Bottoms up: Higher prices of craft beer will boost industry revenue

IBISWorld Industry Report 31212CA
Breweries in Canada

October 2018
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About this Industry

Industry Definition
The Breweries industry in Canada produces alcoholic beverages, such as beer and malt liquor as well as nonalcoholic beer, using water, barley, hops, yeast and other occasional adjuncts. Manufacturers of wine, spirits and other alcoholic beverages are not included in this industry.

Main Activities
The primary activities of this industry are:
- Canned beer production
- Bottled beer production
- Draught beer production
- Nonalcoholic beer production

The major products and services in this industry are:
- Bottled beer
- Canned beer
- Draught beer

Similar Industries

31211aCA Soda Production in Canada
Establishments in this industry bottle, cap and market carbonated and noncarbonated soft drinks. Soft drink manufacturers often operate in the market for bottled water production.

31211bCA Bottled Water Production in Canada
Establishments in this industry purify and bottle water for resale.

31211cCA Juice Production in Canada
Establishments in this industry manufacture fruit and vegetable juices. This industry excludes producers of functional drinks, ready-to-drink teas and flavoured water products.

31214CA Distilleries in Canada
Establishments in this industry distill ingredients such as grains, potatoes and sugars into spirits. These spirits are then bottled and sold.

44531CA Beer, Wine & Liquor Stores in Canada
Establishments in this industry include government outlets and specialized stores licensed specifically to sell alcoholic beverages for off-premises consumption.

Additional Resources
For additional information on this industry
www.beercanada.com
Beer Canada
www.brewersassociation.org
Brewers Association
www.brewerydb.com
Brewers Association of Canada
www.bmbri.ca
Brewing and Malting Barley Research Institute
Industry at a Glance
Breweries in 2018

Key Statistics
Snapshot

Revenue
$6.4bn

Annual Growth 13–18
3.5%

Annual Growth 18–23
1.0%

Profit
$302.0m

Exports
$207.0m

Businesses
766

Market Share
Anheuser-Busch
InBev SA/NV
38.1%

Molson Coors
Brewing Company
29.7%

Key External Drivers
Per capita disposable income
Per capita alcohol consumption
World price of wheat
Canadian-dollar effective exchange rate index
World price of aluminum

Products and services segmentation (2018)

Draught beer 7.9%
Bottled beer 30.6%
Canned beer 61.5%

Industry Structure

Life Cycle Stage
Mature
Revenue Volatility
Medium
Capital Intensity
High
Industry Assistance
Low
Concentration Level
Medium

Regulation Level
Heavy
Technology Change
Low
Barriers to Entry
High
Industry Globalization
High
Competition Level
High

Source: IBISWorld

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 32
Executive Summary

The Breweries industry in Canada has experienced strong growth over the past five years, benefiting from the increased popularity of craft beer made from local microbreweries. While this resulted in revenue and enterprise growth from a range of new small-scale breweries, consumers have shifted away from the traditional light and premium beer brands that currently represent most of industry brewers’ sales. However, due to the higher prices of craft beer, revenue over the past five years has expanded at a faster pace than historic trends. Over the five years to 2018, industry revenue is expected to grow at an annualized rate of 3.5% to $6.4 billion, including growth of 4.2% in 2018 alone.

Due to the rising popularity in small-scale breweries, there are concerns regarding the long-term growth prospects of the industry’s international brewers. These large international brewers have been significantly pressured as they depend on high-volume sales of their respective flagship value products. Budweiser, brewed by Anheuser-Busch InBev SA/NV (AB InBev), and Molson Canadian, brewed by the Canadian division of Molson Coors Brewing Company, are two brands that have been affected by the growing popularity of craft beer. Due to the higher price of craft beer, consumers are increasingly buying beer in smaller quantities in exchange for higher-quality brands, or are reducing their alcohol purchases altogether. As industry players continue to innovate and market new products, it is expected that profit margins will decrease during the period from 7.9% in 2013 to 4.7% in 2018.

