



UNLEASHED

AUSTRALIA &
NEW ZEALAND
CRAFT BEER
REPORT
2018



Craft beer market highlights

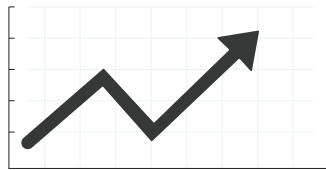


12%



15%

Annual increase in the number of craft breweries
(2016-2017)



21%

Increase in product range from
Unleashed NZ customers
(2016-2017)



35%

Increase in product range from
Unleashed AU customers (2016-2017)

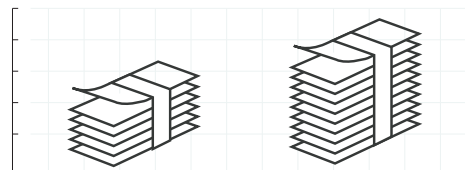


32%

NZ market
sales growth
(2016-2017)

50%

Unleashed NZ
customers sales
growth (2016-2017)



15%

AU market
sales growth
(2016-2017)

37%

Unleashed AU
customers sales
growth (2016-2017)



Introduction



The pastime of drinking beer has evolved over the last few years with new flavours, brands, and smaller breweries popping up across markets.

In many countries, consumers have gradually moved away from mass-produced beer in favour of artfully crafted beer. What started as a niche market offering now sees its place on the shelves of many mass market liquor retailers, and the global craft beer market is expected to reach USD 502.9 billion by 2025¹.

¹ <https://www.grandviewresearch.com/press-release/global-craft-beer-market>



The Craft Beer Phenomenon

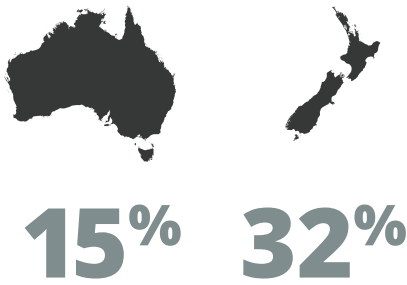




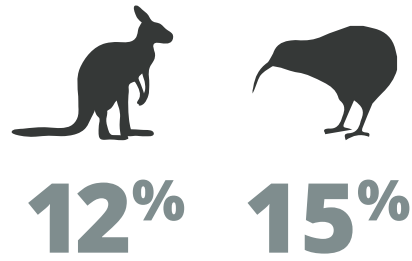
In New Zealand and Australia, craft beer has gone through a similar explosion in popularity. According to a recent report, revenue growth for craft beer in New Zealand was 32% during 2016, making it the fastest growing segment of the brewing industry. Across the Tasman, the Australian craft beer segment grew 15% from 2015 to 2016, bucking the overall industry trend of declining beer consumption in favour of wine and cider.

many Trans-Tasman rivalries over the years, growth in the Australian market is challenging this with over 333 craft breweries in Australia at the start of 2017, representing a 12% increase from the previous year.

This strong growth shows no sign of slowing with the Australian Independent Brewers Association (IBA) counting over 430 independent brewing businesses by the start of 2018.



Craft beer market sales growth (2016-2017)



Annual increase in the number of craft breweries (2016-2017)

What this all brews down to for those in the craft beer business is that there are more opportunities to increase sales – and this time it is the ‘smaller guys’ and not the big brewery corporations that are gaining most. However, on the flip side, this means competition is heating up. In fact, in a recent industry report², there were a total of 194 craft brewers in New Zealand, up over 15% since 2016. Following in the fashion of

With a strong base of craft brewery customers on both sides of the Tasman, Unleashed is in a position to provide insights across both markets. In this report, we’ve summarised our key findings and consulted with some of our leading craft brewery customers to get their views on how they see the markets developing in both Australia and New Zealand.

