

MICROBREWERIES AS AN EMERGING TREND IN SLOVAK BREWING INDUSTRY. QUALITY OR PRICE?

Radovan Savov, Marián Tóth, Drahoslav Lančarič, Miroslav Prístavka

INTRODUCTION

The world beer market is characterized by big concentration and globalization. Between 1950 and 2000 the four-firm producer-concentration ratio for beer increased from 22 to 95 in the United States and biggest player on the market reached more than 50%. In Germany, concentration has risen, but the four-firm concentration ratio was smaller in 2000 (about 29%) than one-firm ratio in United States (Adams, 2011). Expansion of brewing companies happens mostly through mergers and acquisition and brewing licences for in-country production of foreign beers than actual trade of beer (Colen and Swinnen, 2011). Also in beer countries we can see that beer consumption declines. Alternative alcoholic drinks, in particular wine, became more readily available in traditional beer countries. Consumption of beer declined with consumers switching to other beverages because of increased choice and higher incomes. The growing domination of increasingly standardized beer produced by fewer brewing companies has led to a counter-movement. People started to show a renewed interest in specialty beers (like porter, pale ales, bitters and stout) (Poelmans and Swinnen, 2011). It is a reason why new microbreweries were founded on the region basis. Foundation of microbreweries is obviously striking in countries called "Beer drinking nations" like Germany, Belgium, Czech Republic and Britain (Colen and Swinnen, 2011). The evolution of microbreweries has been accompanied by an expansion in the import sector as well. Microbreweries are small in size and produce beer that is more in keeping with the brewing traditions of Europe and comes in a variety of styles (Tremblay and Tremblay, 2011).

The production of beer in Slovakia has a long history dating back to 8th century. The oldest

brewery is situated in Vyhne. The first association of beer producers was established in 1450 in Bardejov, a town in Eastern Slovakia. In middle age the beer was produced almost in every town and village. This changed in 19th century when due to the so-called beer tax, a lot of towns ceased to produce beer. In Slovakia there were 40 breweries at the beginning of 20th century, mostly microbreweries. They all faced two significant disadvantages – the necessity to import basic ingredients as well as strong competition from Czech Republic and Hungary. After World War II the private breweries were transformed into three companies fully owned by state. The rising beer consumption allowed establishing other breweries (Topoľčany, Hurbanovo) in 1960s.

Nowadays the globalization is strongly influencing the companies and the beer market. Old traditional breweries companies finished their activities and were acquired or closed by multinational brewing companies. The biggest breweries like Corgoň, Zlatý Bažant, Martiner and Gemer were bought by Heineken Corporation and Šariš, Topvar were bought by South African Breweries Corporation. Other smaller breweries like Stein, Steiger, Popper tried to be as a competitors (only with Slovak capital) on market for few years. But they were not to be able to compete with large corporations and then stopped business or founded new partners abroad. Therefore the market is characterized by higher concentration. More than 80% of consumption in Slovakia comes from 2 large international companies – Heineken Slovakia (owned by Heineken Corporation) and Pivovary Topvar (owned by SAB Corporation).

The microbreweries cover only about 4% of the total market share. Microbreweries build own brands with specific taste. They usually have to compensate high costs with higher prices. In 2008 there were only 6 active microbreweries

producing own brands but nowadays there are more than 30 microbreweries operating in this business. In spite of the crisis people demand high quality beer with specific taste (even if the price is higher when compared to brands produced by the two major beer producer) more than beer produced by big international companies (called "Eurobeer"). It is also one of the reasons why people spent more money on beer market. In 2008 total consumer spending was 585 million Euros but in 2012 it was more than 620 million Euro what represents increase by 6%.

However, there are more significant changes of the brewing industry (apart from the establishing of microbreweries). Firstly, beer consumption decreased and nowadays shows stagnation. Beer consumption was 94 litres per capita (annually) in 2002 but has decreased strongly to 73 litres per capita in 2011. In 2012 and 2013 small increasing was achieved (to 75 litres per capita annually). The total consumption decreased by 15% in 2012 when compared to 2003 and it is on level 4.1 million hectolitres annually. The decrease in consumption was caused by the higher preference of substitutes (wine consumption increased by 9.7% in 2012 when compared to 2008) and trends of healthy living style (water consumption increased a lot). Secondly, some technological changes in the beer production occurred. New innovative methods and formulas (like Radlers, alcohol free beers, premium beers) helped to stop decreasing of beer production. Beer production was deeply reduced (by 34%) in 2010 compared to 2003. In 2011 and 2012 there was a 3% increase.