Industry growth is forecast to slow down over the five years to 2023, as the craft beer market becomes saturated with microbreweries and consumers continue to shift focus away from traditional light and premium beer brands. Over the past five years, the Canadian dollar has struggled compared with the currencies of its largest trading partners. However, it is anticipated to bounce back in the upcoming five years. The growing strength of the US dollar has made Canadian beer relatively more affordable for US consumers. However, as the Canadian dollar gains footing, more beer drinkers in the United States will turn away from the Canadian beer market. Consequently, overall export growth will likely remain limited over the next five years. IBISWorld expects industry revenue to increase at a slow annualized rate of 1.0% to $6.8 billion over the five years to 2023.

Industry Performance

Executive Summary | Key External Drivers | Current Performance | Industry Outlook | Life Cycle Stage

Industry growth will slow down as consumers shift focus away from traditional beer brands.

Per capita disposable income
Disposable income growth is an important indicator of industry growth because greater purchasing power bolsters consumers’ discretionary alcoholic beverage purchases. Per capita disposable income is expected to increase over 2018, representing a potential opportunity for the industry.

Per capita alcohol consumption
The average person’s alcohol consumption patterns can serve as an indicator of demand for industry products. Consumers’ cultural and taste preferences can reduce drinking frequency and affect beer sales. For example, many people drink only occasionally due to personal preference or for health reasons, which reduces...
Industry Performance

Key External Drivers continued

alcohol consumption and thus, total sales volume. Per capita alcohol consumption is expected to grow slowly in 2018.

**World price of wheat**
Malted cereal grains such as barley, rye and wheat are the primary ingredients required to produce beer. Therefore, sudden increases in the prices of both wheat and barley will impose a significant cost burden on industry brewers; increases in the global price of grain erode industry profit margins. The world price of wheat is expected to increase in 2018.

**Canadian-dollar effective exchange rate index**
The Canadian-dollar effective exchange rate index (CERI) is a weighted average of bilateral exchange rates comparing the value of the Canadian dollar with the currencies of Canada’s largest trading partners. The CERI is expected to increase in 2018.

**World price of aluminum**
Aluminum canning is a popular method for packaging beer as aluminum cans have historically been the most cost-effective container for holding beer and limiting its exposure to flavour-damaging UV rays. An increase in the world price of aluminum will lead to higher costs for brewers that predominantly ship their products in aluminum cans instead of glass bottles. Consequently, rising aluminum prices hamper industry profitability. In 2018, the world price of aluminum is projected to increase, posing a potential threat to the industry.

![Per capita disposable income and per capita alcohol consumption graphs](source: IBISWORLD)
Industry Performance

Current Performance

Despite being one of the oldest industries in Canada, the Breweries industry has evolved over the past five years with the substantial growth in popularity of new craft breweries, which has recently been driving the industry. The Breweries industry in Canada produces alcoholic beverages, such as beer and malt liquor, as well as nonalcoholic beer, using water, barley, hops, yeast and other occasional adjuncts. Manufacturers of wine, spirits and other alcoholic beverages are not included in this industry.

Several factors influence demand for industry products, including per capita disposable income, the price of wheat and current trends. Overall, demand for industry products has remained strong over the past five years, despite an annualized 0.1% decline in per capita alcohol consumption among Canadians. The high prices for craft beer have supported revenue expansion even while less volume of beer has been sold. Growing levels of per capita disposable income, declining wheat prices and growing interest in craft beers over the past five years boosted demand for beer. As a result, overall industry revenue is estimated to grow at an annualized rate of 3.5% to total $6.4 billion over the five years to 2018, including growth of 4.2% in 2018 alone.

An evolving industry

The entire North American beer market has experienced drastic changes over the past five years. Major international brewing companies, such as Anheuser-Busch InBev SA/NV (AB InBev) and SABMiller PLC, have either acquired or merged with large North American brewers that historically represent a large group of domestically owned and operated brands. However, in recent years, many small-scale, independently owned breweries have entered the industry. Although this has not resulted in any significant industry decline, a disparity is emerging between large international brewers and their smaller domestic competitors. Due to the economies of scale that come with major brewing operations across the country, the industry’s largest players hold significant market share, despite concerns that popularity is waning for standard premium beer. Profit, which is measured as earnings before interest and taxes, is projected to represent 4.7% of revenue for the average brewery in 2018, down from 7.9% in 2013. Both AB InBev and Molson Coors Brewing Company have traditionally boasted profit margins that substantially exceed this average. The largest breweries in the industry typically yield much higher profit margins because of significant economies of scale, while smaller breweries are often unable to spread large fixed costs over similarly large product output. This range among profit margins is the result of high variable costs and the bargaining power that larger players have over suppliers and distributors. Larger companies with greater economies of scale can produce higher quantities of beer at a far lower cost per unit. Due to the rise in popularity of local, small scale craft breweries, the
Industry Performance

