its Accts. Pay.: e.g. a ratio of 30 means that it takes the Co. 30 days on average to pay its bills
Stock Analysis						
Weighted-average shares outstanding - basic		13,899	14,059	13,927	14,193	
Net Income per share - basic		$ 1.62	$ 2.21	$ 0.58	$ 1.58	
Stock Price @ DATE		$ 70.10	$ 46.60	$ 28.40	$ 37.65	
P/E Ratio	Market value per share / Earnings per share	43.27	21.05	48.90	23.76	Measures how much an investor is paying for $1.00 of company earnings. The higher the P/E ratio, the more investors are willing to pay on a per-share basis for the stock.

Industry Data
2009
INCOME STATEMENT
(000's)

	Anheuser-Busch		**SAB-Miller**	(3/31/10)	**Molson Coors**		**Heineken**		**Craft Brewers Alliance**	
GROSS SALES	36,758,000	100.00%	18,020,000	100.00%	3,032,400	100.00%	20,515,500	100.00%	131,700	100.00%
Less: Cost of Goods	17,198,000	46.79%	4,531,000	25.14%	1,726,900	56.95%	13,429,300	65.46%	95,300	72.36%
GROSS PROFIT	19,560,000	53.21%	13,489,000	74.86%	1,305,500	43.05%	7,086,200	34.54%	36,400	27.64%
EXPENSES:										
SG&A Expenses	9,973,000	27.13%	4,096,000	22.73%	900,800	29.71%	3,310,700	16.14%	25,200	19.13%
Other Expenses	(1,982,000)	-5.39%	6,774,000	37.59%	(349,300)	-11.52%	1,507,100	7.35%	8,800	6.68%
TOTAL OPERATING EXPENSES:	7,991,000	21.74%	10,870,000	60.32%	551,500	18.19%	4,817,800	23.48%	34,000	25.82%
OPERATING INCOME	11,569,000	31.47%	2,619,000	14.53%	754,000	24.86%	2,268,400	11.06%	2,400	1.82%
Other Income	(3,906,000)	-10.63%	310,000	1.72%	(36,500)	-1.20%	(281,100)	-1.37%	(1,300)	-0.99%
NET PROFIT BEFORE TAX	7,663,000	20.85%	2,929,000	16.25%	717,500	23.66%	1,987,300	9.69%	1,100	0.84%
Less: Provision for Income Taxes	1,786,000	4.86%	848,000	4.71%	(14,700)	-0.48%	398,000	1.94%	200	0.15%
NET PROFIT AFTER TAX	5,877,000	15.99%	2,081,000	11.55%	732,200	24.15%	1,589,300	7.75%	900	0.68%

Figures are taken from the Company's 2009 annual report, Annual 10-Ks, and Quarterly 10-Qs for the corresponding periods.

Industry

2009

BALANCE SHEET

(000's)

		A-B	SAB-Miller	Molson Coors	Heineken	Craft Brewers
P/L	Gross Sales	36,758,000	18,020,000	3,032,400	20,515,500	131,700
	Net Profit After Tax	5,877,000	2,081,000	732,200	1,589,300	900
Assets	Cash	3,744,000	800,000	734,200	767,600	-
	Accounts Receivable	4,689,000	1,800,000	717,200	3,314,300	11,100
	Inventory	2,354,000	1,295,000	236,200	1,449,100	9,500
	Other Current Assets	66,000		75,200	427,600	4,900
	TOTAL CURRENT ASSETS	10,853,000	3,895,000	1,762,800	5,958,600	25,500
	TOTAL FIXED ASSETS	16,461,000	8,915,000	1,292,500	8,632,800	97,300
	TOTAL INTANGIBLE & OTHER ASSETS	85,211,000	24,694,000	8,965,800	14,361,700	18,800
	TOTAL ASSETS	112,525,000	37,504,000	12,021,100	28,953,100	141,600
Liabilities	Short-Term Debt	2,043,000	1,605,000	300,300	1,866,600	-
	Accounts Payable			210,300	5,302,800	14,700
	Accrued Expenses	526,000	616,000	745,000	189,400	5,600
	Other Short-Term Liabilities	11,685,000	3,756,000	325,300	325,700	7,800
	TOTAL CURRENT LIABILITIES	14,254,000	5,977,000	1,580,900	7,684,500	28,100
	Long-Term Debt	49,028,000	7,809,000	1,412,700	10,618,500	-
	Other Long-Term Liabilities	18,925,000	3,808,000	1,947,900	2,972,800	32,900
	TOTAL LONG-TERM LIABILITIES	67,953,000	11,617,000	3,360,600	13,591,300	32,900
	TOTAL LIABILITIES	82,207,000	17,594,000	4,941,500	21,275,800	61,000
	STOCKHOLDERS EQUITY	30,318,000	19,910,000	7,079,600	7,677,300	80,600
	TOTAL LIABILITIES & STOCKHOLDERS EQUITY	112,525,000	37,504,000	12,021,100	28,953,100	141,600