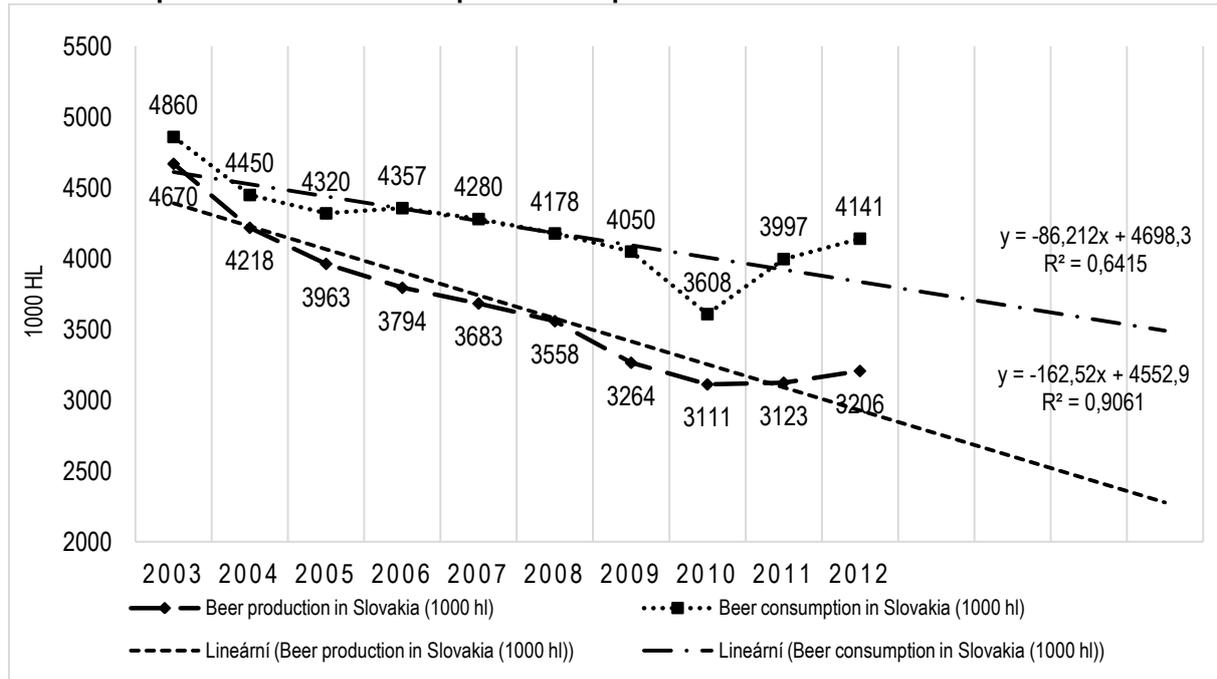
1 BREWING INDUSTRY IN SLOVAKIA

1.1 BEER PRODUCTION AND CONSUMPTION DEVELOPMENT IN SLOVAKIA

The brewing industry has changed a lot in many areas in the last years. Most of all, beer production highly decreased and shows stagnation nowadays (see picture 1). Total production of beer in Slovakia was more than 4.6 million hectolitres in 2003. It decreased by 33% in 2010, than slowly increased to the level 3.2 million hectolitres in 2012. The curve of beer consumption is similar to the curve of beer production. Total beer consumption reached level 4.8 million hectolitres in 2003 and then it decreased by 26% in 2010. After this period we registered small increasing to the level 4.1 million hectolitres in 2012.

In the observed period (2003-2012) beer production and consumption trends are falling. Beer production is characterized by linear equation $y = -162.52x + 4552.9$ and beer consumption is characterized by linear equation $y = -86.212x + 4698.3$. Difference between these trends escalates and it should create opportunity for new entities on beer market. People wanted to have other possibilities of quality beer as an alternative to Eurobeers produced by multinational corporations in Slovakia. It is the main reason why some businessmen started to brew own beers in pubs and created own microbreweries.

Pic. 1: Beer production and consumption development in Slovakia



Source: The brewers of Europe. Beer statistics 2012

Consumption of beer per capita is good indicator for countries comparison. In years 2000-2006 Slovakia belonged to the top 15 countries with highest beer consumption per capita in the world. In Slovakia this indicator has fallen by 13.3% in whole searched period. Main reasons of this fall are connected with higher price of beer (because VAT increased), with healthier life style (consumers started to

prefer water and mineral water) and preferences of consumers (people started to prefer wine than beer – wine consumption increased by 10% in last years). As we can see in table 1 there is continuously falling until 2011. Boost of the consumption in 2012 was caused by the introduction of innovative products such as mixed beer drinks (called Radlers).