² ANZ New Zealand Craft Beer - Industry Insights Edition Four, 2017

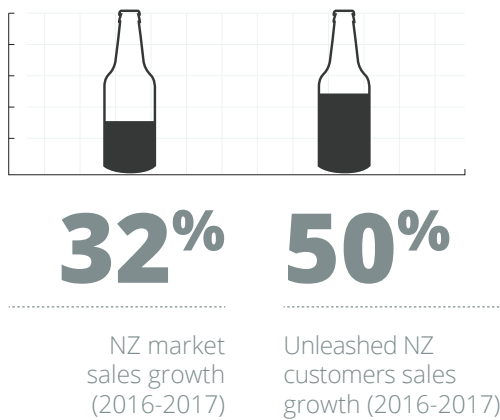


Craft Beer in New Zealand





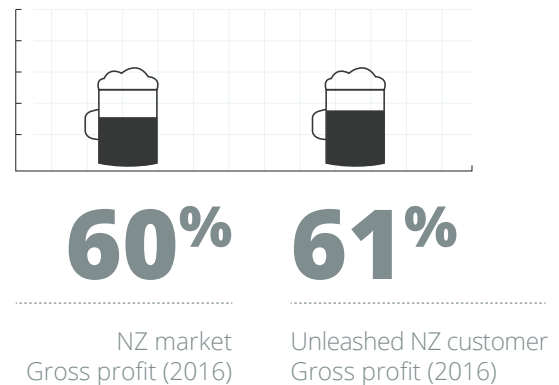
Local New Zealand consumers are well served by the growing craft beer market. Over 2016, small breweries accounted for 6% of total beer consumption by volume - up from 5% in 2015, and by value they account for 10% of consumption, up 8.5% over the previous year.



This trend continued in 2017 with the volume of high strength craft beer consumed up 34% compared to 2016.³

Trends indicate a strong and sustained growth in the value of the craft beer sector, as along with volume growth, the industry experienced a revenue growth of 32% over 2016². At an aggregate level, our Unleashed New Zealand customers have experienced an even higher growth compared to this industry average, with an increase of over 50% in sales for this period.

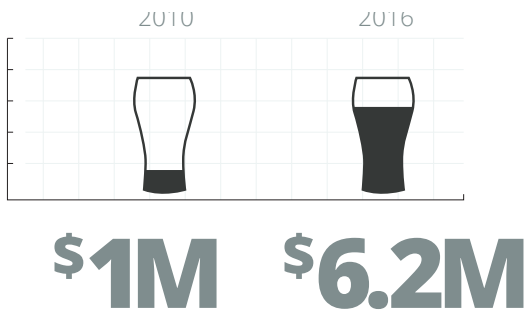
Overall Gross profit for New Zealand craft brewers has been trending downwards, but in 2016 the market average was still 60%². Across our Unleashed New Zealand brewery customers, the average was a similar level at 61%.



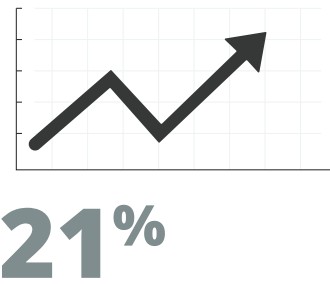
“We will see a consolidation phase in the New Zealand market as customers become more educated and quality becomes vital.”

—
Production Manager
for Epic, Ed Jefferies

³ Statistics New Zealand.



NZ craft beer exports



Increase in product range from Unleashed NZ customers (2016-2017)

This growth hasn't been limited to local market sales. In 2010 New Zealand was exporting NZ\$1million worth of craft beer. Fast forward to 2016, and New Zealand's craft beer sector has received greater international attention and recognition. Exports of beer greater than 5% ABV have increased significantly to a value of NZ\$6.2 million. An example of this is Epic Brewing Company, an award-winning Unleashed customer. They have experienced export success from selling their products in the United States, Europe and Asia, with China being their largest export market.

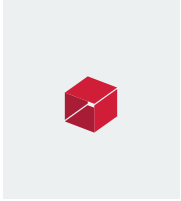
Despite the growth, New Zealand commentators have asked whether the craft beer market has reached a saturation point where future growth or innovation is unlikely⁴. Has the industry peaked?

One positive sign to indicate that this isn't the case is the rising prices of craft beer. The median price per litre of craft beer

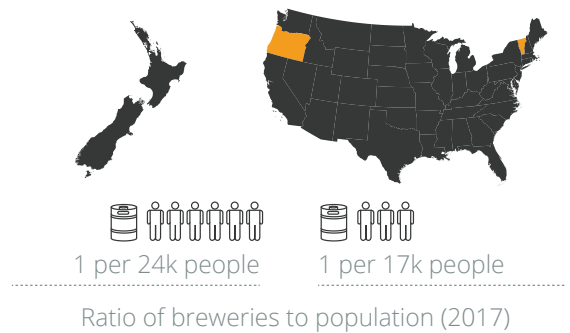
had risen year-on-year to \$15 a litre, with the average price up slightly at \$8 a litre, driven by significant volume growth in the \$10 to \$15 per litre price bracket.

