CASE 27

THE BOSTON BEER COMPANY: BREWING UP SUCCESS?*

The Boston Beer Company, well known for its Samuel Adams brand, is the largest craft brewery in the United States. The past couple of years, the beer industry as a whole has been declining, and so was Boston Beer's revenue until a year ago. 2019 was a small relief for Boston Beer Company as it returned to volume sales growth in the last fiscal year. Jim Koch, the company's founder and chairman, stated:

> We are still seeing challenges across the industry, including a general softening of the craft beer category and retail shelves that offer an increasing number of options to drinkers. We continue to work hard on our Samuel Adams brand messaging . . . and we are planning to launch three new brands in 2019 that we believe will complement our current portfolio and help support our mission of long-term profitable growth.[1]

The company seemed fairly optimistic about its drinks in 2019 as the third CEO of Boston Beer, Dave Burwick, said, "Our overall plans for 2019 include significant investments in the second year of our successful 2018 innovations, which include Angry Orchard Rosé, Truly Berry Variety Pack, Truly Wild Berry, Sam '76, and Samuel Adams New England IPA."[2] He reaffirmed Koch's statement by saying:

> In 2019 we plan to build upon these successful innovations with three additional brands that address important health and wellness opportunities in our categories. These brands include 26.2 Brew from our wholly-owned affiliate Marathon Brewing Company, a thirst-quenching gose beer (top-fermented beer that originated in Goslar, Germany) made with sea salt to fit runners' active lifestyles; Wild Leaf Hard Tea, a craft hard tea with lower calories and sugar; and Tura Alcoholic Kombucha, an organic, light and refreshing shelf-stable alcoholic Kombucha with live probiotics and real fruit.[3]

The company saw a growth in the fourth quarter due to an increase in sales of Truly Hard Seltzer, Twisted Tea, and Angry Orchard brands. Along with challenges to remain a market leader for craft beers, the Boston Beer Company also aims to remain a market leader in the emerging segment of hard seltzer. The company faced immense competition from its four largest competitors, Molson Coors, Anheuser-Busch InBev, Heineken, and Constellation. These competitors aggressively acquired small- and medium-sized brewers and launched new domestic specialty brands to compete with the domestic market in various regions during the past couple of years. Boston Beer's focus remained on enhancing distribution, which perhaps cost the company missed acquisition opportunities taken by its competitors. The question remained that if customers had so many options to choose from, why should they buy Boston Beer? What was so special about it?

The Boston Beer Company, with its Samuel Adams brand, was the largest craft brewery in the United States, holding a 1 percent stake in the overall beer market.[4] In the past several years, the beer industry had declined, while sales of wines and spirits had increased. The Boston Beer Company competed within the premium-beer industry, which included craft beer and premium imported beers like Heineken and Corona. Although the beer industry had been on a decline, the premium-beer industry had seen a small amount of growth and the craft-beer industry had seen a surge in popularity. Because of the success of the craft breweries in particular, the major breweries had taken notice and many new craft breweries had sprung up.

Anheuser-Busch InBev and Molson Coors accounted for 68.8 percent of the beer market in 2019 in the United States.[5] They had caught on to the current trend in the beer industry toward higher-quality beers and started releasing their own. For example, Anheuser-Busch InBev released Bud Light Wheat and Bud Light Platinum in an effort to provide quality beers to its loyal customers. Molson Coors introduced Blue Moon beer, and Anheuser-Busch InBev released Shock Top to combat the popularity of Blue Moon. These companies also began to purchase smaller craft breweries, whose products had been rising in popularity. Anheuser-Busch Inbev acquired Pirate Life Brewing in November 2017. Similarly in 2017, Molson Coors acquired Le Trou du diable craft brewery in Quebec.

According to the Brewers Association, as of 2018, around 7,346 craft breweries and 7,450 total breweries operated in the United States (see Exhibit 1). While craft breweries accounted for over 98 percent of all the breweries in the United States, they produced only approximately 25 percent of all beer sold.[6] However, with the rise in popularity of premium beers, the craft breweries were expected to continue to grab more of the market. As the country's largest craft brewery, the Boston Beer Company had revenue of over $995.7 million in 2018 and sold over 4.2 million barrels of beer.[7] Other large craft breweries included D.G. Yuengling & Son, Inc., and Sierra Nevada Brewing Company. In addition, some smaller breweries had been merging to take advantage of economies of scale and enhance their competitive position.