Tab. 1: Consumption of beer (per capita) in Slovakia

| | 2003 | 2004 | 2005 | 2006 | 2007 | Index 12/03 |
|----------------------------|------|------|------|------|------|----------------|
| Consumption per capita (l) | 90.0 | 82.4 | 80.0 | 80.7 | 79.3 | |
| | 2008 | 2009 | 2010 | 2011 | 2012 | 86.7% |
| Consumption per capita (l) | 77.4 | 75.0 | 78.0 | 72.9 | 78.0 | |

Source: The brewers of Europe. Beer statistics 2012

1.2 IMPORT AND EXPORT OF BEER IN SLOVAKIA

Although Slovakia is known as a country of quality beer, import of foreign beer is much higher than volume of exported beer. Slovakian brands are mostly exported to V4 countries, but also to Romania, Austria, Germany and Russia. Import of foreign beer increased by 85% in the observed period and reached the volume 0.65

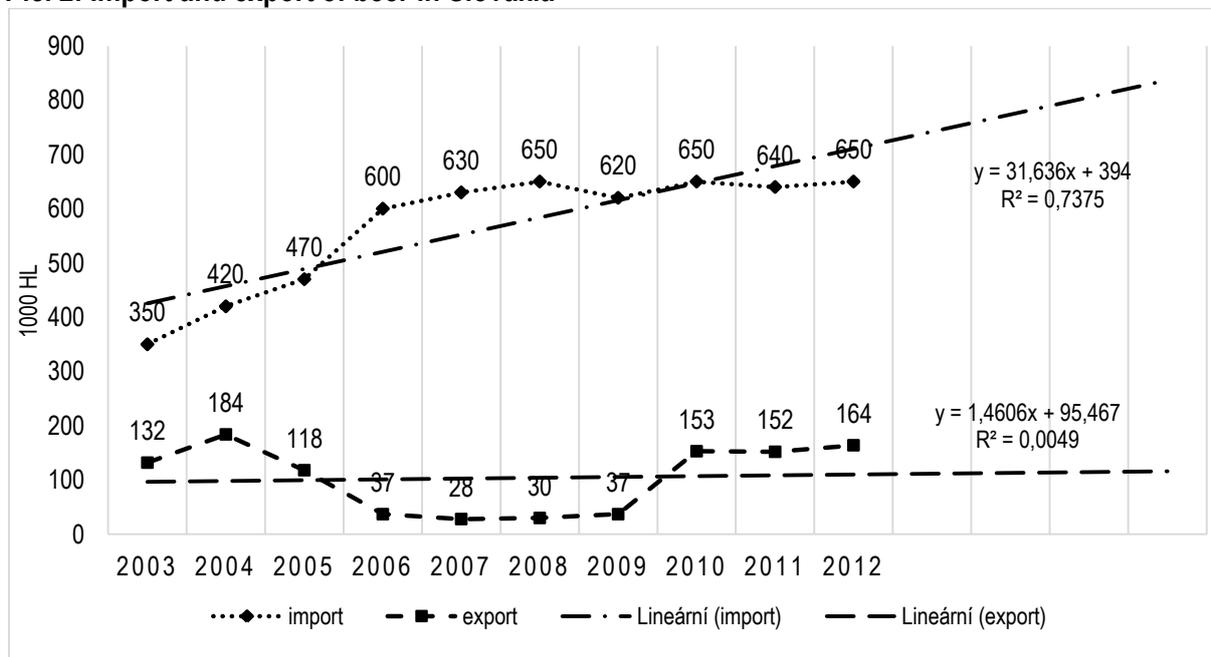
million hectolitres. On the other hand, the export of beer also increased (by 24%) to the level of 0.164 million hectolitres. Beer import is characterized by linear equation $y = 31.636x + 364$ and beer export is characterized by linear equation $y = 1.4606x + 95.467$. According to this equation, the import will be steadily increasing while the export will stagnate. However, there have been many changes in

export rates in period 2003-2012, so the trend is not stable ($R^2 = 0.0049$).

Balance gap between export and import increased by 124%. We assume that it is also

the result of customer preferences since they started to prefer the quality beer.

Pic. 2: Import and export of beer in Slovakia



Source: *The brewers of Europe. Beer statistics 2012*

1.3 PRICE AND CONSUMERS SPENDING

The price of beer is important indicator of the beer market. There is a big difference between on trade and off trade price of beer. Average consumer price per 1 litre on trade increased by 13%, but off trade price decreased by 3.6% in recent years (tab. 2). There are two main factors which caused the on trade price is higher. Firstly, the raw materials prices are

increasing. Secondly, there is a high level of excise duty ratio. It is one of the reasons that influenced the structure of consumption (40% on trade; 60% off trade) as well. People are changing their preferences and they are buying beer in supermarkets more often than before. The usage of PET bottles increased a lot which is an indicator of higher convenience of the consumers (they tend to drink the beer at home).

