

Economic Impact of Craft Breweries in San Diego County 2019

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Executive Summary

The craft beer industry has continued to remain a growing industry in the United States, with revenue growth expected to increase into 2023. U.S. non-craft beer sales have declined over the past several years while U.S. craft beer sales continue to increase.

In 2017, the U.S. Congress passed legislation that included a two-year provision of the Craft Beverage Modernization and Tax Reform Act (CBMTRA), which lowered the Federal Excise Tax (FET) for breweries for a period of two years and was set to expire on December 31, 2019. In February 2019, the CBMTRA was reintroduced and, if approved, will make the current federal excise rate language permanent.

In 2018, California had over 900 craft breweries, ranking number one in the United States. In 2017, California craft brewers contributed \$8.2B to the state's economy.

San Diego County is home to over 150 craft breweries. It had a total economic output of approximately \$1.2B in 2018. In comparison, San Diego County's Sporting and Athletic Goods Manufacturing industry had about \$1.3B in economic output in 2018. San Diego County has experienced a 34% growth in craft beer economic output since 2016.

San Diego County craft brewers have a positive industry outlook over the next 12 months. Based on surveys conducted, a confidence diffusion index of 91 was recorded, indicating that the brewers are optimistic about the future growth and development of their operations.

About This Report

This report analyzes the economic impact of craft brewers in San Diego County and was produced by the Office of Business Research & Analysis at California State University San Marcos, which is a joint effort between the College of Business Administration, the department

of Economics, and the University Library. This report was published in conjunction with the San Diego Brewers Guild.

Data

The data supporting this report was collected from several sources during the first quarter of 2019. A combination of survey data and secondary sources were used. Each data source has varying effective dates, and every precaution has been taken to ensure relative comparability.

IMPLAN

To properly measure and quantify the flow of dollars through the San Diego economy, OBRA used leading economic impact software, called IMPLAN®. IMPLAN® is advanced input-output modeling software with regional data and economic multipliers built in. IMPLAN® extracts and measures data from local sources, rather than extrapolating regional data from national averages, to properly incorporate regional trade-flow assumptions and economic multipliers into customizable models to view economic impacts.

InDesign

InDesign was used to design the layout of the report. This software creates posters, brochures, newspapers, and ebooks through Adobe software. InDesign publishes content in conjunction with Adobe Digital Publishing Suite and exports to multiple platforms. Main users of InDesign include graphic designers and production artists for publications, print media, and posters.

ReferenceUSA

ReferenceUSA® is an Infogroup company that hosts an online database containing information about businesses and consumers throughout the nation. Since its founding in 1992, ReferenceUSA® has collected up-to-date revenue and employment data from businesses through a combination of surveys and direct phone call verification. For those businesses unable to provide complete data, ReferenceUSA® uses advanced economic modeling techniques to ascribe figures based on aggregated data from the U.S. Department of Commerce.

Qualtrics

Qualtrics is a survey tool used to send and track surveys. Qualtrics was used to collect and compile necessary survey data from the local breweries in San Diego County.

Photographs

The photographs are from well-known breweries in San Diego County. All photographs were taken at North Park Beer Co., Societe Brewing Company, and Burgeon Beer Company.

The Craft Beer Industry

Craft brewers, as defined by the national Brewers Association (BA), are those that produce 6 million barrels or less per year, are independently owned (25% or less ownership by a non-craft beverage alcohol industry entity), and have a TTB Brewer's Notice². Craft brewers, as defined by the national Brewers Association (BA), are those that produce 6 million barrels or less per year, are independently owned (25% or less ownership by a non-craft beverage alcohol industry entity), and have a TTB Brewer's Notice². In 2017, the craft beer industry provided more than 500,000 jobs and contributed \$76.2B to the U.S. economy².

To distinguish between craft and non-craft brewers, the Independent Craft Brewer Seal is used. This seal a national effort, spearheaded by the Brewers Association, to provide consumers with an easy way to identify independent craft brewers. As of June 2019, over 4,000 independent craft brewers in the United States have adopted the seal².

The craft beer industry has continued to remain a growing industry in the United States¹. The industry has experienced revenue growth over the five years to 2018, increasing at an annualized rate of 11.8% to reach an estimated \$6.8 billion¹. As consumers demand a greater variety of beers, craft brewers have captured consumers that had traditionally purchased light and premium brand beers. The industry has also attracted these consumers by using quality ingredients, providing a high degree of expertise, and serving fresh craft beer¹.