EXHIBIT 1 U.S. Brewery Count

U.S. Brewery Count	2014	2015	2016	2017	2018
CRAFT	**3,814**	**4,628**	**5,539**	**6,490**	**7,346**
Regional Craft Breweries	135	178	186	202	230
Microbreweries	2,076	2,626	3,251	3,933	4,522
Brewpubs	1,603	1,824	2,102	2,355	2,594
LARGE/NON-CRAFT	**46**	**44**	**67**	**106**	**104**
Total U.S. Breweries	**3,860**	**4,672**	**5,606**	**6,596**	**7,450**

Source: Number of Breweries. Brewers Association, 2018.

The biggest challenge for Boston Beer still remained the increasing competition as consumers had more variety of craft beers to choose from in the market. However, Boston Beer Company competed not only with domestic craft breweries but also with premium-beer imports, such as Heineken and Corona, which sold beer in a similar price range. Like Anheuser-Busch InBev and Molson Coors, Heineken and Corona had large financial resources and could influence the market.

The Brewers Association reported that in 2018, small and independent brewers collectively produced 25.9 million barrels and realized 4 percent total growth, increasing craft's overall beer market share by volume to 13.2 percent. Maintaining status as a craft brewery could be important for image and, therefore, sales. The size of the Boston Beer Company, however, was an issue. With continued growth, the brewery could potentially increase its volume output to more than 6 million barrels per year, thus losing its craft brewery status. Furthermore, with the size of the company and its ability to market nationwide, the company ran the risk of alienating itself from fans of craft brews that could come to believe Samuel Adams no longer fit the profile. Many such aficionados of craft breweries already believed that the company, which had been public since 1995, was more concerned with making money than with providing quality beer and educating the public on craft beers.

Size did have advantages, of course, providing more money for marketing and, especially in the beer business, facilitating distribution. A complaint heard from all craft breweries was the difficulty they had distributing their product in the current three-tier system (discussed later). The large breweries had power over the independent distributors because they accounted for most of their business. Thus, they could influence the distributors and make it difficult for craft breweries to sell their product. Because of its size, the Boston Beer Company had fewer problems with distributors than its smaller competitors did. Consequently, the company had less in common with other craft breweries and more in common with the major breweries in regard to distribution. This was good for Boston Beer Company's distribution but maybe bad for its image. One brewer from the Defiant Brewing Company in Pearl River, New York, said that the Boston Beer Company was becoming too large to be considered a craft brewery and that its substantial connections with distributors proved it.[8]

Clearly, the Boston Beer Company was facing a difficult competitive environment. It faced direct competition from both larger and smaller breweries and from premium imported beers. Some of the smaller craft breweries were growing quickly and wanted to be larger than the Boston Beer Company. Other craft breweries felt that the Boston Beer Company was too large already. Thus, while further growth would be beneficial in terms of revenue, growing too large could negatively affect the company's status as a craft brewery and the perceptions of its customers. Analyst, Pablo Zuanic, argues that Boston Beer's "fixation on justifying itself as a craft brewer is actually hindering success."[9] However, Jim Koch seems to disagree and claims that Boston Beer depended on its craft brewery status to justify premium pricing and its image.[10] The company had to pay close attention to maintaining its image among the growing customer base of premium-beer drinkers.