Industry
2009
RATIO ANALYSIS

Ratio	Formula	A-B	SAB-Miller	Molson Coors	Heineken	Craft Brewers	INDUSTRY AVERAGES	SAM
Balance Sheet Ratios								
Working Capital	Current Assets - Current Liabilities	(3,401,000)	(2,082,000)	181,900	(1,725,900)	(2,600)	(1,405,920)	39,244
Current	Current Assets / Current Liabilities	0.76	0.65	1.12	0.78	0.91	0.84	1.53
Quick	Cash & A/R / Current Liabilities	0.59	0.44	0.92	0.53	0.40	0.57	0.99
Debt-to-Equity	Total Liabilities / Owner's Equity	2.71	0.88	0.70	2.77	0.76	1.56	0.52
Income Statement Ratios								
Gross Margin	Gross Profit / Sales	53.21%	74.86%	43.05%	34.54%	27.64%	46.66%	51.52%
Net Margin	Net Profit Before Tax / Sales	20.85%	16.25%	23.66%	9.69%	0.84%	14.26%	13.10%
Sales Growth	CY Sales-PY Sales / Prior Year Sales	56.37%	-5.06%	-36.48%	-1.97%	65.04%	15.58%	4.18%
Overall Efficiency Ratios								
Sales-to-Assets	Sales / Total Assets	0.33	0.48	0.25	0.71	0.93	0.54	1.58
Return on Assets	Net Profit Before Tax / Total Assets	6.81%	7.81%	5.97%	6.86%	0.78%	5.65%	20.68%
Return on Investment	Net Profit Before Tax / Stockholders Equity	25.28%	14.71%	10.13%	25.89%	1.36%	15.47%	31.40%
Specific Efficiency Ratios								
Inventory Turnover	Cost of Goods Sold / Inventory	7.31	3.50	7.31	9.27	10.03	7.48	7.87
Inventory Turn-Days	360 / Inventory Turnover	49.28	102.89	49.24	38.85	35.89	55.23	45.72
Accts. Rec. Turnover	Sales / Accts. Rec.	7.84	10.01	4.23	6.19	11.86	8.03	23.24
Avg. Collection Period	360 / Accts. Rec. Turnover	45.92	35.96	85.14	58.16	30.34	51.11	15.49
Accts. Pay. Turnover	Cost of Goods Sold / Accts. Pay.	0	0	8.21	2.53	6.48	3.45	7.97
Avg. Payment Period	360 / Accts. Pay. Turnover	0	0	43.84	142.15	55.53	48.30	45.18
Stock Analysis								
Weighted-average shares outstanding - basic		1,593,000	1,564,000	186,000	980,000	17,000	868,000	14,059
Net Income per share - basic		$ 2.90	$ 1.22	$ 3.92	$ 1.45	$ 0.05	$1.91	$2.21
Stock Price @ DATE		$ 52.03	$ 29.21	$ 45.16	$ 23.81	$ 2.40		$ 46.60
P/E Ratio	Market value per share / Earnings per share	17.94	23.94	11.52	16.42	48.00	23.57	21.05

