

INDUSTRY ARTICLE

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Does the pandemic present opportunities for exports?



Changes in the global beer market offer export opportunities for German breweries
(Photo: Distel 2610, Pixabay)

A new era has begun. The restrictions that everyone is experiencing on a small scale as a result of the COVID-19 pandemic are having a massive impact on the global beer market. A look at the USA shows how serious the changes are, but it also shows what opportunities this will create for German brewers.

Beer exports from German breweries – the starting position

Since 1993, German beer sales have fallen by 17.8% overall. During the same period, domestic sales have fallen by 27.6%, according to Destatis, while tax-free sales (export and beer brewed for brewery workers only) have more than doubled with an increase of 132%. For some time now, falling consumption of beer in Germany has been causing many German brewers to turn their attention to exports. The European market has long been at the centre of these efforts. In the meantime, however, export figures to both EU and non-EU countries have converged considerably.

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“Since the financial crisis, there has been an extraordinary shift in the German brewing industry’s sales markets,” emphasises Rodger Wegner, Managing Director of the Association of Export Breweries in North, West and Southwest Germany (VAB). “In 2008, 22% of exports were sold to countries outside the EU, and the rest to EU countries. Last year, though, the share of exports going to non-EU countries hit 50%, and we’re currently at around 56% – even after adjusting for Brexit. All in all, this is a dramatic shift that is intensifying once again,” Wegner continued.

What does the COVID-19 pandemic mean for the global beverage industry?

For Spiros Malandrakis, who analyses the global alcoholic beverages market for Euromonitor, the current crisis is far worse than the financial crisis of 2008/09. According to Malandrakis, there are estimates that every third bar could close, with small and independent hospitality businesses being particularly affected.

Worldwide, the COVID-19 pandemic has caused a massive shift in sales from the hospitality trade to the retail sector. The serious slump in the on-trade was compensated by significant growth in the off-trade.

“Global movements of goods have also changed as a result of the crisis,” explains logistics expert Horst Müller, Global Head of VinLog at Kuehne + Nagel Group. Shipping companies have fewer container ships in service, and the availability of containers has decreased because many containers are sat waiting in ports to be unloaded. Until this situation eases, higher costs for container transport need to be expected.

All these developments naturally also have an impact on beer exports.

What impact is the current crisis having on German beer exports?

One of the first noticeable effects of the coronavirus crisis for German brewers at the beginning of the year was the slump in beer exports to China. According to Wegner, the European core markets of Italy (-500,000 hl of beer exports compared to the previous year), France (-100,000 hl) and Spain (-40,000 hl) have been experiencing a dramatic sales crisis in the hospitality trade since the beginning of the year. And the market in China is still weakening. A further headache in terms of export markets is Latin America. There, the coronavirus crisis is coupled with massive political and social problems.

Russia and Korea stand out as the boom markets of recent years. According to Rodger Wegner, early signs indicate that this boom will continue. Alongside exports to Russia and Korea, German exports to the United Kingdom and the USA are also developing positively – in some cases, even despite COVID-19 and poor exchange rates.

The USA is interesting for German brewers, not only because of the size of the export market, but also because of the high prices that can be charged for German beer there. An example from the VAB: The average price for German bottled beer worldwide is 97 EUR/hl, while the average price for this bottled beer in the USA is 120 EUR/hl. For German canned beer the average price worldwide is 59 EUR/hl, and in the USA it's over 90 EUR/hl.

“For this reason alone, the USA is an interesting sales market,” says Wegner. However, this market is also associated with risks – the main one being punitive duty placed on imports as part of a trade dispute. Still, when it comes to exporting German beer, there are a whole range of reasons for dealing with the USA.

Focus on the US beer market

Bill Earle, management consultant and connoisseur of the US beer market, assumes that the hospitality trade in the USA will not recover from the COVID-19 crisis any time soon. This will result in new opportunities in the retail sector, however. Good news for all exporters is that the US government and the EU are coming closer, in small steps, to reconciliation on the tariffs dispute. For example, the punitive tariffs on European beer have been suspended for 120 days. After the presidential election, the cards will then be reshuffled.

According to Michael Uhrich, Founder & Chief Economist at Seventh Point Analytic Consulting, the amount of alcohol consumed by Americans has remained virtually unchanged over the past 10–20 years. “Americans are not going to stop drinking alcohol, but they will change what they're drinking,” Uhrich said. The trend is towards cheaper beer, hard seltzer, whisky and vodka.