Company Background

Jim Koch started the Boston Beer Company in 1984 along with fellow Harvard MBA graduates Harry Rubin and Lorenzo Lamadrid. The company began with the sale of the now popular Samuel Adams Boston Lager, named after the famous American patriot who was known to have been a brewer himself. The recipe for the lager had actually been passed down from generation to generation in Koch's family, dating back to the 1860s. Koch began home brewing the beer in his own kitchen and soliciting local establishments in Boston to purchase and sell it. Just one year after its initial sales, Samuel Adams Boston Lager was voted Best Beer in America at the Great American Beer Festival in Denver, Colorado. In 1985, Samuel Adams grew immensely and sold 500 barrels of beer in Massachusetts, Connecticut, and West Germany.[11]

To avoid the high up-front capital costs of starting a brewery, Koch contracted with several existing breweries to make his beer. This allowed the production of Boston Lager to grow quickly from the relatively small quantities Koch could brew himself. Growth continued after that, and in 1988 the Boston Beer Company opened a brewery in Boston. By 1989 the Boston Beer Company produced 63,000 barrels of Samuel Adams beer annually.

The company went public in 1995, selling Class A common stock to potential investors. The stock was sold at two different prices—$15 to loyal customers and $20 through an IPO run by Goldman-Sachs. Koch decided to reward his loyal customers by advertising the stock offering on the packages of his six-packs, estimating that 30,000 buyers would be interested. He believed that those who enjoyed the beer and supported it should be the ones to have a stake in the company. After 100,000 potential investors sent checks in, Koch randomly chose 30,000.[12] Managers from Goldman-Sachs were upset that they did not receive the lowest-price offering. Koch owns 100 percent of the Class B common stock, which confers the right to make all major decisions for the company. This was seen as a risk to potential investors because Koch could make important decisions on the strategy of the company without receiving approval from them.

Continued success for the business led to the purchase of a large brewery in Cincinnati in 1997. Since 2000, Samuel Adams has won more awards in international beer-tasting competitions than any other brewery in the world. In 2008, the Boston Beer Company purchased a world-class brewery in Lehigh, Pennsylvania, to support growth.

As of 2018, in the craft brewery category, the Boston Beer Company was the second largest in craft brewery, after D. G. Yuengling and Son, in the United States. Boston Beer, brewing over 4 million barrels of Samuel Adams beer, still served only a fraction of the total U.S. beer market.[13] The company had expanded its selections to over 50 beer flavors, including seasonal and other flavorful beers, such as Samuel Adams Summer Ale, Samuel Adams Cherry Wheat, and Samuel Adams Octoberfest, as well as the non-beer brands Twisted Tea and HardCore Cider. The Boston Beer Company planned to use the profits gained from its non-beer brands to invest in Samuel Adams and build a stronger portfolio. Revenue for the company increased 15.4 percent from $862.9 million in 2017 to $995.7 million in 2018, while operating costs increased from $334.2 million to $396.3 million. Net income decreased slightly from $99 million to $92.6 million in the same period (see Exhibits 2 and 3). In March 2019, the company stock was selling at $266.97, nearly $127.97 above its low of $139 in April 2017.

The goal of the Boston Beer Company was to become the leading brewer in the premium-beer market. It was the second largest craft brewery, but it trailed Crown Imports, LLC, and Heineken USA in the premium-beer market. The company planned to surpass the large importers by increasing brand availability and awareness through advertising, drinker education, and the support of its over 300-member sales force. The salespeople for the company had a high level of product knowledge about beer and the brewing process and used this to educate distributors and the public on the benefits of Samuel Adams. The Boston Beer Company had formed a subsidiary called Alchemy & Science to seize new opportunities in the craft brewing industry. The purpose of this group was to identify better beer ingredients, methods for better brewing, and opportunities to purchase breweries that would help the business grow. One such opportunity, for instance, led to the group's purchase of Southern California Brewing.

Over the years, the company had continued to invest in efficiency initiatives to lower costs within its breweries and increase margins. One large program in late 2010 was its Freshest Beer Program. Typically, bottled and canned beer sat in a distributor's warehouse for three to five weeks, while kegs sat for three to four weeks. In an effort to reduce storage time in the distributor warehouses by approximately two weeks and consequently increase freshness of the beer at retailers, the company focused not only on better on-time service, forecasting, and production planning but also on great coordination and cooperation with distributors. By 2018, the company had 167 distributers participating in the Freshest Beer program, which accounted for 79 percent of its beer volume in the Freshest Beer Program, with the goal of expanding that number in the future.[14]