This shows that consumers have become more adventurous and are willing to pay extra for quality beer, and are trying the new premium varieties that don't sit in the mainstream sector.

This willingness of consumers to try new types of craft beer is reflected in the growing number of varieties available in the New Zealand market- the estimated count last year was more than 1600 unique beers available to purchase!² Our Unleashed New Zealand customers have recently increased their range of products by an average of 21%. Given that their overall sales growth has been above 50%. This indicates that while new products are important to drive sales, these companies have been able to drive revenues from their existing brews also.



Comparing the potential saturation of New Zealand craft breweries to other markets, in the noted North American beer states of Vermont and Oregon for comparison, one brewery exists for every 17,000 people combined⁵, compared to estimates of one for every 24,000 people in New Zealand.



Based on these patterns, and assuming the product innovation continues and the quality keeps improving. We predict that the Kiwi craft beer industry will continue to see growth.

Production Manager for Epic, Ed Jefferies comments, "I think we will see a consolidation phase in the New Zealand market as customers become more educated and quality becomes vital.

There is a lot of competition, and consumers have far more choices, but the shelf spaces and number of taps in New Zealand has stopped growing. With this competition for shelf space, there will be tougher times ahead. However, we are seeing good growth in the new seasonal beers we release, highlighting the importance of innovation to stay ahead."

⁴ <https://www.stuff.co.nz/life-style/food-wine/drinks/95553476/has-new-zealand-reached-peak-beer>

⁵ United States Census Bureau, www.vermontbrewers.com, <http://oregoncraftbeer.org>



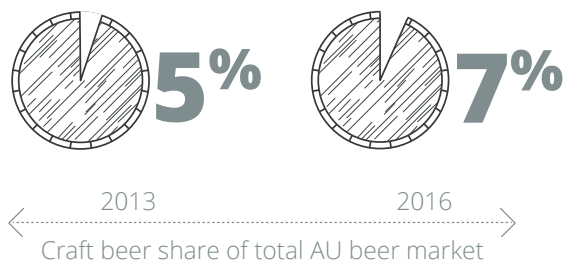
Craft Beer in Australia





The Australian beer market has traditionally been highly concentrated. The major players in the industry, SA Miller, Lion and Coopers, dominate the market with around 85% of all beer sold.

Beer consumption in Australia is at a 65-year low and has fallen an average of 2% per capita a year since 1978, a trend attributed to a resurgence in wine and the increasing popularity of cider⁶.



However, the \$388 million Australian craft beer market is flourishing despite Australians drinking less beer overall. Changing consumer tastes, and the trend of consumers drinking 'less but better quality' has seen the craft beer movement flourish. Craft beer now accounts for 7% of the total Australian beer market, up from 5% in 2013, corresponding to over \$100 million extra annual craft beer sales. Similar to consumers over the ditch, Australians are moving towards new styles with pale ales, summer ales and pacific ales the most popular

craft beer varieties, with new world lagers and pilsners also growing. Overall, Australians consume more beer per capita than New Zealand, but lager still dominates the overall beer market, making up 80% of total sales, indicating more room for the craft beer segment to grow.

Trends in Australia also indicate a strong and sustained growth in the value of the craft beer sector, with revenue growth of 15%⁷ from 2015 to 2016. Unleashed customers were also part of the rising popularity of craft beer. At 37% overall sales growth, they have seen their revenue more than double that of the local industry benchmark.

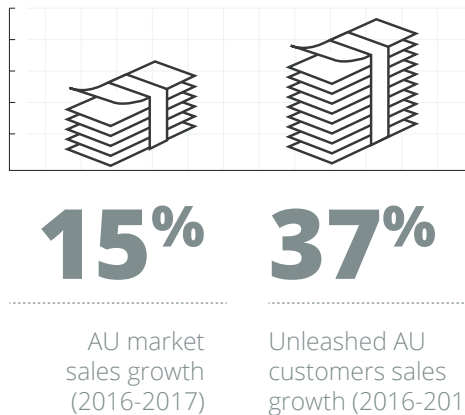


⁶ <https://www2.deloitte.com/au/en/pages/consumer-business/articles/craft-beer-bucking-the-trend-in-australia.html>

⁷ <http://www.australiancraftbeer.org.au/independent-brewing-industry-national-economic-evaluation/>



While behind on percentage sales growth, our Australian craft brewing customers are outpacing their Kiwi counterparts in the growth of new products, with a 35% increase in product range. This indicates that the new brews are helping to drive the craft beer sales growth in the Australian market.