An evolving industry continued

The number of breweries in Canada has increased strongly over the past five years at an estimated annualized rate of 19.4% to 766 companies. Similarly, industry employment is expected to grow an annualized 5.7% during the same period to total 11,354 workers in 2018, indicating that the clear majority of the industry’s new enterprises are small-scale breweries containing few employees.

Uncertain input prices

Industry profitability has historically been erratic. Due to both the fickle nature of consumers’ drinking patterns and the significant price volatility of the industry’s key inputs, breweries are continually prone to sudden input price shocks that, although temporary, can have significant consequences for a company regardless of its production scale. For example, the world price of wheat represents a crucial cost for industry operators. Since cereal grains such as barley, rye, wheat and other adjuncts are significant expenses for brewers, increases in the cost of these grains will severely erode profit margins. Since large brewers mostly compete based on price, an increase in the bulk price of cereal grains will likely translate into a reduction in a brewer’s profit margin. For small-scale brewers of craft beer, increases in the price of ingredient inputs can lead the brewer to raise the price of their products, although this poses a challenge for breweries that already charge a premium on beers that use costly ingredients. The world price of wheat has declined at an annualized rate of 6.9% over the five years to 2018, which has benefited both small and large brewers alike. The world price of aluminum also poses a threat to breweries that primarily package their products in aluminum cans. Over the five years to 2018, the world price of aluminum is expected to increase at an annualized rate of 2.5%, potentially stunting the industry.

Declining international sales

Although Canada has historically been a net importer of beer, the industry has generated several prominent international brands. Canadian staples such as Labatt, Molson, Sleeman, Rickard’s and craft brand Dieu du Ciel are widely available in Canada and have achieved some popularity across North America. However, recently, US consumers, who overwhelmingly represent the largest market for Canadian beer exports, have increasingly preferred the emerging class of their own domestic craft beers, accounting for the decline in Canadian exports. Additionally, most of Canada’s exports to the United States consist of traditional premium and light beer styles, which have fallen out of favour. Although the Canadian dollar has waned against the US dollar, consumers may perceive imported Canadian beers as being too comparable in taste to similar domestic premium beers. These products may be less desirable considering the range of high-quality craft beers across the United States. Over the past five years, the value of Canadian beer exports has declined at an estimated annualized rate of 3.0% to total $207.0 million, representing 3.2% of revenue. This has
Moving forward, the Breweries industry in Canada will likely experience significant challenges as international competition increases and consumers continue to shift away from traditional light beer consumption. Although the consumer shift toward craft beer has greatly benefited the industry’s smaller producers, this has come at the expense of the industry’s premium beer brands that generate most of its revenue. In addition, consumers are less likely to purchase craft beer in large numbers, unlike premium beer brands that are comparably more affordable and are therefore purchased in higher quantities. Additionally, the perception that beer is less healthy than wine has increased, and even though consumers have demonstrated significant interest in craft beer, substitution has slowed industry sales. Therefore, industry revenue is forecast to gradually plateau. IBISWorld projects industry revenue to grow at an annualized rate of 1.0% to $6.8 billion over the five years to 2023.

Declining international sales continued

curred during a period in which total industry imports have increased considerably. Over the five years to 2018, the value of industry imports has increased at an annualized rate of 3.0% to total $808.4 million, serving 11.5% of domestic demand.

Industry Outlook

As input prices remain steady and the largest companies slow their merger and acquisition activity, the structure of the industry is expected to stabilize, compared with the structural overhaul experienced during the previous five-year period. The world price of wheat, which has declined steeply since its massive spike prior to the previous period, will likely increase gradually over the next five years. Similarly, the world price of aluminum is projected to increase during the five-year period, but at a manageable annualized rate of 0.2%. During this period, industry growth will start to slow down. However, enterprise formation will continue to be strong despite weakening demand due to the continued enthusiasm of craft breweries joining the industry. IBISWorld estimates that the number of industry enterprises will increase at an annualized rate of 7.6% to 1,107 operators, while total industry employment will grow an annualized 2.6% to total 12,920 workers. Barring significant input price changes, average industry profit is anticipated to decrease slightly from 4.7% of revenue in 2018 to 4.4% in 2023, as the influx of smaller breweries will limit average industry profit growth.