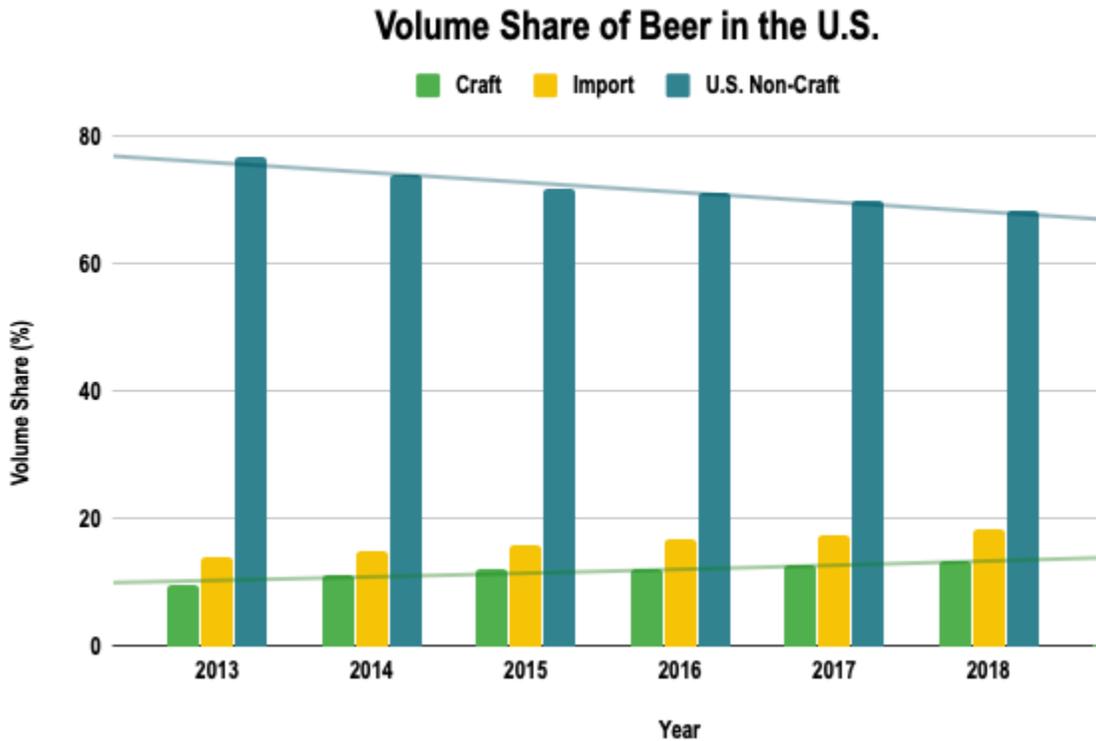
The industry comprises many small-sized players, but there has been increasing consolidation and expansion activity among some of the industry's largest brewers. Brewers such as Magic Hat Brewing Company, Ballast Point Brewing Company, Dogfish Head, and Lagunitas Brewing Company, once significant craft brewers, have been acquired by major beer companies and are no longer classified as craft brewers by the Brewers Association¹.

Although the revenue growth among the industry is plateauing due to market saturation, consumer demand for craft beer remains robust¹. As a result of market saturation, between 2018 and 2023, the industry is expected to grow at an annualized rate of 1.5% to \$7.3 billion¹.

U.S. non-craft beer sales volume has steadily decreased over the past several years, while U.S. craft beer sales volume has steadily increased. In 2018, U.S. craft beer sales volume was 13.2%

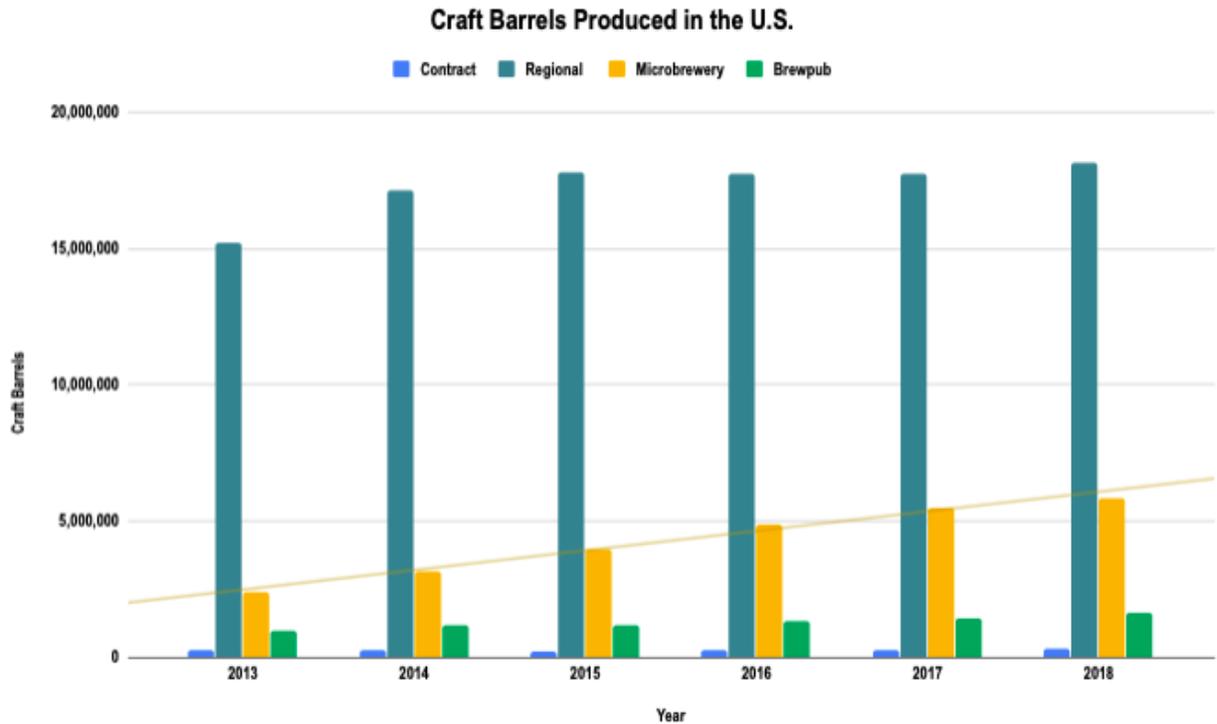
of overall beer sales, representing a growth over 2017 of about 4.8%². Figure 1 represents a graph showing growth in U.S. craft beer sales volume over the past several years compared to U.S. non-craft beer sales volume.