Analysis of Problems, Opportunities & Threats

The Boston Beer Company has grown considerably since its start in 1984. Yet, while the company prides itself on being the largest craft brewer in the United States, this status may be in jeopardy. Federal law defines a craft brewer as one that produces less than two million barrels per year.[1] In 2009, Boston Beer surpassed the two million barrel mark by selling 2.2 million barrels.[2] While 200,000 of the barrels were produced on a contract basis for other companies, and all of the barrels sold were not necessarily produced in 2009, this brings the company alarmingly close to the two million barrel mark. Classification as a craft brewer equates to lower taxation, which has positive financial benefits for the company. Additionally, the Brewer's Association provides guidance and resources for craft brewers and represents them at federal and state government levels. Because most craft brewers are small, this provides a collective voice and access to resources similar to those of the larger brewers. However, the primary concern with loss of craft brewer status is the public's perception of the company. In a recent interview, Jim Koch said, "If we're not a craft brewer, what else are we? We're certainly not Budweiser."[3] In the consumer's view, beer is classified according to its type, which include premium, sub-premium, import and craft.[4] However, the strategic map in the external analysis shows that the beer industry is comprised of two strategic groups: major brewers and better beer brewers. Barrels produced, the type of beer produced, and beer price all serve to differentiate the groups. Craft beer falls into the better beer segment, as does imported beer. Interestingly, Jim Koch was the person who coined the term "Better Beer."[5] Craft beer has the allure of being unique and flavorful compared to premium or sub-premium beer produced by the major brewers. It also costs more. A 12-pack of Samuel Adams Boston Lager will cost $27.99 where the same size Coors Light will cost $21.89.[6] The popularity of craft beer has grown significantly with the craft segment realizing a sales increase of 10.3 percent while the beer industry as a whole was down 2.2 percent.[7] The first half of 2010 showed even better results with a 12 percent increase in sales in the craft segment but a continued drop in the overall industry.[8] While craft beer has a low overall market share of four percent[9], its presence and popularity continues to grow. Being that beer is in a mature industry, the potential for continued growth in the craft segment is attractive. Yet, the craft beer appeal only applies if consumers view it as craft. Additional sales growth and expansion of its operations could cause the consumer to position Boston Beer as having a mainstream beer. Being Anheuser-Busch/InBev and MillerCoors, the major brewers in the U.S., have nearly 80 percent market share,[10] it is reasonable to view the beer from these brewers as mainstream. In addition to a high level of market share, most mainstream beer enjoys a certain level of consumer loyalty. Many avid consumers have a preferred brand, whether it be Coors Light, Miller Lite, Budweiser, or another brand. Becoming more mainstream could have a positive impact on Boston Beer with the development of increased customer loyalty. However, this may also cause the unique appeal of the beer to wear off. Because its uniqueness has been a key company message, this could cause dramatic change.

While outgrowing the craft beer category is a significant problem facing Boston Beer, it also presents an opportunity. Where consumers had previously classified imported beer and craft beer separately, the distinctions are becoming fewer. Many consumers no longer classify beer mainly by where it comes from, but by the type of beer it is. In fact, the popularity of craft beer has been partially responsible for an increased interest in import beer.[11]

Where the loss of its craft status poses both a problem and an opportunity for the company, so does its new production capacity. Boston Beer acquired a brewery operation in Pennsylvania in 2008.[12] Prior to this purchase, the company had only its two breweries in Boston and Cincinnati and chose to contract out the brewing of 65 to 70 percent of its product.[13] Seeing the changes caused by consolidation in the industry, the company felt it would have less opportunity to contract with other brewers for their excess capacity. Yet, management of an entire production process is much different than managing relationships with contract brewers. The company financed the acquisition and renovation through internal operations and by 2009 was producing about 95 percent of its product in-house.[14] In 2010, the company expected to continue this level of production. Expansion of its production capacity presents a great opportunity for the company to gain better control over the entire process. It can help ensure consistency in the product taste, freshness, and temperature. Additionally, the company has room for further expansion at this location. Before locating the Pennsylvania brewery, the company had already planned to add to its production capacity by constructing a brewery on a parcel of land it purchased in Freemont, Massachusetts.[15] Yet, when thorough analysis found that it may cost over $200 million to construct the facility the company wanted, purchase and renovation of the Pennsylvania brewery seemed more reasonable. However, as examined in the internal analysis, the company's expertise had long been in managing production using contract brewers and developing solid relationships with distributors who purchase the product. Switching to an increased focus on all aspects of the brewing industry required initial changes in policies and processes. And, while the company seems to have achieved early successes and increased efficiencies, the long-term strategy must account for both production and marketing. One key issue to address is the ability of management to sustain the level of growth it has enjoyed in recent years coupled with its ability to manage its operations.