Slow and steady

The craft brewing phenomenon that has taken the US beer market by storm has not been as significant in Canada, due in large part to the greater difficulty of entering the Canadian market. Since nearly every Canadian province regulates and distributes beer through provincial liquor control boards, the regulatory costs associated with establishing a new microbrewery are far greater for Canadian breweries than for their US counterparts. US brewers have
Craft brewing and foreign competition continued

experienced the gradual loosening of state distribution regulations in recent years, which has facilitated the surge in the number of US microbreweries. Additionally, the market for craft beer is not as large in Canada as it is in the United States, which has many more markets across a diverse range of climates that are suitable for brewing different styles of beer. Different types of surface water containing varying pH levels and minerals play a key role in brewing styles of beer. In addition, the proximity between many major US commercial areas enables small-scale breweries to retail their products to a large market. There are fewer metropolitan areas in Canada that can sustain small breweries, and the transportation costs associated with delivering small-scale batches of beer to remote locations across Canada are prohibitive. Although small-scale breweries will continue to play a large role in shaping the Breweries industry in Canada for years to come, a resurgence in local breweries akin to the craft beer renaissance currently emerging in the United States is unlikely.

Due to the limitations of the Canadian resurgence of interest in local breweries, the Breweries industry in Canada is projected to experience a marginal decline in total exports. Exports offer an opportunity for breweries to sell more beer. However, the low interest in Canadian beer from the US consumers, who overwhelmingly represent the largest market for Canadian beer exports, will discourage export growth, and therefore, limit industry growth overall. IBISWorld projects industry exports to decrease at an annualized rate of 0.1% to $206.3 million over the next five years. Meanwhile, industry imports, which improved over the past five years, is expected to continue increasing in response to stronger consumer demand for foreign brands. As more domestic demand is satisfied with imported beer, less consumers are purchasing domestic beer from Canadian brewers, which then hinders industry growth. Total imports are expected to increase at an annualized rate of 2.3% to $906.8 million during the five-year period. Both of these trends are restricting the growth of the industry.
Industry Performance

IVA is projected to grow at a similar rate as the overall economy

The industry’s largest companies are consolidating to achieve greater market share

The brewing process has experienced little technological change

Life Cycle Stage

**Maturity**
- Company consolidation;
- Level of economic importance stable

**Quality Growth**
- High growth in economic importance;
- Weaker companies close down; developed technology and markets

**Quantity Growth**
- Many new companies;
- Minor growth in economic importance; substantial technology change

**Decline**
- Shrinking economic importance

Key Considerations:

An industry’s life cycle stage is determined by multiple factors, such as IVA vs. GDP performance and establishment growth. However, other key factors must also be considered. For more information, please refer to the Industry Life Cycle section analysis.

Source: WWW.IBISWORLD.COM
Industry Performance

Industry Life Cycle

This industry is Mature

The Breweries industry in Canada is in the mature stage of its life cycle, evidenced by the major mergers and acquisition of companies and slow introduction of new products. Industry value added, which measures an industry’s contribution to the overall economy, is projected to grow at an annualized rate of 1.9% over the 10 years to 2023. The GDP of Canada is forecast to grow at an annualized rate of 1.9% during the same period. The similar growth rates are indicative that the industry’s share of the Canada economy is stable.

The growing popularity of craft beer has assisted in the decline of industry mainstream products such as premium and subpremium beer brands. However, overall, industry products experience whole-hearted market acceptance. While the popularity of premium and subpremium brands is falling, they are still staples in the Breweries industry. This shows that there is some rationalization of products in the industry, such as the craft beer, but there are still stable segmented product groups, which represent a mature industry.