FIGURE 1: VOLUME SHARE OF BEER IN THE U.S.



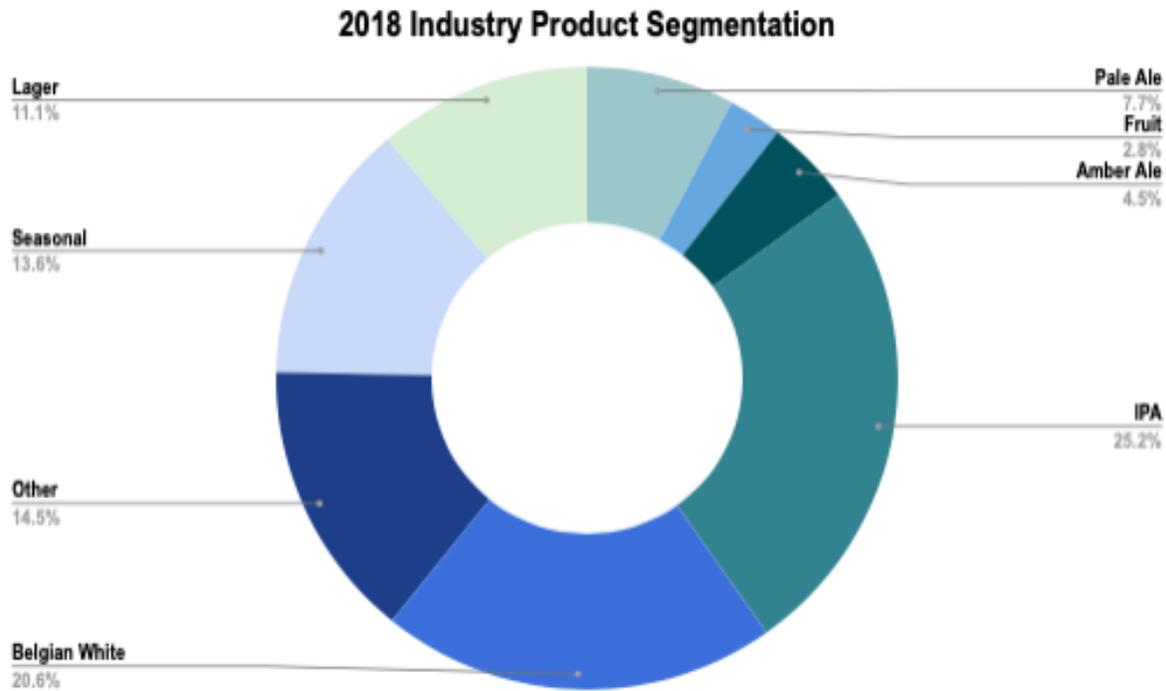
In 2018, there were 25.9 million barrels of craft beer produced in the U.S.², which represents a growth rate over 2017 of about 4%². See Figure 2 for a graph showing craft barrels produced in the U.S. since 2013 by contract brewers, regional brewers, microbreweries, and brewpubs. Microbreweries have experienced significant growth over the past several years, including a growth rate over 2015 of about 47%². In comparison, regional brewers have produced a steady amount of craft barrels over the past several years, with a growth rate of about 2% over 2015².

FIGURE 2: CRAFT BARRELS PRODUCED IN THE U.S.



India Pale Ale (IPA) is the most popular beer among U.S. craft beer drinkers, representing 25.2% of industry revenue in 2018¹. Belgian White is the second most popular beer, representing 20.6% of industry revenue. Together, IPA and Belgian White comprised of nearly half of industry revenue (45.8%) in 2018. See Figure 3 for a graph showing a breakdown of industry product segmentation.

FIGURE 3: 2018 INDUSTRY PRODUCT SEGMENTATION



Source: IBISWorld

Size and Growth

The U.S. Department of Treasury’s Alcohol and Tobacco Tax and Trade Bureau (TTB) grants states the authority to oversee alcohol and beverage control. The California Department of Alcoholic Beverage Control (ABC) regulates manufacturers and purveyors of alcohol via licensing within California. The three types of ABC licenses discussed in this report are:

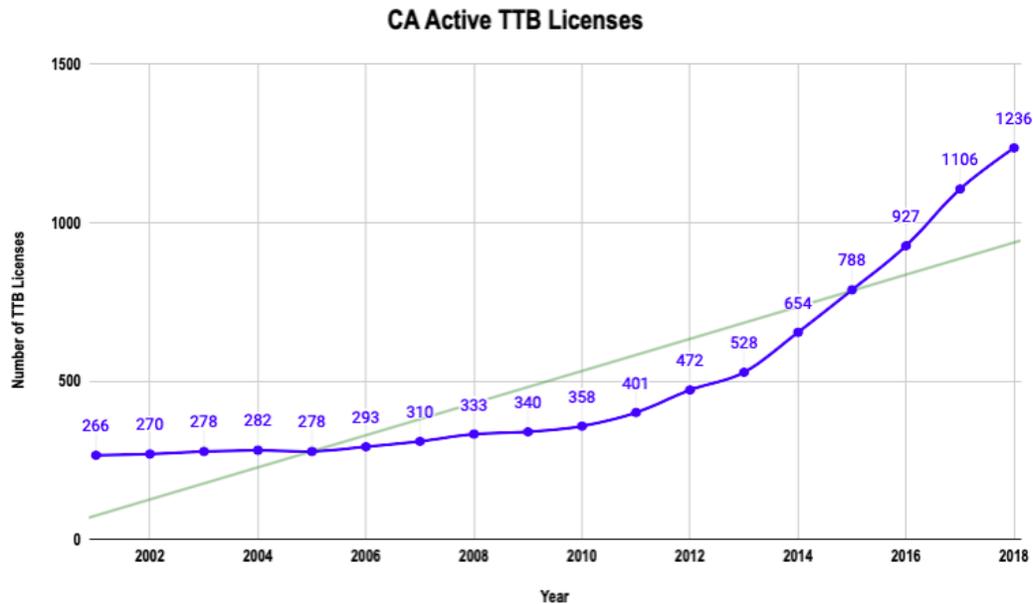
Type 1: Beer Manufacturer (Large Brewer)