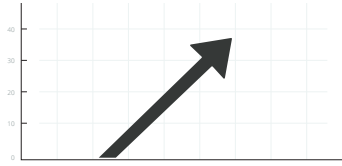


There is further good news with a recent survey finding that 94% of Australian craft beer drinkers are seeking new beers to try⁸, indicating a consistent and ongoing demand for product innovations.

“Engineering margin through innovation and limited releases is a rapidly growing area of opportunity that offsets the core pressure on margins.”

—
Bad Shepherd Brewing Co
Dereck Hales

⁸ Beercartel Survey 2017: beercartel.com.au



35%

Increase in product range from
Unleashed AU customers (2016-2017)



Managing Director for Bad Shepherd Brewing Co, Dereck Hales comments:

“Engineering margin through innovation and limited releases is a rapidly growing area of opportunity that offsets the core pressure on margins.”

“We’re growing rapidly and it’s accelerating, not decelerating. The challenge is how to do it efficiently to build a sustainable platform and I believe that relates back to a clear vision of where and how brewers can grow profitably.”

In the industry, I see a divergence in focus driven by a saturation of entrants and the continued trend of buying local. I think many breweries will focus on building deep local roots with their community through cellar door or brewpub sales and local community on/off premise suppliers. This ensures the best level of quality in terms of product and customer service and helps build brand loyalty. On the other hand, I see some breweries chasing high volume growth with very efficient production systems, delivering high quality and low cost product to a wide base of customers domestically and internationally.”



The Future for Craft Beer in New Zealand and Australia





An industry that was once only associated with hipsters has now become more mainstream in both Australia and New Zealand, making craft beer the fastest growing segment in the beer industry.

With the number of craft breweries in both New Zealand and Australia increasing there is more competition in the market. Local market saturation is likely to be a concern for craft brewers over the next five years, so many will need to look at exporting opportunities to continue growing.

In New Zealand, the continued growth of craft beer sales and the higher price point of these products is projected to increase annualised revenue for the overall beer market over the next 5 years⁹.

Looking at the future of the Australian beer market, the growth in craft beer sales will offset the overall predicted declines in per capita beer consumption and competition from increased cider production.

However with good prices and consumers willing to pay for quality craft beers, there is a positive outlook for both the Australian and New Zealand craft beer segments over the next few years.



As the craft beer market matures, brewers need to focus on making the most of their quality ingredients, maximising yields, and ensuring they run an efficient process to allow the smooth transition from raw materials to the finished product in the bottle.

To maximise this growth, the feedback from our brewing customers highlights the importance of having systems and processes in place that provide visibility and efficiency for purchasing, brewing, and sales operations.

⁹ Ibisworld report, 2017.

Crafting the Perfect Brew

How efficient inventory management can help brewers grow

Modern inventory management software has proved to be revolutionary in many types of businesses, and the beer industry is no exception. As craft beer becomes more mainstream, brewers have seen the changes in the demand and production of their beer. Shifting customer demands require brewers to adapt quickly or lose out. Having the right inventory management system is a critical component of successful beer brewing.

There comes a point in time for many brewing companies where their product becomes popular, sales continue to rise, and the company makes exciting new developments to take their business to the next level. It is at this stage that managing production based on simple spreadsheets and guesswork becomes too difficult.

Inventory management systems can help with many facets of brewing process management:

- Complete cost breakdowns for all ingredients to understand the true cost of each beer.
- Crafting recipes using assembly and Bill of Materials (BOM) functionality.
- Monitoring of raw materials throughout the brewing process, enabling you to keep a close eye on expiry dates.
- Tracking your ingredients, bottles, kegs and barrels as batches, and staying ahead of regulatory compliance requirements.
- Visibility with up-to-the-minute stock numbers, sales margins, and reporting.

It is crucial for brewers to have invested in a comprehensive inventory management system before growth gets out of hand. The craft beer industry is flourishing but without proper inventory management systems in place, craft brewers can't hope to maximise their grain to glass yield.

With a comprehensive inventory management system, the result is a brewery that is able to exercise total control over its inventory flow. They are also able to drive down costs, maximise profitability and direct its most important resources, skilled labor, and working capital towards bottling the best craft beers available on the market. In the meantime, they also get to satisfy the thirst of customers looking to enjoy a new, unique and delicious cold one.



Let Unleashed take
care of your brewery
inventory management.

Take me there



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