Another internal issue is the company's reliance on the founder, Jim Koch. Koch is very present both in the day-to-day operations and in company advertising. Each year, Koch travels to Bavaria to hand-selected the hops used in Samuel Adams® beer.[16] Not only does Koch select the ingredients, but he is also one member of the "Brew Crew" responsible for formulating and brewing the beer. Koch has been featured in numerous Samuel Adams® commercials and is frequently interviewed for news articles and beer forums. Koch has been at the forefront of the company since he started it in 1984. Although he relinquished his role as the company's Chief Executive Officer in 2001, Koch currently holds the position of Chairman of the Board of Directors.[17] Along with Koch's personal and managerial involvement in the company is his financial involvement. Koch owns all of the company's Class B voting shares.[18] While Boston Beer is a publicly traded company, all Class A shares sold to the public have no voting rights.[19] Koch's sense of pride in the company is apparent and stems from the hard work he did starting the company from scratch, brewing the first batches of beer in his kitchen, and initially, going door-to-door to sell it. His feelings of commitment and dedication to the company are expected. Yet, there are two challenges with Koch's involvement in the company. First, majority of the decision making in the company ultimately is made by one person – Koch. Much control and knowledge is entrusted to one person. This could make raising additional equity difficult, as new shareholders have no vote. It could also affect the dedication of existing shareholders, existing directors, or existing executives. Additionally, if Koch were to die or become disabled, company operations would be affected. Undoubtedly, the company has contingency plans to address these circumstances. Yet, thoroughness of these plans is of great concern. The second challenge is that transition to new leadership could change the company dramatically. A company succession plan would detail the steps to take and identify the appropriate individuals for each role. However, changes within the company culture and with the attitudes and feeling of employees must be managed throughout the process. The formal plan is not as much a concern as is the potential change in culture, mission, vision and morale.

External threats that must be addressed by The Boston Beer Company also exist. The composition of the beer industry presents a challenge for the company. As stated in the external and internal analysis, two major brewers, Anheuser-Busch and MillerCoors, control the market in the U.S. with nearly 80 percent market share and approximately 100 brands between the two. These companies are present in virtually all markets in which Boston Beer competes. While the Strategic Map further differentiated the beer of the major brewers from that of Boston Beer, these companies remain stiff competition. The growing consumer preference for craft beer has pulled market share from the major brewers, but this has not lessened their size or influence. Anheuser-Busch increased its global presence and company size when it was recently acquired by InBev of Belgium. SAB-Miller and Molson Coors formed a joint venture to combine operations and realize production and distribution efficiencies. Recognizing the popularity of craft beer, both companies have introduced "craft" varieties of their own. While the major brewers do not fit the definition of a craft brewer (small, traditional and independent[20]), consumers may still view these varieties of beer as "craft." In fact, MillerCoors' Blue Moon® is advertised as brewed by the Blue Moon Brewing Company in Golden, CO.[21] Consumers categorizing beer by its taste, quality, style and uniqueness would place Blue Moon in the craft category. Even knowing the beer is a MillerCoors product does not cause it to be classified with other products the company offers. While serious beer aficionados know Blue Moon is not a true craft beer, the average beer drinker may not.[22] MillerCoors recently ramped up an advertising campaign for Blue Moon aimed at increasing its status as a craft beer.[23] Boston Beer does not have the number of distributor relationship nor the advertising budget that major brewers like MillerCoors have. Somehow, Boston Beer must balance its marketing message between introducing consumers to its unique, flavorful craft beer, differentiating itself from the premium and sub-premium beer offered by the major brewers, and showcasing its beer as true craft beer. Yet, as discussed earlier, even Boston Beer may be in jeopardy of losing this craft status.

Another condition in the external environment is increasing globalization. No longer do U.S. companies compete only with one another, but competition comes from both domestic and international companies. Anheuser-Busch, the brewer with the largest presence in the U.S., is no longer U.S. owned. SAB-Miller is owned by South African Breweries. While Boston Beer does distribute a small amount of its beer internationally, its prime focus has been on domestic distribution. A recent partnership with Weihenstephan in Germany could improve the company's international presence, but its initial focus is on the new product the companies are developing jointly, not on the Samuel Adams® existing line.

Lastly, the movement toward sustainability has been promoted world-wide and the beer industry has not been untouched. The major brewers have already introduced programs to reduce their impact on the environment. Anheuser-Busch has reduced its water usage by 37 percent since 2000 and has pledged to continue this reduction.[24] MillerCoors has established two Zero Waste® breweries and has developed plans to convert additional facilities.[25] Boston Beer currently has a program to accept used glass bottles and then wash them for re-use.[26] However, as the company grows, additional programs may be expected by consumers, shareholders, environmental activists, or by law.