Type 23: Small Beer Manufacturer

Type 75: On Sale General (Brewpub)

Although the TTB count does not solely reflect active brewers in the marketplace, it is a good indicator as to the size and relative growth of the industry in terms of firms operating in the marketplace. According to the Brewers Association (BA), there were over 7,000 active breweries in the United States in 2018². TTB license growth has accelerated since 2011. In 2018, there were a total of 1,236 active California TTB licenses, which represents an 11.8% growth rate over 2017. The number of TTB licenses has more than tripled since 2011. Figure 4 shows the number of active California TTB licenses over the past several years.

FIGURE 4: CA ACTIVE TTB LICENSES



Craft Beer Taxes

The Federal Excise Tax (FET) on alcoholic beverages is imposed at the manufacturer and importer level, based on the per unit production or importation of alcoholic beverages (e.g., distilled spirits, wine, and beer) for sale in the U.S. market. When converted to standard drink measures, liquor drinks are generally subjected to a federal excise tax of approximately 13 cents per 1.5 ounce shot, wine is taxed at 4 cents per 5 ounce glass, and beer is taxed at 5 cents per 12 ounce can or bottle.

In 2017, the United States Congress passed legislation that included a two-year provision of the Craft Beverage Modernization and Tax Reform Act (CBMTRA), which lowered the Federal Excise Tax (FET) for breweries by 50% for a period of two years and was set to expire on December 31, 2019.

According to the Brewers Association, in February 2019, the CBMTRA was reintroduced and, if approved, will make the current federal excise rate language permanent².

Since the enactment of CBMTRA, 99% of small brewers have realized a 50% reduction of their federal excise tax (from \$7/barrel to \$3.50/barrel). This enables brewers to increase investments, improve health care and benefit offerings, purchase new equipment, and hire additional workers. The CBMTRA increased 2018 industry job totals and has saved the industry nearly \$80 million annually². If the CBMTRA becomes permanent, owners will continue to have

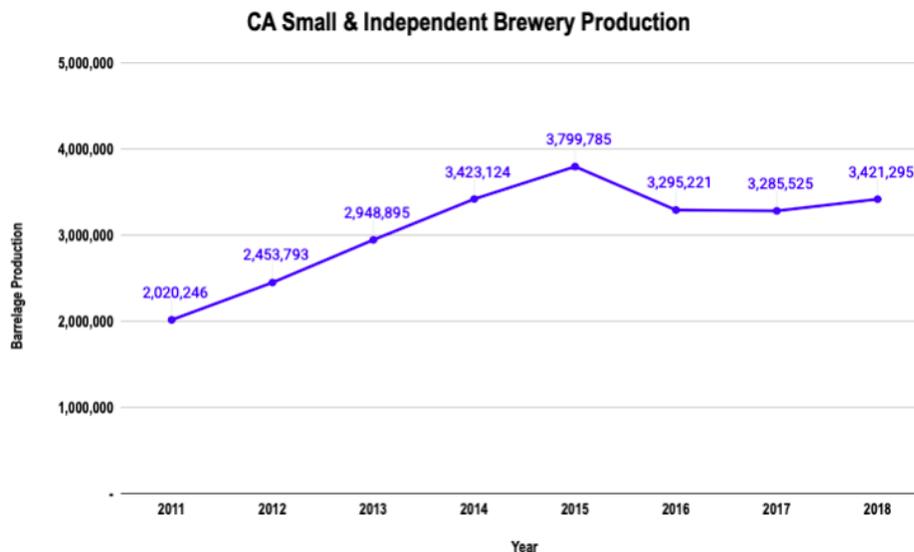
a greater amount of capital to invest in their businesses and contribute to local and national economies.

California

As of January 2019, there were more than 900 craft breweries operating in California, which ranks as the state with the highest number of craft breweries in the nation³. Craft brewers in California produced 3,421,296 barrels of beer in 2018, which ranks California as the second-highest state in the nation for beer production (Pennsylvania produced about 3.7M barrels in 2018)². In 2017, California craft brewers employed about 54,000 people and contributed \$8.2B to the state’s economy³.

See Figure 5 for a graph showing production totals in California over the past several years. It is important to note that the decrease in production numbers from 2015 was caused by some California breweries being acquired by big beer (non-craft beer companies) and were, therefore, removed from craft brewery production totals.