While there is a spike in the number of breweries entering the industry, which indicates a growing industry, IBISWorld expects the rate to slow over the five years to 2023. Despite recent declines in popularity, Molson Canadian and Coors Light currently represent more than half the company’s domestic beer sales. The merger of AB InBev with rival brewer SABMiller PLC will likely result in SABMiller relinquishing its majority stake in the North American MillerCoors joint venture, which it operates alongside Molson Coors. These major mergers and acquisition are indicative of a mature industry. While the Breweries industry is forecast to grow significantly during the period, these factors collectively point that the industry is in the mature phase of its life cycle.
Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

41322CA Beer, Wine & Spirits Wholesaling in Canada
Wholesale distributors are a vital link in the supply chain for alcohol. Most beer manufacturers are required to sell their products to private or provincial wholesalers that deliver these products to retail locations and drinking establishments.

99CA Consumers in Canada
Individual consumers are the final purchasers of beer, although some may purchase beer directly from small-scale brewpubs and establishments that are licensed to sell beer for on-premises consumption.

KEY SELLING INDUSTRIES

31121CA Flour Milling in Canada
Brewers purchase malted grains from mills. Malt comes from barley or other grains that have been germinated by soaking them in water and then kiln-drying them to develop the enzymes needed for fermentation.

32111CA Sawmills & Wood Production in Canada
Wooden pallets are used to transport the final product to end users such as retailers, bars and clubs.

32221CA Cardboard Box & Container Manufacturing in Canada
Paperboard containers are used to package bottles and cans of beer for transportation.

32311CA Printing in Canada
Brewers adhere printed labels on their products to both market their product and to fulfil government labelling standards.

32721CA Glass Product Manufacturing in Canada
New and recycled glass bottles are purchased in bulk for bottling.

42451CA Corn, Wheat & Soybean Wholesaling in Canada
Malted barley, wheat, corn, hops and other flavour adjuncts are purchased from industry wholesalers.

Products and Services

According to the latest data collected by Beer Canada, the Breweries industry in Canada has experienced a sharp increase in the number of licensed breweries even though production has remained flat. Over the five years to 2018, canned beer surpassed beer bottled in glass for the first time, representing a surprising change for an industry that has typically benefited from significant glass bottle recycling programs.

Canned beer
An estimated 61.5% of industry products are packaged in aluminum cans, representing a robust increase over the past five years. There are many reasons for the sudden surge in popularity of canned beer. For producers, aluminum is a far lighter material than glass, which reduces the overall bulk and transportation costs associated with shipping bottled beer. Additionally, compared with glass, aluminum is relatively inexpensive to purchase from metal manufacturers.

Consumers have also taken to canned beer over the past five years. Although beer packaged in cans may once have been perceived as being exclusively light, sub-premium and bottom shelf in terms of quality, canned alternatives of many premium craft beers have entered the market in recent years. Since canned beer is more cost-effective for producers to manufacture, they can pass along some of
Products & Markets

Products and Services continued

Demand Determinants

Demand for beer varies depending on many factors. Customer demand for a specific brand may fluctuate depending on the perceived attractiveness of other brewers’ products. Additionally, beer substitutes such as wine, spirits and nonalcoholic beverages can increase in popularity and negatively affect sales of beer. Over the past several years, demand for beer has steadily increased compared with these close substitutes, and the

Bottled beer
For decades, bottled beer has been the standard packaging for the industry’s products. Beer bottles are made of glass and often come in brown or green hues, while clear bottles are rare, due to their susceptibility to flavour-spoiling UV light. Although glass bottles are the standard packaging material for most brewers, the relative heaviness of glass ultimately adds to transportation costs. As a result, some brewers have replaced bottled beer production with forms of canned beer packaging. This has caused bottled beer’s share of industry products to decline over the past five years, representing an estimated 30.6% in 2018, down from 43.0% in 2013.

Canned beer
For decades, canned beer has been the standard packaging for the industry’s products. Aluminum cans have given consumers far greater exposure to higher-priced brands without any negative consequences to flavour. In fact, craft beer producers regard aluminum containers as a much better packaging material than glass. Although dark amber glass bottles significantly reduce the likelihood of UV light exposure and the potential skunking effects it can have on beers, aluminum cans block virtually all possibility of the product’s taste being compromised due to UV exposure. Many breweries have also used aluminum cans as an opportunity to create elaborate product labels and designs, since cans provide greater surface area for printed labels than traditional glass bottles.

For decades, covering the whole page.