Boston Beer must first define itself in terms of the industry, then, it must examine its operations to be sure it has the resources and capacity to meet this characterization. Deciding on the direction to pursue is the first step in developing a plan for the future of the company. The company can be capitalize on the opportunities for growth in the global market, increased competition with the major brewers, and other industry trends if it first determines if "craft", "better," or some other label best suits its products.

Determining its place in the industry is of first importance. Without this decision, all other efforts may be in vain. Once the company makes this decision, it can then more easily develop plans for utilization of production capacity and methods of competing against the major brewers. Together, these three issues focus on brand development for the company. To ensure the company delivers a consistent message to consumers and distributors, it is important to address these issues first. Next, the company should address succession planning. Koch is also part of the company's "brand." It is vital to the company's continued success to have a plan in place to successfully transition ownership from Koch. While the plan may not be implemented immediately, it should be prepared and known throughout the company. Finally, the company must then address industry trends. New opportunities available because of globalization can be pursued and attention can be given to the increased competition and other challenges that come with competing on a global market. Moving toward sustainability will also become increasingly important as the company grows.

Analysis of Alternatives

The Boston Beer Company can continue its success through a few different avenues. One alternative would be to solidify its position as a brewer of better beer. This would entail a slow transition away from its identification as a craft brewer. Unless legislation is approved increasing the production limit for craft brewers, Boston Beer, will, by law, no longer be classified as a craft brewer. With production expected to be over two million barrels in 2010, Boston Beer will feel immediate consequences including increased taxation on the first 60,000 barrels produced and loss of eligibility in the Brewers Association.[27] With substantial financial resources, the company can absorb the increased costs; however, a long-term financial plan must be developed. This plan would focus on additional expansion by evaluating the feasibility of acquisition or construction of another brewery or addition to an existing brewery. It should focus on domestic expansion and acquiring additional domestic and international market share. This alternative would address the company's identity issue head-on by setting its focus on the better beer label rather than craft beer label. This clear definition will help the company send consistent messages about its brand, creating its image in the consumers' mind. Yet, some risks are inherent in this alternative.

Continued growth and expansion could cause the company to lose its unique appeal. While the company must be mindful of this risk, this alternative is very much in line with the current company strategy “to become the leading brewer in the Better Beer category.”[28] Increased investment in facilities is necessary to pursue this alternative, as is the continued focus on development of appropriate internal procedures for in-house production. The major stakeholders that would be affected by this alternative include general shareholders, employees, communities in which Boston Beer is located and Jim Koch. General shareholders would react positively to this alternative if it was carried out in line with the company strategy. Controlled growth could lead to additional profitability and an increase in the stock price. This alternative would also be positively viewed by the major shareholder and Board Chairman, Jim Koch. Koch could direct the expansion and growth and receive financial benefits in the form of additional compensation and an increasing stock price. Employees are likely to view this alternative positively if they believe the company has the ability to manage the growth and maintain the company’s success. Communities in which Boston Beer has brewery locations are likely to react positively to this alternative as they will benefit from continued operation and increased production at their locations. Overall, this alternative is one for pursuit of expansion, sales growth and additional market share. It maintains existing company plans and strategy and focuses on continued growth.

Another alternative is for the company to position itself to be purchased by one of the major brewers. This alternative could capitalize on the power and influence of the major brewers. Utilizing the major brewers’ distribution networks and acquiring economies of scale in the production of Samuel Adams® product will help grow the company in the Better Beer segment and is in line with the company’s strategy. While this alternative successfully addresses company problems including production capacity, competition with the major brewers’ “craft” beer, globalization, and sustainability, it does not fully solve the problem of Jim Koch’s over-involvement in the company. While an acquisition could remove Koch from his leadership role, the effect of him suddenly leaving the company may have negative consequences. This is one risk involved in pursuing this alternative. Loss of the company's unique appeal is also a risk of this alternative. Company strategy could remain similar, yet its focus on being small, independent and traditional would need to be removed. Additional resources may not need to be acquired as the major brewer may be able to incorporate the brewing of Samuel Adams® product in with its existing production. Additionally, company policies and procedures would be changed based on the desires of the new owner. Numerous stakeholders would be affected by this alternative including: general shareholders, employees, existing communities where Boston Beer facilities are located and Jim Koch. General shareholders may view an acquisition positively if they believe it will increase sales and profitability, and thus, the stock price. However, earnings per share have been respectable and the growth in the stock price has been significant. Since closing at $46.60 on December 31, 2009, the stock has grown to $70.65 as of October 22, 2010 stock market close.[29] The circumstances of the purchase would determine the general shareholders' reaction. It is likely employees would have an initially negative reaction as they would be uncertain if they would be able to keep their jobs. Additionally, they may be concerned that a change in the company culture would occur. Jim Koch, the company's largest and only voting shareholder, would be affected greatly by an acquisition. Koch would become extremely wealthy from the sale of his stock, but Koch's passion for the company may override this financial benefit. If Koch feels ready to retire, he is likely to respond favorably to this alternative; however, if he is not ready to give up control of the company, he is likely to reject this option. Communities with existing Boston Beer locations will react with concern that the location in their community will be closed. While their initial reaction may not be favorable, reassurance that the production facility would remain in their community would change that. Yet, it is likely they will still be skeptical.