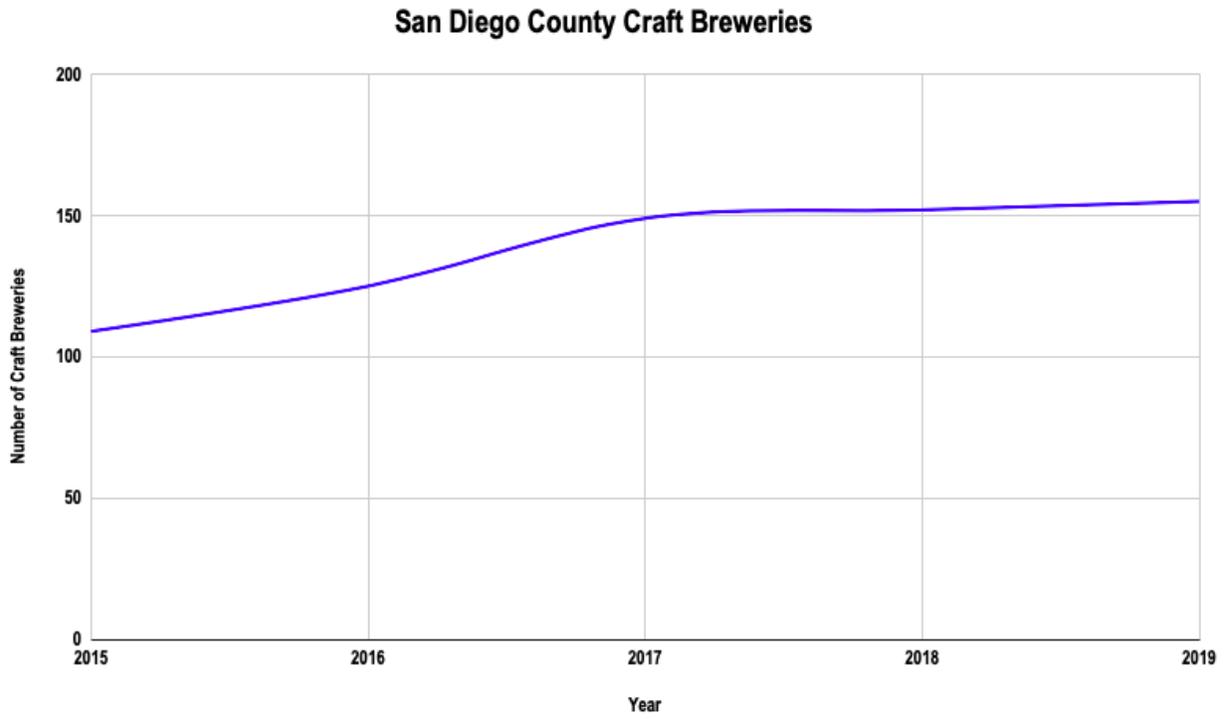
FIGURE 5: CA SMALL & INDEPENDENT BREWERY PRODUCTION



San Diego County

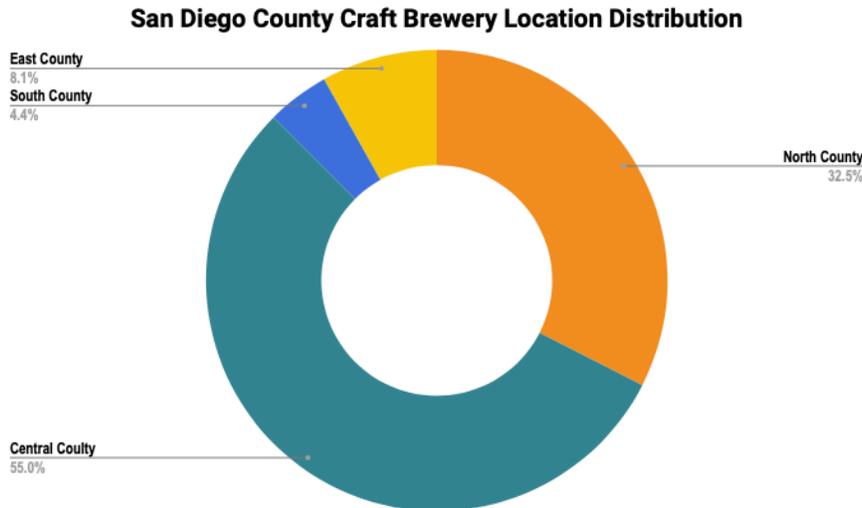
As of January 2019, there were 155 independent craft brewers operating in the county. Several of these 155 craft breweries have tasting rooms/pubs under the same brand/license, bringing the total number of operating craft brewery locations to 202⁴. See Figure 6 for a graph showing the increase in number of breweries in San Diego County from 2015 to 2019.

FIGURE 6: SAN DIEGO COUNTY CRAFT BREWERIES



The majority of San Diego County craft breweries reside in Central County (55%). North County hosts the second largest amount of craft breweries (32.5%). South and East Counties have a combined 12.5% of total craft breweries in San Diego County, indicating potential growth opportunities for these areas. Figure 7 represents a graph showing the location distribution of San Diego County craft breweries.

FIGURE 7: SAN DIEGO COUNTY CRAFT BREWERY DISTRIBUTION



Economic Impact

Craft brewers have seen an increase in production and hiring to facilitate continued growth. San Diego County is home to over 150 craft breweries that contribute to economic stimulation and job growth for a region with over 3 million residents.

To measure the economic impact on the county, data indicating industry changes within an input and output model in IMPLAN® software was used, which provides reproducible quantitative results displayed in three impact categories:

Direct impacts result from expenditures associated with constructing and operating a brewery.

Indirect impacts result from the suppliers of the breweries purchasing goods and services and hiring workers to meet demand. These secondary impacts would not occur but for the original brewery operations.