Products and services segmentation (2018)

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Canned beer</td>
<td>61.5%</td>
</tr>
<tr>
<td>Bottled beer</td>
<td>30.6%</td>
</tr>
<tr>
<td>Draught beer</td>
<td>7.9%</td>
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Total $6.4bn

SOURCE: IBISWORLD
Over the five years, men continue to dominate Canadian beer consumption, drinking an estimated 59.0% of beer in terms of volume in 2018. However, since breweries have been introducing products geared toward women, the number has decreased slightly since 2013. While, women represent a smaller market for the Canadian Breweries industry, female consumption has increased over the past five years. Women are estimated to drink 41.0% of the beer sold in Canada. Over the five years, breweries are introducing new products that have performed well with female test groups, test groups including sweetened beers such as Molson Sublime and Labatt Blue Light Lime. Low-calorie products are also increasingly marketed toward women as brewers seek to tap into this growing market.

Beer consumption among consumers 44 years old and below

Consumers aged 18 to 34 will drink an estimated 39.1% of beer sold domestically
The Canadian market for beer is relatively self-sufficient, with domestic brewers in the Breweries industry fulfilling most of the public’s demand for alcoholic beverages. However, Canada does participate in the international market for beer and is a net importer of beers from Belgium, Mexico, the Netherlands and the United States. Beer imports have steadily increased in recent years, owing to consumers’ gradual shift in taste preferences toward diverse types of foreign craft beer. Conversely, Canadian beer exports have experienced inconsistent performance over the past five years due to increasing competition from foreign breweries.

**Imports**

Over the five years to 2018, imported beer sales have climbed at an estimated annualized rate of 3.0% to total $808.4 million, accounting for 11.5% of the domestic demand. Canadian beer imports come from many different countries, although imports from the United States, the Netherlands, Mexico and Belgium consistently rank as the most popular foreign beer brands, accounting for an estimated 21.5%, 20.4%, 16.6% and 13.3% of total imports in 2018, respectively. Brands such as Budweiser, Bud Light, Coors Light, Miller Lite, Heineken, Grolsch, Modelo, Dos...
International Trade continued

Equis and Duvel are popular imported brands that are widely available across Canada. Continually expanding advertising campaigns and consistent consumer approval of these brands will likely lead to continued growth in beer imports over the next five years.

Exports
Export growth has been inconsistent over the past five years, although a growing number of Canadian craft breweries have introduced a minor degree of international appeal to some of the industry’s newest companies. Foreign demand for Canadian beer often depends on US consumers’ taste preferences since the United States represents 91.5% of the industry’s export market. In recent years, US taste preferences have shifted away from foreign and domestic premium brands toward local and regional craft styles, thereby reducing overall interest in Canadian exports among US drinkers. As US consumers increasingly turn to domestic options for their beer purchases, this trend is expected to cause industry exports to decline at an annualized rate of 3.0% over the five years to 2018 to total $207.0 million. Exports are estimated to account for 3.2% of total industry revenue.

Exports To...
- United States: 91.5%
- Other: 4.1%
- Vietnam: 0.6%
- Ireland: 1.5%
- Mexico: 2.3%

Imports From...
- United States: 21.5%
- Netherlands: 20.4%
- Belgium: 13.3%
- Mexico: 16.6%
- Other: 28.2%

Year: 2018
Total $808.4m
Total $207.0m
SOURCE: USITC
Products & Markets

Business Locations 2018

![Map showing distribution of business locations across Canada.](image-url)

**Establishments (%)**

- Less than 5%
- 5% to less than 20%
- 20% to less than 40%
- 40% or more

**Map Details**

- BC: 21.5
- AB: 8.8
- SK: 2.5
- MB: 1.2
- ON: 38.3
- QC: 16.8
- NS: 4.8
- PE: 0.7
- NB: 3.1
- YT: 0.4
- NT: 0.4
- NU: 0.4

Source: IBISWORLD
Due to the high transportation costs required to ship a heavy product such as beer, operators in the Breweries industry in Canada are commonly located near the major markets they serve most. As a result, industry establishments are overwhelmingly concentrated in provinces with densely populated metropolitan areas such as Ontario, British Columbia and Quebec. Ontario holds a leading 38.8% of industry establishments due to a high demand for beer from Toronto and its surrounding suburban areas, and even from US distributors across the border that may wish to import Canadian brands for US consumers. British Columbia holds 21.5% of industry breweries despite representing only 13.5% of the Canadian population. This is largely due to the commercial dominance of Vancouver as well as the province’s convenient ground transportation access to Washington state and California. Quebec holds 16.8% of industry breweries, falling in line with the province’s 22.6% share of the Canadian population. Large populations in Montreal and Quebec City help stimulate demand for beer in the province and shipping activity to and from the cities of Hull and Gatineau support the steady trade of alcoholic beverages across the province.