While expansion and growth are commonly deemed positive attributes, the Boston Beer Company was aware of the many other possible risks in the growth of its business, beyond the issue of being a craft beer or not. With the acquisition of the Lehigh brewery, Boston Beer Company now brewed over 90 percent of its beer at its own breweries. With capital tied up in large investments, there was a potential for the business to falter if an unexpected event affected one of the breweries and halted production at that facility. Additionally, the company had put forth a sizable investment to increase product offerings and another to keep its beer fresh during distribution. However, with its reliance on independent distributors, a mishap in its relationship with major distributors could lead to complications within its supply chain. Moreover, Boston Beer Company also depended on foreign suppliers of raw ingredients for its beer. An unexpected shortage of a crop might lead to a drop in production volume. In short, the company was still not large enough to be shielded from such risk and to be able to lean on suppliers and distributors like the largest breweries could. The image of the company would suffer if its products were not available to loyal fans whose enjoyment of the brand relied on the wide accessibility of its craft beer. Finally, with the surge of an enormous number of other craft-beer choices, customers increasingly had many options to choose from.

Industry

The U.S. beer market is known to be evergreen, but recently millennial consumers have come of age, and are demanding more options and upping their beer preferences. While the sales continue to increase, the rate of growth has dropped from 5 percent in 2015 to 1 percent in the first six months of 2018 (see Exhibit 4). Among the five product segments, consumers' tastes are shifting to above-premium beers (which include craft beers), ciders, "sessionable" options (those with low alcohol levels), and emerging options like hard teas and seltzers[15] (see Exhibit 5).

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EXHIBIT 2 Boston Beer Co., Inc., Income Statements ($ millions, except per-share)

(in thousands, except per share and net revenue per barrel data)	Dec. 29 2018	Dec. 30 2017	Year Ended Dec. 31 2016 (53 weeks)	Dec. 26 2015	Dec. 27 2014
Income Statement Data:					
Revenue	$1,057,495	$921,736	$968,994	$1,024,040	$966,478
Less excise taxes	61,846	58,744	62,548	64,106	63,471
Net revenue	995,649	862,992	906,446	959,934	903,007
Cost of goods sold	483,406	413,091	446,776	458,317	437,996
Gross profit	512,243	449,901	459,670	501,617	465,011
Operating expenses:					
Advertising, promotional and selling expenses	304,853	258,649	244,213	273,629	250,696
General and administrative expenses	90,857	73,126	78,033	71,556	65,971
Impairment (gain on sale) of assets, net	652	2,451	(235)	258	1,777
Total operating expenses	396,362	334,226	322,011	345,443	318,444
Operating income	115,881	115,675	137,659	156,174	146,567
Other income (expense), net	405	467	(538)	(1,164)	(973)
Income before provision for income taxes	116,286	116,142	137,121	155,010	145,594
Provision for income taxes	23,623	17,093	49,772	56,596	54,851
NET INCOME	**$ 92,663**	**$ 99,049**	**$ 87,349**	**$ 98,414**	**$ 90,743**
Net income per share—basic	$ 7.90	$ 8.18	$ 6.93	$ 7.46	$ 6.96
Net income per share—diluted	$ 7.82	$ 8.09	$ 6.79	$ 7.25	$ 6.69
Weighted average shares outstanding—basic	11,621	12,035	12,533	13,123	12,968
Weighted average shares outstanding—diluted	11,734	12,180	12,796	13,520	13,484

Market dominance of industry stalwarts like Anheuser-Busch InBev, Molson Coors, and Heineken are being challenged by the others in the industry (Exhibit 6). While Anheuser-Busch InBev, Molson Coors, and Heineken all experienced a decline in Page C211 sales in 2017 (by 0.7, 3.4, and 5.4 percent, respectively); Constellation Brands and Boston Beer achieved growth of 9.7 and 4.1 percent, respectively.[16] While Constellation Brands targeted growing consumer demand for imported beers, Boston Beer was growing their flavored malt beverages (FMB) and cider offerings.