Comparison of Alternatives to Criteria

Criteria were established in order to determine which alternative should be chosen. These criteria were chosen based on the company's strategy, the key success factors in the industry, and the current industry trends and future industry expectations. The best alternative should:

1. *Maintain focus on the beer by highlighting quality, variety and uniqueness.* Making good beer has been a hallmark of the company since its inception. The founder and company employees continually focus on building a better beer and seek consumer input to determine what is preferred. This criterion addresses to the PTOs by solidifying the company image for the future. Weight = 3.
2. *Fit with the company's existing strategy.* The company created the Better Beer segment in which to compete. Striving to be the best in this segment has been responsible for much growth and has the ability to serve the company well in the future. This criterion addresses the PTOs by continuing focus on a strategy that has been successful and fits with current and future industry trends. Weight = 3.
3. *Take into account the influence the major brewers have on the industry.* Mergers and acquisitions have lessened the number of brewers domestically but have increased the size and power of those remaining. Small brewers have less of an ability to compete because of these changes. This criterion addresses the PTOs by ensuring the company takes into account external industry challenges. Weight = 1.
4. *Cause increased sales and market share while maintaining profit margins.* Successful financial performance will allow the company to continue to grow, provide employment to existing and new employees, and attract additional equity investments. This criterion addresses the PTOs by planning for utilization of production capacity and capitalizing on opportunities to grow. Weight = 2.
5. *Aid in the development of efficiencies that cause reduction in costs.* Achieving efficiencies has been identified as a key success factor for continued profitability in this mature industry. This criterion addresses the PTOs by ensuring the company addresses cost reductions and makes smart expenditures. Weight = 2.
6. *Broaden the company's customer base with additional entrance into international markets.* The global market consists of numerous brewers and consumers. Untapped markets are available for additional growth. This criterion specifically addresses the threat of continued globalization and places importance on its consideration in the analysis. Weight = 2.
7. *Be affordable and financially responsible.* Whether it be financed by existing operations, by acquiring addition equity or by incurring long-term debt, the alternative chosen must not cause a significant reduction in the company's financial strength. It must use the company's financial resources wisely and have a likelihood of achieving a return acceptable by the Board of Directors. This criterion is related to all identified PTOs because each one has various costs associated with it. Weight = 3.

A weight of one, two or three (1, 2, or 3) was assigned to each of the above criteria. A weight of three (3) means the criterion is of utmost importance in determining which alternative is preferable. In the case of a tie or little difference in the end results, criteria weighted a three and their value in each alternative would be used to make the end decision. Based on the key success factors and the company's strategy, it was determined that the criteria with the most importance in the decision include: product variety and uniqueness; fit with existing strategy; and financial responsibility. Criteria assigned a two (2) are important in making the decision but do not have overriding authority to, by themselves, determine the end decision. These criteria include: increased sales and margins; achievement of cost efficiencies; and international expansion. Lastly, criteria rated a one (1) must be considered in the decision making process, but do not have the power to sway the decision by themselves, and may actually be addressed automatically in the implementation of the chosen alternative. The only criterion receiving this rating is the consideration of the impact of the major brewers on the industry. Once the weights were assigned, each alternative was rated on a scale of one to ten (1 – 10) on each criteria, with a ranking of one (1) meaning the criteria is not addressed by the alternative and ten (10) meaning it is effectively addressed by the alternative.

