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The Next Hot Trend in Economic Development: Craft Beer

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The Brewers Association, a trade association representing small and independent American craft brewers, recently released 2014 data on the United States craft beer industry. For the first time ever, at 11 percent, the craft segment reached double-digit volume share of the marketplace.

Based upon this data, craft brewers produced 22.2 million barrels of beer, experienced an 18 percent rise in volume, and witnessed a 22 percent increase in retail dollar value, estimated at $19.6 billion, or 19.3 percent of market share.

In addition, as of the writing of this article, there are 3,464 breweries in the United States and 3,418 of those fit within the definition of craft. This represents a net 19 percent increase year over year from 2013. More importantly, craft breweries now employ 115,469 individuals, up 4.3 percent from 2013.

In a press release issued by the Brewers Association, Bart Watson, the organization's chief economist, said, "With the total beer market up only 0.5% in 2014, craft brewers are key in keeping the overall industry innovative and growing. This steady growth shows that craft brewing is part of a profound shift in American beer culture, a shift that will help craft brewers achieve their ambitious goal of 20% market share by 2020."

Watson also went on to say, "Small and independent brewers are deepening their connection to local beer lovers while continuing to create excitement and attract even more appreciators."

While this production- and consumer-related data is indicative of greater market adoption by consumers, it is also, in part, attributable to the fundamental and meaningful evolution of state regulatory schemes, namely state beer distributor franchise laws, that have hindered growth in the craft segment for many years. In general, these "beer franchise" laws are much more invasive of the commercial relationship than general franchise disclosure relationship laws, and dictate the relationship between the beer manufacturer and the beer distributor, preserving what most people refer to as the "three-tier system."

Historically, state beer franchise laws have been highly protectionist of the distribution tier and in most circumstances prevent the brewery from selling product to anyone other than the distributor. Some of the more dated bodies of beer franchise law inhibit the growth of the craft beer segment even further, but we will save that discussion for a future article. From the perspective of the breweries, one of the most impactful exceptions to the three-tier system and beer franchise laws is the allowance of limited on-site sales, either through a taproom or sales for off-site consumption.

This reform has played a critical role in the development of the craft beer segment as it creates tremendous opportunities for consumers to experience the product in a unique manner. Some craft beer ecosystems have been further enhanced by other regulatory changes, while other areas of the United States lag woefully behind, including the Southeast. In many parts of the country, craft beer has moved from a conversation that once centered exclusively around regulatory competitiveness to one that is now deeply rooted in economic development and tourism.

The growth of the craft beer segment is also starting to be embraced by state and local economic development organizations. Craft breweries are a unique economic development value proposition because this industry creates an intersection point for manufacturing and tourism, something that cannot be said for very many, if any, other industries.

A few years ago, craft brewers Sierra Nevada, New Belgium and Oskar Blues began looking for East Coast expansion opportunities. Roanoke, Virginia, made a serious run at Sierra Nevada by putting together an economic development package valued at around $13 million in incentives. Likewise, Philadelphia, Pennsylvania, made a similar run at New Belgium.

Roanoke and Philadelphia both lost these craft brewery expansion opportunities as Sierra Nevada and New Belgium decided to locate in Asheville, North Carolina, following the lead of Oskar Blues. By landing all three of these craft brewery expansion projects, Asheville firmly staked its claim as a viable and sustainable craft brewery cluster, leading to significant financial investment in manufacturing assets and attracting countless tourists to the area.

Not long after these companies invested meaningful capital in the Asheville economy and started hiring new employees, other states and cities began to take notice. From Arizona to Virginia, from parts of California to South Carolina, and a number of other states in between, state legislatures began modernizing beer laws in a way that encourages further development of existing craft brewery ecosystems as well as attracting expansion projects.

In 2014, Stone Brewing Company, a San Diego, California-based craft brewery, issued a request for proposals for a $75 million, nearly 300-job East Coast expansion project. The site selection process spanned 20 states and took nearly a year to complete. In the end, Richmond, Virginia, prevailed and will eventually be the home for the craft brewery's East Coast operations.

Not wanting to lose another craft brewery expansion project like they had in Roanoke with Sierra Nevada, Virginia's state and economic development organizations had sought to accomplish two objectives in trying to lure Stone Brewing Company to Richmond: (1) make fundamental changes to beer franchise, distribution and three-tier laws in order to make the craft beer segment more competitive relative to other states, and (2) put together a financial incentive package that would assist Stone Brewing Company in the development of its East Coast project. The authorization of taprooms was the most critical component of this effort.

Virginia accomplished both of these objectives and ultimately landed Stone Brewing Company. When all is said and done, the company will invest $74 million in Richmond and create 288 jobs in the first three years. The company expects to generate $100 million in revenue by the end of year four and eventually reach $100 million in annual revenue at the Richmond location.

In order to incentivize this development, the city of Richmond is issuing $23 million in bonds for the manufacturing facility and $8 million in bonds for the restaurant and beer garden, and providing $2 million in city grant funds. To further this effort, the State of Virginia is contributing $5 million from the Governor's Opportunity Fund and an additional $250,000 from the Governor's Agriculture and Forestry Industries Development Fund. The Stone Brewing Company facility is expected to come online in 2016.

In October 2014, representatives from Green Flash Brewing Company, another San Diego craft brewery, joined state and local officials at a groundbreaking and ribbon cutting in Virginia Beach. By spring 2016, the town will be home to a 100,000-barrel-a-year Green Flash production facility, a 4,000-square-foot tasting room, and a one acre beer garden. The project constitutes a $20 million investment and will create at least 40 new jobs for the area.

Most recently, there have been rumors swirling that Ballast Point Brewing Company, yet another San Diego-based craft brewery, is considering an expansion project in Richmond. Speculation is beginning to brew (pun intended), whether the interest is due exclusively to the economic development incentives Stone Brewing Company received for its project or whether it is due to the market demand and the existing ecosystem. It is likely both.

So why are states like North Carolina and Virginia drafting policy to incentivize investment in craft breweries? There are three critical reasons for this, two of which have already been mentioned: this is a manufacturing industry and there is a tourism component to it. The third reason that states and regions are starting to focus on the craft beer industry is the perception that these businesses help create attractive places to live and work.

First, and most fundamentally, craft breweries are manufacturers, a highly-coveted target of economic developers. The development, construction and operation of a craft brewery generally involves significant financial outlays and creates meaningful jobs, two of the most critical objectives for economic developers. With the explosive production growth in the craft beer industry and rising demand, more opportunities exist to export these products outside the borders of a state, bringing in new dollars to local communities, another critical objective of economic development.

Second, tourism surrounding craft beer is intensifying in the United States. Places like Asheville, North Carolina, and Bend, Oregon, have developed niche tourism opportunities around craft beer clusters. This sort of tourism activity has a positive ripple effect with local hotels, restaurants and retailers as people explore highly unique and local craft beer experiences.

The community enhancement component is the final leg of this economic development stool. Craft breweries often locate in higher density areas, adaptively reusing once blighted buildings and becoming chief "place-making" agents of local communities. As people move into denser core cities and communities, there is a premium on "place," which is the intersection of live, work, play and quality of life experiences. Craft breweries play an instrumental role in "place-making" efforts.

We will likely see more economic development activity related to the craft beer industry. States will further amend dated regulatory laws to create more ideal business environments for existing craft breweries while also incentivizing expansion projects. We will see the craft beer segment continue to grow as the demand for highly localized, flavorful and innovative beers increases with each passing year.

Will the craft beer bubble burst? Sure, but probably not any time soon. So support of your local breweries is an opportunity to advocate for this creative economy industry.