The Three-Tier System

Seventy-five percent of the volume of beer sold in the United States was sold at off-trade value in supermarkets, beer distributors, and such, while the other 25 percent was sold in bars and restaurants. Despite the vast difference in the volumes sold, the values of beer sold at off-trade and on-trade sites were equal because of the premium charged for beer at a bar or a restaurant.

Breweries were not permitted to own either off-trade or on-trade establishments, so their beer had to be distributed. Before Prohibition, however, beer was sold in tavern-like establishments called "tied houses," which supplied and sold their own beer. There were no regulations regarding brewing companies owning all of the retail tied houses and selling only their own beer.

EXHIBIT 3 Boston Beer Co., Inc., Balance Sheets

THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 29, 2018	December 30, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 108,399	$ 65,637
Accounts receivable	34,073	33,749
Inventories	70,249	50,651
Prepaid expenses and other current assets	13,136	10,695
Income tax receivable	5,714	7,616
Total current assets	231,571	168,348
Property, plant and equipment, net	389,789	384,280
Other assets	14,808	13,313
Goodwill	3,683	3,683
TOTAL ASSETS	**$639,851**	**$569,624**
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 47,102	$ 38,141
Accrued expenses and other current liabilities	73,412	63,617
Total current liabilities	120,514	101,758
Deferred income taxes	49,169	34,819
Other liabilities	9,851	9,524
TOTAL LIABILITIES	**179,534**	**146,101**
Commitments and Contingencies		
Stockholders' Equity:		
Class A Common Stock, $.01 par value; 22,700,000 shares authorized; 8,580,593 and 8,603,152 shares issued and outstanding as of December 29, 2018 and December 30, 2017, respectively	86	86
Class B Common Stock, $.01 par value; 4,200,000 shares authorized; 2,917,983 and 3,017,983 shares issued and outstanding as of December 29, 2018 and December 30, 2017, respectively	29	30
Additional paid-in capital	405,711	372,590
Accumulated other comprehensive loss, net of tax	(1,197)	(1,288)
Retained earnings	55,688	52,105
Total stockholders' equity	460,317	423,523
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$639,851**	**$569,624**

Source: The Boston Beer Company

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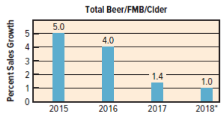
EXHIBIT 4 Beer Trends: Year-over-Year Dollar Sales Growth

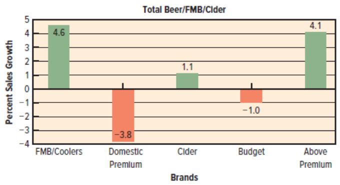


FMB: flavored malt beverages

*Estimated

Source: Nielsen Scantrack, Nielsen US xAOC.

EXHIBIT 5 Year-over-Year Dollar Sales Growth by Product Segment and Segment Definitions



Segment definitions:

Segment	Sub-segment
Above premium	Import
	Craft
	Domestic super premium
Budget	Below premium
	Malt liquor
	Near beer
Cider	Cider
Domestic premium	Domestic premium
FMB/coolers	Flavored malt beverage
	Coolers

FMB: Flavored malt beverages

Source: Nielsen US xAOC.

EXHIBIT 6 Top Beer Manufacturers—Sales Growth 2017–2018

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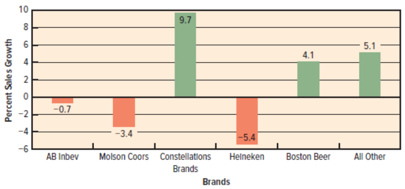

Source: Nielsen US xAOC.

After Prohibition, a system was put in place to discourage monopolies in the supply and sale of beer. This system was called the Three-Tier System, and it divided the beer industry into suppliers, distributors, and retailers, all independent of each Page C214 other. Aside from the brewpub, breweries could not own retailers or distributors, thus ensuring a level of competition in the brewing industry.[17]

Although the three categories of the industry were separate, they had a large influence on one another. For instance, Anheuser-Busch InBev and Molson Coors sold 69 percent of the beer in the country. That meant that 69 percent of distributors' volume, and consequently revenue, was from these two companies. Hence, the distributors valued the business of Anheuser-Busch InBev and Molson Coors to a higher degree, in fear of losing their business. In an effort to maintain its dominant position in the industry, -Anheuser-Busch InBev had contracted with several distributors on the condition that they would not work with any other breweries. Likewise, the other large breweries imposed restrictions on their distributors regarding which other breweries they could work with.