Criterion	**Alternative 1**	**Alternative 2**
Focus on quality, variety & uniqueness of the beer	10	7
Fit with strategy	8	4
Consider impact of major brewers on the industry	6	9
Positively impact sales, market share and margins	6	8
Develop efficiencies to reduce costs	7	9
International focus	7	9
Financially responsible	8	8

Alternative 1 better meets the first criterion than Alternative 2 because in this alternative, existing ownership and management retains control and can continue the strategic focus. Yet, it is likely that a company acquiring Boston Beer would also want to retain the unique qualities of the beer in order to be profitable. Alternative 1 has a much better fit with existing company strategy than Alternative 2. Jim Koch has extensive involvement in the company and the company continually prides itself on being small, traditional and independent.   Sale of the company would deviate from existing strategy, but could be good for the company and the product in the long-run. The impact of the major brewers is better addressed in Alternative 2 as an acquisition would give the Samuel Adams® line access to the resources of the brewer that acquired Boston Beer. Alternative 2 has the potential to create a greater increase sales, market share, and margins over Alternative 1 because a larger brewer could use its distribution channels domestically and internationally to grow awareness and increase drinkers of the product. The larger brewers have achieved increased profitability in a mature industry by realizing economies of scale. Because of this, Alternative 2 has the potential to have a greater reduction in costs than Alternative 1. However, as Boston Beer grows, it too, could achieve additional efficiencies. Finally, if Alternative 1 is chosen, it is likely the company would continue it conservative financial approach. If Alternative 2 is chosen, the company as we know it would have no control over financial decisions, but an acquisition could have positive financial benefits for existing owners.

Criterion	**Weight**	**Alternative 1 Results**	**Alternative 2 Results**
Focus on quality, variety & uniqueness of the beer	3	30	21
Fit with strategy	3	24	12
Consider impact of major brewers on the industry	1	6	9
Positively impact sales, market share and margins	2	12	16
Develop efficiencies to reduce costs	2	14	18
International focus	2	14	18
Financially responsible	3	24	24
TOTAL		**124**	**118**

Based on the analysis, Alternative 1 should be chosen. Since 1990, the company has achieved consistent and significant growth by focusing on quality and on becoming the best Better Beer. Continuous focus on its strategy and a conservative financial approach coupled with improvement of its internal production capacity is a realistic course of action. Continuous inquiries into international ventures, focus on its relationships with existing distributors, development of new distributor relationships, and innovative marketing techniques will all address the above problems, opportunities and threats. It is likely that major stakeholders will have few objections to this course of action as it does not deviate significantly from the company's existing strategy. However, stakeholders will monitor the company's success on a regular basis.

Timeline

The overall company strategy would remain unchanged as the company pursues Alternative 1. However, this strategy must be expanded to include production, marketing and financial components in addition to the company's focus on its product. Certain components in the organizational structure will need to change in order to accommodate additional production expansion. The ability to manage additional breweries and increased production will need to be planned for. Appropriate personnel who have prior knowledge of brewing processes will need to be hired as each expansion is pursued. Additionally, the company's focus on its sales force will need to remain. Additional sales force will need to be hired as the company pursues expansion into additional markets, including international markets. Of great importance in the development of a leadership team that is involved in and has authority for major decision-making, communicates regularly with Jim Koch, and is viewed as the ultimate leadership by all within the company. The craft beer segment has a positive outlook and it expected to continue to grow.[30] The ability of the company to sustain its historical level of growth is dependent on building this leadership team, hiring the appropriate personnel, and planning for added production capacity. Construction of new brewery facilities was shown to have a greater cost than purchase and renovation of an existing brewery. Once capacity is reached at all three breweries, the company will need to purchase additional capacity. An addition to one of its existing facilities would be a preferred option in order to maintain control and achieve efficiencies. All company competencies will be useful in the company's expansion process. By immediately increasing its sales force, Boston Beer can begin to plan for additional sales growth. It is expected that production capacity will be 100 percent utilized within two years, with excess of only 10 percent. Toward the end of 2011, the company should begin planning for an addition to one of its breweries. Then, with groundbreaking in mid-2012, it can be prepared to increase its capacity substantially one year later. Financing can be done in the form of internal operations or by raising additional equity. A long-term loan would be the preferred financing option and, based on existing and projected operations, the company should be able to secure adequate financing even in today's lending climate.

