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### **Brewed awakening: Slowing beer sales spur new strategies**

[Carol Tice](#)

Staff Writer

The economic downturn has taken the fizz out of the beer industry's growth in Washington state. Figures from the state Liquor Control Board show that in the year ended June 2003, total barrel sales in the state declined 4 percent, on top of a nearly 3 percent decline seen the year before.

That's worse than the national beer market, where sales were down 1.6 percent in the past year, said George Hancock, founder of [Pyramid Breweries Inc.](#) in Seattle and president of the Washington Brewer's Guild.

But at Washington's more than 70 breweries, folks aren't sitting around crying in their beer.

Using a variety of strategies, the small brewers are drawing new customers. More than half still enjoy growing sales, despite the shrinking beer market overall, the Liquor Board figures show.

The small breweries, known as "craft" brewers, report their segment is still relatively healthy, due to growing interest by aging baby boomers in higher-quality, unique products.

The top 20 state craft brewers posted an average sales increase of 2.9 percent in the past year, said Hancock.

And the state industry is well-positioned within this growing segment of the beer market -- with the closure in June of the large Olympia brewery that produced Miller and Pabst beers, virtually all of the beer brewed in Washington is being produced by small breweries.

At 10-year-old Pike Brewing Co. in Seattle -- best-known for its Pike Pub & Brewery in Pike Place Market -- general manager Bruce Raymond said he has countered the slowdown in tourist visits with a stepped-up sales effort to local restaurants. In June, Pike's sales were 461 barrels, up about 30 barrels or 7 percent from June 2002.

"We have aggressively been going out and marketing our beers to local restaurants and hotels by the keg," he said. "We want to move keg beer and beer within our pub the most -- the margin is highest."

For the craft brewers, even small shifts in the market can bring a bonanza. In Seattle's Capitol Hill neighborhood, Elysian Brewing Co. sales and marketing director Dave Buhler said that the recent departure of [Redhook Ale Brewery Inc.](#)'s headquarters from Fremont was a boon to keg sales. In March, seven-year-old Elysian opened a second brewpub, Elysian-Tangletown, and sells its India Pale Ale and other brews in close to 90 other eateries plus 140 Northwest grocery stores. Production is up more than 10 percent this year, he said.

"We changed some distributors, which gave us an opportunity to go into new markets," he said. "Now we're available in Spokane and Northern Idaho."

Gaining and maintaining space on grocery shelves has become one of the toughest challenges facing smaller brewers, said Hancock of the Brewer's Guild. Consolidation amongst grocery chains -- such as the acquisition of QFC and Fred Meyer by Kroger Co. -- means fewer buyers to pitch, and larger chains to supply. With their small capacity, craft brewers can get left out of the mix.

The craft beer segment exploded nationally from about 800 breweries to 1,300 between 1995 and 1997, Hancock said, and there's likely a consolidation ahead as some lose out on their chance to be sold in stores. Small brewers could merge and become larger in order to better supply the grocery chains, but Washington's tax rules discourage it, Hancock noted. Brewers that generate fewer than 60,000 barrels a year pay a much lower excise tax than those making larger amounts.

"If you look ahead at the consolidation in distribution and in retailing, I worry for my smaller members who may not have the resources to service bigger and bigger distributors and retailers," said the Brewer's Guild president.

Pike Brewing has been able to maintain its presence in national grocery stores, Raymond said, due to a strong sales force and longstanding relationships with local chains.

"Our Kilt-Lifter Scotch Ale is extremely well received in the bottle," he said. "They taste it here or at other restaurants, and they look for it in grocery stores."

The state's largest remaining brewery, Redhook Ale Brewery Inc. in Woodinville, has struggled with overcapacity since 1997, when it opened a second brewery in New Hampshire in anticipation of volume increases that have yet to fully materialize.

The first of the baby boomers' children began turning 21 at the turn of the century, and the so-called Echo-Boomer wave was forecast to raise beer consumption by 1.5 percent a year for the next decade before the recession put a chill on the industry.

After five years of very slow sales growth and net losses at Redhook, sales have been on the rise in recent months. In its second quarter ended June 30, Redhook reported a sales increase of 8 percent to \$12.3 million, and nearly \$500,000 in net income.

Company president and CEO Paul Shipman said that 60,000 barrels per quarter represents Redhook's break-even point, and that 63,000 barrels were sold nationally in the June quarter.

"We were in the desert since 1997," Shipman said. "Now we feel like our strategy of making very specialized products is playing out the way we originally saw it."

Redhook scaled back the variety of beers it made, discontinuing its many Hefeweizen beers in mid-2002. Marketing efforts focused on the remaining lines, and the company cut back on more expensive radio and cab-top advertising in favor of a bigger presence at music festivals and other outdoor events.

"Consumers are drinking less, but a significant portion of those consumers are choosing a very high flavor profile," he said. "The share of the pie that is high-end, specialty products is increasing."

The lure of the growing market for craft brewers inspired Manny Chao and Roger Bialous to open Georgetown Brewing, which sold its first beer in February. The Seattle brewery makes a single product, Manny's Pale Ale. Bialous said Georgetown now has 80 restaurant and bar accounts, and is concentrating on selling to that market.

With a \$200,000 initial investment made last year, Bialous said Georgetown is already breaking even.

"We think we have a good, unique, desirable product in a style that is on the upswing," he said.

One reason why overall beer sales in Washington State are shrinking at a faster rate than the nation as a whole may

be the product's higher tax rate. Phil Wayt, executive director of the Washington Beer & Wine Wholesalers Association, said Washington residents pay a tax on beer that's more than three times what they would pay in Oregon, and double the tax in Idaho. The industry recently successfully fought a proposal in the state legislature to nearly quadruple the existing tax rate.

Hancock said Oregon takes a more supportive stance toward its homegrown breweries than does Washington. Oregon offers marketing help to labels such as Widmer Brothers, Deschutes Brewery and [Full Sail Brewing Co.](#), enabling them to grow beer-related tourism in the state and to successfully expand to Washington and other states.

"Here, the wine industry is held up as this marvelous shining jewel, and the beer industry is something that's got to be controlled," he said. "Our resources are spent trying to prevent disastrous tax increases."

*Reach Carol Tice at 206-447-8505 ext. 152 or [ctice@bizjournals.com](mailto:ctice@bizjournals.com)*

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