Tab. 3: Numbers of breweries in Slovakia

| | 2008 | 2009 | 2010 | 2011 | 2012 | Index 12/08 |
|--------------------------------------|------|------|------|------|------|-------------|
| Breweries (including microbreweries) | 13 | 15 | 19 | 25 | 30 | 230.8% |
| Microbreweries only | 7 | 9 | 14 | 20 | 26 | 371.4% |

Source: *The Slovak Beer and Malt Association*

There was an association of small independent Slovak breweries (ASISB) founded in 2009. It was founded by 4 independent Slovak breweries: Banskobystrický Brewery (Banská Bystrica), Kaltenecker Brewery (Rožňava),

Golem Brewery, (Košice) and Perla Brewery (Banská Bystrica). Until 2014 the ASIB was joined by another 11 independent breweries. Growing in power the ASIB is recognized by the legal authorities. It is nowadays being invited to

discuss the prepared legislative acts connected to beer production and its taxation. The ASISB's agenda is to achieve the reworking of actual tax system (lower or no taxes for homebrewers; more tax level according to production etc.).

In 2012 the ASISB started the initiative „Beer Militia“. The initiative is built upon five principles:

1. The initiative is opened for every microbrewery willing to take part (upon condition of its independence on international capital).
2. The “protected” beers should be produced by traditional technologies using the finest natural ingredients.
3. The main objective is to achieve fair market conditions and bigger tax differentiation for small independent Slovak breweries.
4. The initiative protects Slovak breweries which were able to remain independent and which saved their own identity.
5. The initiative welcomes in its ranks any organisation who genuinely cares for the one hundred percent Slovak beer.

The initiative actually associates 16 microbreweries and brewpubs. The founders expect the number to be rising in the near future.

Also the overall dynamics of microbreweries founding is very positive with 3-5 new breweries founded every year. There are expectations the number of microbreweries will reach 60-80 in 2020. As a part of international research we enquired what actually the reasons and motivation are to start a microbrewery. From the interview with several microbrewery owners we conclude the reasons are as follows:

- Diversification of existing business – several owners are running another business (apart from the brewery). This business helped them significantly in the rising of initial funds and in some cases it is helping still to cover the necessary investments.
- “Free-time” activity – some owners expressed their love to beer by creation of their own beer brand and founding of brewery.

- Development from home brewing – some owners of brewpubs are former home brewers and they decided to move from the home brewing to “real” brewing.
- Microbrewery as a start-up – there are supporting schemes emerging and it is easier to rise the initial funds.

CONCLUSION

The brewing of beer has a long tradition in the Slovak Republic. As a result of the close proximity to the Czech Republic as well as the mutual history, beer is one of the most favourite drinks in Slovakia. In the past there were many small regional breweries. The political and economic development in the second half of the 20th century led to the centralisation in the industry. After the short period in the 90ties, when the centralisation receded a little bit, the industry is centralised once again, this time it is a result of the globalisation.

There is a trend of decreasing beer consumption (in some regions the wine is being preferred to beer) followed by the decreasing beer production (which is compensated by the higher import). One of the reasons resulting in lower consumption (apart from the obvious economic reasons related to price) is the likeness of the beers sold under different brands even if the owner is the same. It is a usual policy implemented by Both Heineken and SAB-Miller. The customers' choices were limited.

This emerging market opportunity was used by entrepreneurs who started to produce special beers in the independent breweries all around the Slovak Republic. The majority of these entrepreneurs has two things in common: they like beer and they diversified to brewing from another type of business. Nowadays there are more than 30 microbreweries and brewpubs in Slovakia. Interesting thing is they do not regard each other as competition rather more as partners. The close cooperation taking form of serving different independent beer brands under one roof or exchange of experience (or even downright exchange of know-how) is very common.

From the economic point of view the beer brewing is very attractive (there are supporting program schemes emerging among EU funds, the investment pay-back period in some cases is less than 4 years etc.). Based on these fact we expect the number of microbreweries to increase in the near future.

Resources

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Abstract: The paper deals with trends in development of beer industry in Slovakia. It is focused on the establishing of new microbreweries. Slovak beer market is characterized by high concentration (as a result of globalisation). More than 80% of beer consumption in Slovakia origins from two large international companies – Heineken Slovakia (owned by Heineken Corporation) and Pivovary Topvar (owned by SAB Corporation) which bought the traditional domestic beer brands. Microbreweries cover only about 4% of the total market share. Beer consumption was 94 litres per capita (annually) in 2002 but decreased significantly to 73 litres per capita (annually) in 2011. In 2012 and 2013 small increase in beer consumption was achieved. Due to the smaller consumption the production decreased as well. However, new innovative methods and formulas (Radlers, alcohol free beers, premium beers...) helped to stop the decrease of beer production in recent years, partially thanks to the quality beers produced by the new established microbreweries. The results are based on data of The Brewers of Europe and Slovak Beer and Malt Association. To identify the motives for establishing microbreweries, the interviews with owners and managers of Slovak microbreweries were held.

Key words: Beer production, beer consumption, export, import, microbreweries.

JEL Classification: E2, M2