“On-trade is gone,” Uhrich said. Draught beer is in free fall. Before the crisis, draught beer had a 30% share of German beer exports to the USA. Now though, that needs to change. In the short term, exporters can react to the effects of the current crisis by adjusting unit containers and pricing.

According to Uhrich, there is currently a huge demand for canned beer, so exporters can currently do well on the US market with cans. Retailers will be changing their shelf layout, which is also an opportunity for German brewers to gain shelf space. Uhrich recommends switching from bottles to cans and from 6-packs to larger pack sizes, such as 12-packs.

Many breweries and bars will close, which will lead to a serious change in competition on the US market. That’s an opportunity for German beer on the US market, but it’s also a challenge. “German brewers will have to compete with the Boston Beer Company, Sierra Nevada and New Belgium,” explains Uhrich.

However, the two industry experts agree: if you want to gain a foothold in the US, you should do it now – the pandemic is also an opportunity.

Global trends in alcoholic beverages

Spiros Malandrakis of Euromonitor identifies six major trends for the beverage industry worldwide, some of which already emerged in recent years and are now being reinforced by the COVID-19 pandemic.

1. Ready-to-drink cocktails

Ready-to-drink cocktails have a massive share in the coronavirus-related boom in off-trade in the USA. The US brewing industry had already fully embraced this trend even before this crisis, and they have adapted to it. The brewing industry in the USA can therefore serve as a model for brewers in other countries. A keyword here is ‘hard seltzer’: a completely [new category of beverage, whose sales are currently going through the roof in the USA, and the beverage is now gaining a foothold in the European market.](#)

2. “Last orders for craft?”

A look at the USA shows that craft breweries are suffering particularly badly from the pandemic, because their success to-date has been based primarily on the sale of their beers in their own brewpubs or taprooms. Small and independent craft brewers are also suffering particularly badly. They have

invested a lot of money in the last few years and have incurred high debts. If they now lose their revenue, they can no longer keep up with their loans. Almost half of all craft breweries in the USA expect to have to close down in the next three months if the situation does not improve. Only the big craft brewers in the USA seem to be getting off lightly from the crisis, while countless small craft breweries are currently struggling to survive. The market will end up consolidating.

3. Online trade

“In the last six months, online trade in beverages has increased by several hundred percent. This is further proof that we are experiencing a fundamental change in our consumption habits,” Malandrakis said. Many people who have done their shopping online during the crisis will continue to do so once the crisis is over, as they have now got used to it.

4. ‘Hometainment’

This term is about bringing the entertainment you experience in a bar into your own home. There are various appliances on the market, similar to coffee machines, which can mix cocktails at home, brew beer, pour beer fresh from a keg, etc. The marketing claim of these appliances is that customers will get ‘the feeling of going out’ in their own living room. This idea gives Malandrakis something to think about, as it could gain considerable momentum in times of social distancing and restrictions that close bars.

5. The end of ‘premiumisation’

In the USA, the ‘premiumisation’ trend has come to an end due to the sharp rise in unemployment figures in recent months, Malandrakis explains. The effects of the recession are being felt around the globe. Rather than favouring premium products, the importance of independent producers will be what continues to increase.

6. Cannabis drinks

“If the Democrats win the US presidential election in November, we will see legalised cannabis in the US within a year,” Malandrakis predicts. “This will create a multi-billion dollar market for cannabis-containing beer drinks.” And Germany could become the epicentre of this trend within Europe.

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The COVID-19 pandemic has shaken up the beverage industry worldwide, initiating or accelerating a change that was already looming. Now it's going to be crucial to react accordingly and adapt to the new framework conditions. This applies both to the German beer market and to exports.

Would you like to learn more about exports? Then visit the BrauBeviale@stage on 11th November 2020 – either live at the Nuremberg Messe or virtually through the livestream. Visit the Export Forum German Beverages on the Special Interest Stage from 10:40 a.m. Speakers include Rodger Wegner from the VAB, Uwe Aichele from Eichbaum, Jan-Peter Stoelken from Reepbana and craft brewers Georg Fürst from Fürst Wiacek and Enzo Frauenschuh from Frau Gruber.

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