Induced impacts result from the employees of the breweries purchasing goods and services at the household level.

For the purpose of this report, indirect and induced impacts from the IMPLAN® model were combined into a *multiplier effect*. A *multiplier effect* is a change in which an increase in spending produces an increase in income and consumption greater than the initial amount spent.

The total economic impact is composed of *direct* and *multipliers effects*. *Value added* measures the economic impact of craft beer total activities in San Diego County in the form of employee

salaries and compensations, taxes on production and imports (minus subsidies), and gross operating surplus. The *output* is the total annual value of all production activities generated by the craft beer industry in San Diego County.

San Diego County Craft Beer Economic Impact

In 2018, the economic impact of craft breweries in San Diego County was \$1,167,656,785, represented in Figure 8.

FIGURE 8: 2018 SAN DIEGO CRAFT BEER ECONOMIC IMPACT

San Diego County Craft Beer				
Impact Type	Employment	Labor Income (\$)	Value Added (\$)	Output (\$)
Direct Effect	4,708	78,503,834	363,353,245	847,806,465
Multiplier Effect	1,772	116,185,582	189,842,641	319,850,320
Total Effect	6,480	194,689,416	553,195,886	1,167,656,785

To calculate industry revenue, the Brewery Operations Benchmarking Survey (BOBS) from the Brewers Association (represented in Figure 9) was used. The total barrels produced per craft brewery in 2018 was used to determine revenue per barrel for both distribution sales and on-premise sales, and therefore, total industry revenue.

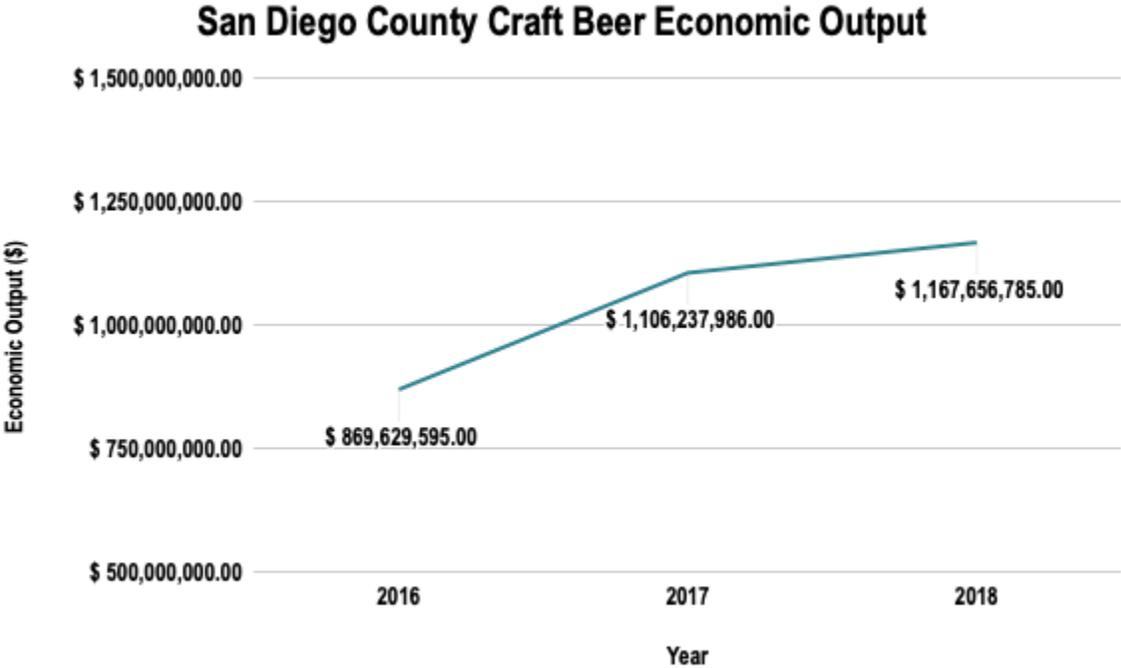
FIGURE 9: BOBS PERCENTAGE OF DISTRIBUTION VS. ON-PREMISE SALES

Percentage of Distribution vs. On-Premise Sales						
Breweries	Barrels Produced	Distribution Sales		On-Premise Sales		Weighted
		Rev/bbl	Percent (%)	Rev/bbl	Percent (%)	Rev/bbl
	>60,000	347.9	0.923	1200	0.077	413.53
	30,001-60,000	294.69	0.897	1200	0.103	387.94
	15,001-30,000	303.28	0.754	1200	0.246	523.87
	10,001-15,000	317	0.818	1200	0.182	477.71

	5,001-10,000	407	0.62		1200	0.38	708.34
	2,501-5,000	432	0.603		1200	0.397	736.90
	1,001-2,500	490	0.491		1200	0.509	851.39
	1-1,000	743.56	0.218		1200	0.782	1100.50
Brewpubs	>1,000	691.81	0.406		1200	0.594	993.67
	1-1,000	871.09	0.072		1200	0.928	1176.32

San Diego County has experienced a 34% growth in craft beer economic output from 2016, including a 6% growth in 2018. Figure 10 represents a graph showing the increase in economic output between 2016 and 2018.