The distributors acted as the intermediary in the beer industry, providing the beer to retailers. The beer that was available from retailers was a result of the products that their distributors carried. The distributors were major decision makers for what beer taps would be available in bars, as well as the location of beer selections in supermarkets. Small breweries did not like the system because the distributors were heavily influenced by the major breweries. Since distributors had little incentive to treat them as equal business partners, small breweries found it difficult to compete and achieve growth. Consequently, it was a challenge for a small brewery to gain widespread recognition in the industry. Despite this challenge, the Boston Beer Company had made a name for itself and sold its beer to a network of approximately 350 distributors by 2019.

Competition

The Boston Beer Company mainly competed with other beers sold in the United States. The company faced competition from other craft brewers, premium import brewers, and the two major domestic breweries, Anheuser-Busch InBev and MillerCoors.

The U.S. Open Beer Championship was a highly recognized nationwide beer competition that included professional breweries as well as home brewers. In 2018, more than 6,300 beers in 110 different categories were submitted. The top 10 brewers were chosen on the basis of receiving the highest overall grade in the most categories collectively. In 2014, the Boston Beer Company was named as "Cidery of the Year" and received the fourth-place ribbon, an impressive feat with so many breweries participating. However, the company fell off the U.S. Open Beer Championship list in 2018 (see Exhibit 7).

Home brewing had become an extremely popular hobby, and in many instances it led home brewers to pursue their passion in the form of an actual brewery. The American Homebrewers Association was founded in 1978 and now includes more than 46,000 beer enthusiasts as members. Its rankings of the top 10 beers commercially available in the United States and their respective breweries are shown in Exhibit 8.[18]

EXHIBIT 7 Top 10 Brewers, U.S. Open Beer Championship, 2018

Top 10 Breweries 2018
1. Peticolas Brewing – Texas
2. Brink Brewing Company – Ohio
3. Black Tooth Brewing Co – Wyoming
4. Cigar City Brewing – Florida
5. Revelry Brewing Company – South Carolina
6. Garage Brewing Co – California
7. Atlanta Brewing – Georgia
8. Liquid Mechanics Brewing – Colorado
9. Motorworks Brewing – Florida
10. Reuben's Brews – Taproom – Washington

Source: U.S. Open Beer Championship 2018.

Sierra Nevada Brewing Company

Ken Grossman and Paul Camusi started the Sierra Nevada Brewing Company in 1980. It was the largest private craft brewery behind the publicly traded Boston Beer Company. Sierra Nevada made the highest-selling pale ale in the United States. Sierra Nevada was one of the earliest craft breweries, and its founders were consequently referred to as pioneers in the craft brewing industry. The company planned to open another brewing facility within the next few years to continue growth of the business. Sierra Nevada created goodwill by promoting the craft-beer industry and by striving to be environmentally friendly in its beer's production. One of Sierra Nevada Brewing's goals was to overtake the Boston Beer Company as the largest craft brewery in the country.[19] Page C215

EXHIBIT 8 Top 10 U.S. Beers and Breweries, 2019

Rank	Top Ranked Beers
1.	Bell's - Two Hearted Ale
2.	Russian River - Pliny the Elder
3.	Sierra Nevada - Pale Ale
4.	Founders - KBS (Kentucky Breakfast Stout)
5.	The Alchemist - Heady Topper
6.	Founders - CBS (Canadian Breakfast Stout)
T7.	Bell's - Hopslam Ale
T7.	Founders - All Day IPA
T9.	WeldWerks - Juicy Bits
T9.	Founders - Breakfast Stout

Source: Home Brewers Association.