Assuming the company increases its sales force by 25 percent (approximately 65 employees) and each employee makes $50,000 per year plus benefits of 30 percent of their salary, the total cost for this portion of the plan is $4.2 million. This would be a new annual expenditure and would be spread out throughout each year. Using prior purchase and renovation costs for the Pennsylvania brewery, in 2012, the company would incur costs of about $100 million. Subsequent expansion should not be taken on until the company is close to 100 percent capacity and then a similar process could take place. While this alternative does not entail major changes and the expenditures can be spread out over a number of years, it is the best course of action for the company at this time. Consistent, measured growth has made the company successful. It has numerous tools and competencies to continue this trend.

Conclusion

The SWOT Analysis in Appendix 1 was used to further solidify the choice of Alternative 1. The company possesses numerous strengths and pursuit of the chosen alternative will allow it to capitalize on them. Its strong financial position, multiple production facilities, proprietary formulas and commitment to innovation will be instrumental in continuing the company's success and allowing for growth. While capitalizing on its strengths, the company must be sure to address its weaknesses. This recommended course of action details plans to increase management depth and increase its expertise in beer production. Concentrated effort on functional strategies including marketing and operations should generate sales growth leading to an increased market share. Marketing efforts should be aimed toward the opportunities in the beer industry. Consumer preference for craft beer is expected to continue and demographic changes are favorable for the better beer segment. International growth could lead to gains in market share, while overall growth should cause the company to realize economies of scale in its operations, thereby reducing costs. The chosen alternative provides way for the company to take advantage of these opportunities and also addresses how it will respond to industry threats. Positioning itself as part of the better beer segment can minimize the effect of the potential loss of the craft brewer status. Growth in size and market share, focus on the production of better beer, and continued commitment to differentiation can lessen the impact of major brewers, industry consolidations, and distributor power.

After a thorough review of the beer industry as a whole, each segment of the industry, and The Boston Beer Company itself, it is clear that the company has developed a product consumers enjoy and has achieved positive financial results for itself and its shareholders. Continued growth in the better beer segment is expected and this course of action can assist the company in capitalizing on it.

Appendix 1: SWOT Analysis

Strengths

Strong financial position
Jim Koch
Multiple brewery locations
Proprietary beer formulas
Large sales force
Good distributor relationships
Commitment to innovation

Weaknesses

Low market share
Inexperience at production management
Management depth

Opportunities

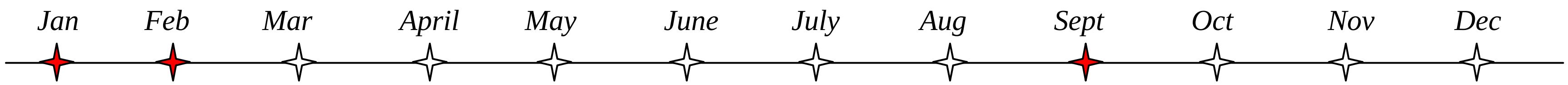
Continued popularity of craft beer
Development of brand loyalty
Population growth in age 50+
Economies of scale
Untapped global markets

Threats

Mergers and acquisitions in the industry
Federal and state taxation increases
Proposed legislation regarding craft brewers
Distributors choice in stocking product
Mature industry
Major brewers entrance into craft segment

Appendix 2: Timeline

2011



January 2011

Strategy

- *Add functional components including marketing, financial and operations*
- *Determine leadership and personnel needs*

February 2011

Organizational Structure & Leadership

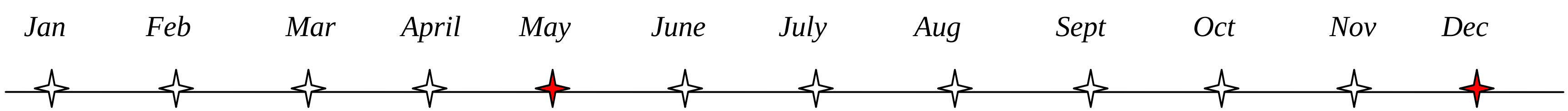
- *Hire sales staff*
- *Hire operational staff for production capacity expansion planning*
- *Train, hire and/or promote individuals for the company leadership team*

September 2011

Resources & Competencies

- *Beginning development of capacity expansion plan*
- *Identify potential brewery operations to purchase*

2012



May 2012

Resources & Competencies

- *Finalize purchase of brewery facility*
- *Begin renovation of facility*

December 2012

Resources & Competencies

- *Complete renovation of facility*
- *Begin additional in-house production and expansion*

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