FIGURE 10: SAN DIEGO COUNTY CRAFT BEER ECONOMIC OUTPUT



Comparisons

Companies in the Sporting and Athletic Goods Manufacturing industry produce a range of sporting and athletic goods, including apparel, balls, bags, clubs, boards, fishing gear, skates,

and more. Some of the world’s largest Sporting and Athletic Goods Manufacturing companies are headquartered in San Diego County, including TaylorMade, Callaway, Titleist, Reef, Cobra Puma, and Rusty Surfboards⁵.

The industry had a total economic output in San Diego County of approximately \$1.2B in 2018, represented in Figure 11. In comparison, independent craft breweries in San Diego County produced an economic output of about [redacted] in 2018. The impact of independent craft breweries compares favorably to the impact of Sporting & Athletic Goods Manufacturing industry.

FIGURE 11: 2018 SAN DIEGO SPORTING & ATHLETIC GOODS MANUFACTURING ECONOMIC IMPACT

San Diego Sporting & Athletic Goods Manufacturing				
Impact Type	Employment	Labor Income (\$)	Value Added (\$)	Output (\$)
Direct Effect	2,743	241,556,809	396,013,895	764,684,996
Multiplier Effect	3,070	176,372,500	287,546,102	490,371,021
Total Effect	5,813	417,929,309	683,559,997	1,255,056,017

Philanthropy

Using an average charity multiplier of \$4.67/ bbl for the craft beer industry in San Diego, philanthropic donations for 2018 are estimated to be nearly \$5M.

Looking Forward

Craft Brewer Confidence Index

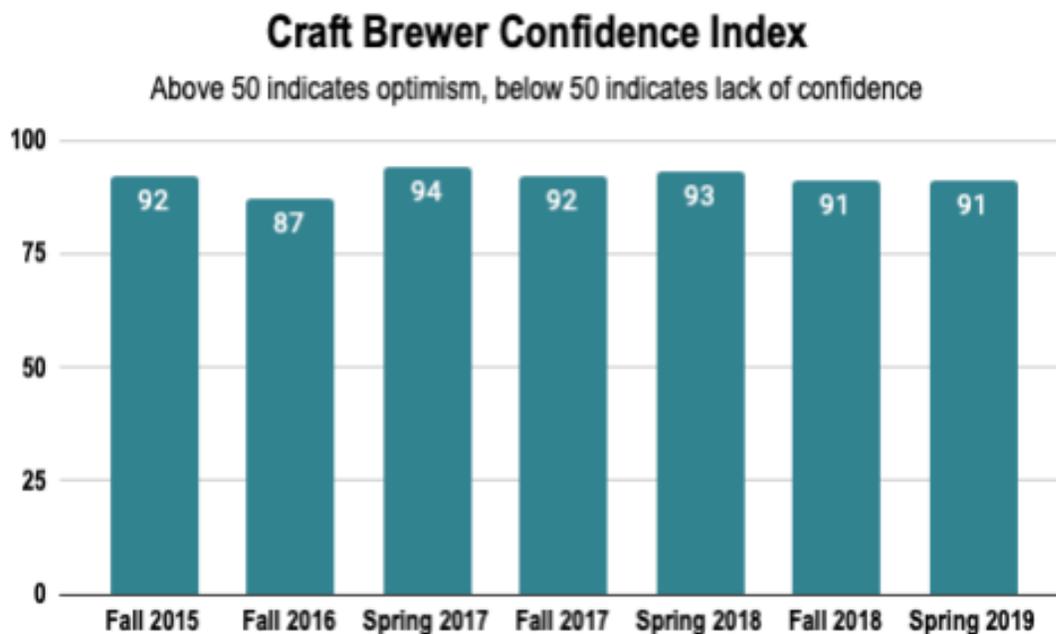
Between 2015 and 2019, California State University San Marcos (CSUSM) Senior Experience teams have partnered with the San Diego Business Journal to conduct seven craft beer confidence indices and identify trends in the industry’s confidence.

The Senior Experience program matches final-year College of Business Administration students with local businesses, overseen by a CSUSM faculty advisor, to present students with the opportunity to participate in a professional business engagement and apply their undergraduate knowledge in practical ways. The objective of the San Diego Business Journal’s

semi-annual survey is to measure and evaluate the overall confidence level of craft brewers in the county. The researchers used a confidence diffusion index, which, according to the Bureau of Labor Statistics, is a measure of the dispersion of change. An index rating above 50 indicates that the values being measured increased, and an index rating below 50 indicates that the measured values decreased.

Since the surveys began in 2015, the craft beer industry confidence in San Diego County has been optimistic. Spring 2019 recorded a confidence index of 91, indicating an optimistic outlook for the craft brewer industry in San Diego County over the next 12 months. Figure 12 represents San Diego County’s confidence indices between 2015 and 2019.