New Belgium Brewing Company

Jeff Lebesch founded the New Belgium Brewing Company in Fort Collins, Colorado, in 1991. New Belgium Brewing was the third-largest craft brewery in the United States, behind the Boston Beer Company and Sierra Nevada. The company's flagship beer was an amber ale called Fat Tire, but it had over 25 different beers in production. In recent years the company had sold over 800,000 barrels of beer, which were distributed in 29 states. Over the last several years, the company had growth of approximately 15 percent. New Belgium started building a $100 million brewery in North Carolina that was completed in May 2016 with capacity of brewing around 500,000 barrels per year. Like Sierra Nevada, New Belgium focused on energy-efficient practices. The company also hoped to become the largest craft brewery in the country. According to the Brewers association, New Belgium was the fourth-largest craft brewery as of 2018, whereas for overall breweries it stood at the 11th position in the United States.[20]

Crown Imports, LLC

Crown Imports, LLC, was a joint venture between Grupo Modelo and Constellation Brands. Crown Imports had a portfolio of beers that included Corona Extra, Corona Light, Modelo Especial, Pacifico, and others. Crown Imports had market share of approximately 9.6 percent, and its Corona was the leading imported beer in the United States in 2018.[21] Constellation owned over 200 brands of beer, wine, and spirits and had sales of above $4.6 billion as of 2018. With a large financial backing, Crown Imports wanted to remain the number-one import in the country and close the gap in market share between the company and the top two breweries in the U.S. market. In 2019, Constellation was betting big on marijuana legalization as it planned to enter into an agreement with Canopy Growth Corporation, a cannabis company based in Smith Falls, Ontario.[22]

Heineken

In 2018, Heineken was the third-largest import brewing company and the fourth-largest brewing company in the United States. As of 2017, the company had a market share of 9.6 percent in the United States.[23] The company was founded in 1873, and its beers were sold in 71 countries worldwide. Heineken imported popular brands such as Heineken, Amstel Light, Sol, Dos Equis, and Newcastle. The company had a revenue of about $25.2 billion in 2018.[24] With Heineken's large size and excellent reputation, it had the -ability to advertise its products nationally. The Dos Equis brand had grown by over 10 percent since the popular "Most Interesting Man in the World" commercials began airing. Most of the brands offered by Heineken were in the price range of Samuel Adams, making them a close competitor.[25]

Anheuser-Busch InBev NV

Anheuser-Busch InBev was one of the largest beer companies in the world, with roughly $54.6 billion in revenue in 2018. The brewing portion of the company remained the largest brewery in the United States and had an approximately 45 percent stake in the U.S. beer industry.[26] It had the two best-selling beers in the country—Bud Light and Budweiser. However, the company had seen the sale of its products decline over the last several years. In an effort to combat the lower volume of sales, it had raised the prices of its beer products. Anheuser-Busch InBev reported 2018 global revenue growth of 4.8 percent—to more than $54.6 billion—despite continued declines in the United States.[27]

Additionally, the company had witnessed the explosive growth of the craft-beer industry. Although it could never be considered a craft brewery because of its size, Anheuser-Busch planned to make more craft-like beers, as it had done with its brand Shock Top. The company also planned to invest in and purchase small craft breweries, like Goose Island, which made the popular beer 312. Anheuser-Busch was not opposed to merging with other large breweries, and closed a merger deal of over $100 billion with SABMiller in 2016, creating the largest beer company in the world (the Miller and Coors brands were left to competitor Molson Coors following the merger). The company was reported to be in talks with the maker of Corona to purchase that company. The size and influence of the Anheuser-Busch InBev and SABMiller merger posed a threat to the Boston Beer Company because of its substantial lead in available capital and market share.

Molson Coors, Inc.

Molson Coors brands and its subsidiary MillerCoors, LLC, was the second-largest brewing company in the United States, accounting for approximately 30 percent of the market. It had two of the top five most popular beers, Miller Lite and Coors Light, and wanted to catch up with Anheuser-Busch InBev. The company traded publicly as Molson Coors Brewing Company. Molson Coors wanted to push its craft beers after witnessing the growth in the market. It had a popular craft-like beer called Blue Moon Belgian White. The company's group Tenth and Blake focused on the craft-beer industry and premium imports, and it planned to expand the group by 60 percent over the next few years. Some of its premium beers were Leinenkugel's Honey Weiss, George Killian's Irish Red, Batch 19, Henry Weinhard's IPA, Colorado Native, Pilsner Urquell, Peroni Nastro Azzurro, and Grolsch.[28]