FIGURE 12: CRAFT BREWER CONFIDENCE INDEX

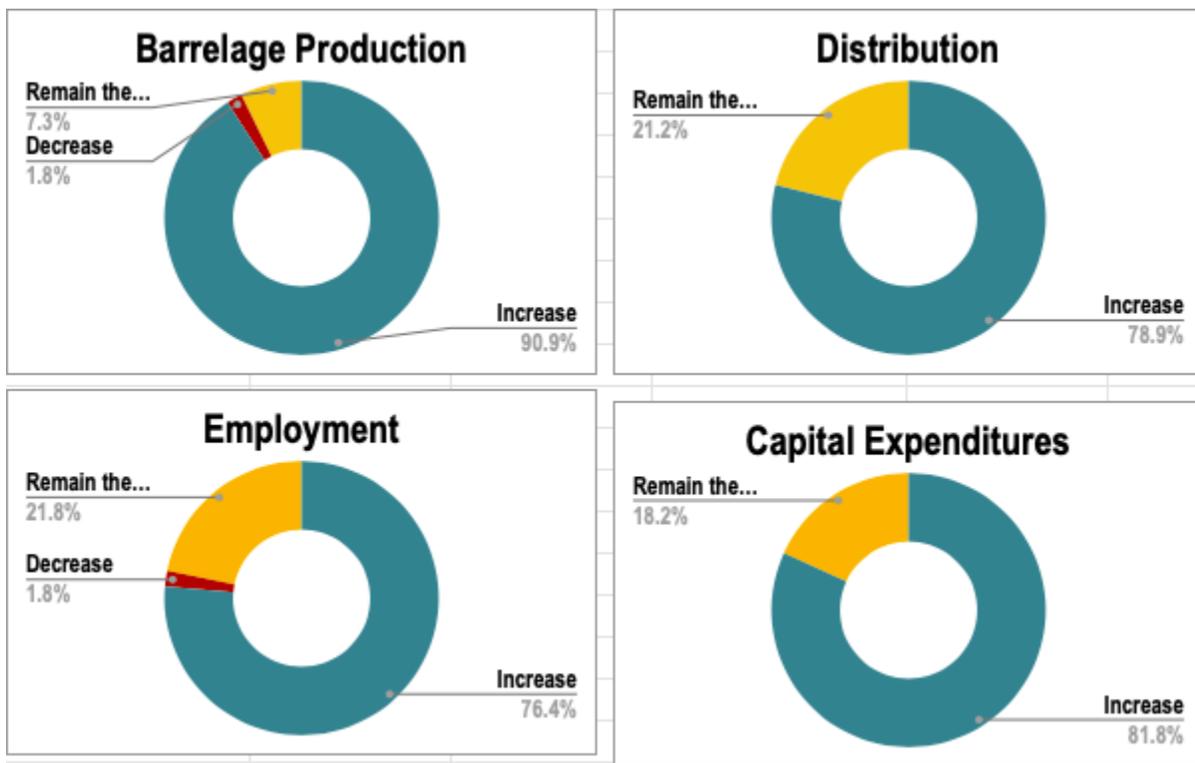


Source: San Diego Business Journal & CSUSM

Craft Brewer Business Indicators

As shown in Figure 13, the craft brewer confidence index respondents were asked to indicate forward-looking confidence over a 12-month period regarding employment, capital expenditures on brewing equipment, distribution, and barrelage production. These values indicate that craft brewers in San Diego County are optimistic about the future growth and development of their operations. Specifically, confidence in barrelage production and capital expenditures on brewing equipment over the next 12 months is significant and employment and distribution are expected to increase.

FIGURE 13: CRAFT BREWER BUSINESS INDICATORS



Coming Soon

Museum of Beer

In April 2019, a group of industry experts and entrepreneurs announced plans to build a museum dedicated to entertaining, educating, and celebrating San Diego’s craft beer industry⁶. The Museum of Beer will add to San Diego’s already robust tourism industry by attracting both hardcore beer fans and those new to craft beer.

The industry experts who are advocating for this new establishment have decades of museum management and beer journalism experience to create this new tourist attraction in San Diego⁶, which is known as the craft beer capital of America.

The Museum of Beer will be located in San Diego’s East Village with plans of opening in the spring or summer of 2020⁶. It will be an estimated 12,000 square-foot building that includes 65 taps, entertainment, a pizza kitchen, live music performances, and a private event space. It will also host exhibits where guests can learn about the history of San Diego’s beer industry, the process of brewing beer, and international beer styles. Cheers!

About the Publishers

Office of Business Research and Analysis

Founded in 2018, the Office of Business Research and Analysis (OBRA) is a joint partnership between California State University San Marcos' College of Business Administration (CoBA) and the Department of Economics. OBRA works directly with the local community in creating a suite of research services, including economic impact reports, industry analyses, and business plans.

California State University San Marcos

Building on an innovative 30-year history, California State University San Marcos (CSUSM) is a forward focused institution, dedicated to preparing future leaders, building great communities, and solving critical issues. Located on a 304-acre hillside overlooking the city of San Marcos, the University is just a short distance from some of Southern California's best beaches and an hour from the US-Mexico border. CSUSM enrollment is over 17,000 and growing. The University is fully accredited by the Western Association of Schools and Colleges.

CSUSM enjoys a special relationship with Craft Beer. Stone Brewing is nearby and grew alongside the University. Numerous alumni have started breweries in the region. The University offers its EngiBeering™ program which trains students to brew craft beer at scale, and to create and run a brewery. In addition, the University has a registered archive, called Brewchive™.

San Diego Brewers Guild

Founded in 1997 by a group of brewers dedicated to the growth of craft beer, the San Diego Brewers Guild is a nonprofit 501(c)(6) organization comprised of allied brewery members, tradespeople, and various goods and services providers. Since its founding, the Guild's mission is to promote awareness of local, independently brewed beer via education, events, and community involvement. San Diego (The Capital of Craft™) is home to more than 150 independent craft breweries and continuously garners attention for its medal-winning beer styles and positive international reputation. For more information about the San Diego Brewers Guild and its members, visit sdbeer.com.

Sources

- 1) IBISWorld
- 2) Brewers Association

- 3) California Craft Brewers Association
- 4) CraftBeerInSanDiego.com
- 5) San Diego Regional EDC
- 6) Times of San Diego