Thinking about the Future of Beer

The Boston Beer Company created high-quality craft beers and sold them at higher prices than standard and economy lagers. It was the second-largest craft brewery in the United States and the ninth-largest overall brewery in terms of overall brewing companies. Boston Beer's goal was to become the third-largest overall brewery in the country in terms of dollar sales. Brand recognition is key to any business, and this is especially obvious in the beer industry. Anheuser-Busch InBev and Molson Coors spent Page C216 enormous amounts of capital each year to advertise their products and the new merger would result in a substantial increase in competition for Boston Beer. Due in large part to Anheuser-Busch InBev and Molson Coors, beer has become synonymous with sports, and nowhere is this more apparent than the Super Bowl. Anheuser-Busch InBev was one of the main sponsors of the Super Bowl in 2019, and the world's largest brewer planned to run eight ads, totaling five minutes, 45 seconds.[29] The challenge for craft brewers is that they need to gain a bigger share of the attention of potential customers, while the large brewers have a great deal of money to spend vying for the same consumers. One might argue that the larger brewers' beers do not taste as good as the craft beers, but it is hard to be heard in a crowded space.

Jim Koch and the Samuel Adams team emphasized the number of hops and flavors that their products had, and they wanted to get "better beer" to potential customers. While evaluating hops with the mission of finding the perfect hops for the brewery's Boston Lager, Koch said, "The industrial brewers only buy alpha acids. They buy kids of alpha, they don't care about the aroma. When you're buying that way you don't evaluate."[30]

Over the last several years, the craft brewing industry has grown at the expense of standard and economy lagers. According to analysts, in 2019, craft beer is fetching higher sales than traditional beer due to endeavors from local and international brewers that are expanding their distribution network and at the same time offering exciting new flavors and tastes. The rising consumer preference for low alcohol by volume (ABV) beer is fueling the growth of the global craft beer market.[31] The major breweries have taken notice, and they have started to build up their craft-style beer portfolios. In the past, the Boston Beer Company had the advantage of being one of the only craft breweries that was nationally recognized. Exhibit 9 shows the pricing and alcohol by volume for popular U.S. beers.

EXHIBIT 9 Comparison of Domestic Beer Brands

Domestic Beers	Alcohol by Volume (%)	Average Price (six-pack)	Market Share (%)
Bud Light	4.20	$7.00	15.4
Coors Light	4.20	7.99	7.7
Miller Light	4.20	6.99	6.1
Budweiser	5.00	6.99	6.2
Michelob Ultra Light	4.60	6.99	3.6
Natural Light	4.20	3.49	3.0
Busch Light	4.10	7.99	3.0
Miller High Life	4.60	4.70	1.6
Busch	4.70	6.99	2.2
Keystone Light	4.13	5.99	1.6
Blue Moon Belgian White	5.36	8.49	1.0
Yuengling Traditional Lager	5.00	5.99	1.0
Bud Light Lime	4.90	8.49	1.2
Pabst Blue Ribbon	5.20	8.49	1.2
Coors	5.60	8.49	1.1
Natural Ice	5.20	8.99	1.1
Bud Light Platinum Lager	4.40	6.49	0.9
Samuel Adams Seasonal	5.00	8.99	0.9
Sierra Nevada Pale Ale	5.20	7.99	0.7
Leinenkugels Shandy	4.20	8.75	0.7

Sources: Efficientdrinker.com, 2018. Beer: Making Sense of All the Choices; Harrington, John 24/7 Wall Street, 2018. Which beer is loved most by consumers? 26 most popular U.S. beer brands. USA Today, May 3.; and author estimates.

Boston Beer had a sales growth of 4.1 percent from June 2017 to June 2018 (see Exhibit 6), and they plan on growing their flavored malt beverage and cider offerings to target the growing consumer demand. Although Boston Beer saw a growth in Page C217 2018, Boston Beer Company needs to up its game, as both the smaller craft breweries and the larger breweries plan to take over the craft beer industry.