Access to raw materials is an additional factor that determines the locations of industry businesses. For example, only 3.1% of the industry’s breweries are located New Brunswick due to a lack of access to fresh inputs such as barley, hops and adequate brewing water. Although such areas may have an increasing number of nanobreweries, homebrewers and pubs that operate outside the scope of the industry, regions such as New Brunswick, Prince Edward Island, Manitoba, Saskatchewan and the Yukon do not possess sufficient means of transportation or large enough populations to sustain a significant number of industry breweries.
**Competitive Landscape**

**Market Share Concentration**

The three largest breweries in the Breweries industry in Canada are expected to generate 71.6% of industry revenue in 2018. Foreign investment over the past decade has led to a fundamental restructuring of the industry in the form of intense consolidation and rising market share for international beverage distribution giants. Major international brewers have acquired significant market share through economies of scale in production, which enable these companies to produce large quantities of beer at a low per-unit cost, heavily market these products through a variety of advertising channels and generate operating margins that are significantly higher than the margins of the industry’s independent, regional brewers. Consequently, the industry continues to be represented by both an increasingly high number of small brewers and a select few major international brewers. The majority of brewers, 89.2%, have less than 50 employees, while 31.6% of operators are nonemploying. Only 4.7% of brewers have over 100 employees. However, as these major international brewers continue to acquire the production facilities of popular Canadian and foreign brands, industry concentration is anticipated to increase over the next five years.

**Key Success Factors**

**Economies of scope**

Brewers that produce a variety of beer styles can achieve a marketing advantage by appealing to a greater range of customer tastes.

**Establishment of brand names**

Successful branding through label design and heavy marketing is critical to success in a brand-centric market.

**Economies of scale**

Breweries that can manufacture beer on the largest scale possible can purchase wholesale ingredients at a more affordable bulk cost and sell their products at a lower retail price.

**Having a cost-effective distribution system**

Breweries are typically more efficient when streamlining distribution agreements with provincial entities and downstream wholesalers.

**Effective quality control**

Brewers operating large batches must ensure that their product is made in a sanitary environment, the ingredients are measured consistently and precisely, fermentation occurs uniformly and final packaging is consistent.

**Cost Structure Benchmarks**

**Profit**

The Breweries industry in Canada’s profit, measured as earnings before interest and taxes, has declined over the five years to 2018 due to the influx of smaller operators. In 2018, profit is estimated to account for 4.7% of revenue, falling from 7.9% in 2013. The industry’s largest breweries typically yield much higher profit margins because of significant economies of scale, while smaller breweries are often unable to spread large fixed costs over similarly large product output. This differentiation among companies’ profit is the result of high variable costs and the bargaining power that larger players have over suppliers and distributors. Larger companies with greater economies of scale can typically produce higher quantities of beer at a far lower cost per unit, especially when these companies...
Cost Structure

Brew styles that require few or very low-cost adjunct ingredients.

**Purchases**

Raw ingredient purchases represent the largest component of brewers’ expenses, as purchases are estimated to represent 42.0% of the industry’s revenue, increasing slightly over the past five years. Basic materials include packaging, principally glass, aluminum and corrugated cardboard, and these costs have fluctuated wildly over the past five years because of volatile commodity prices. Major purchases of barley, wheat, hops, sugar, corn, rice and mineral additives and preservatives, which are both critical ingredients for ensuring proper water quality, have mostly declined over the past five years in response to falling global grain prices. The price of hops can experience significant variation each season depending on the climate of various source regions. Fluctuations in price often have a significant effect on a brewer’s overall costs and may even influence the final retail price. Over the five years to 2023, prices of raw ingredients are projected to increase overall.

**Wages**

Over the past five years, wages’ share of revenue has increased slightly, accounting for an estimated 11.0% in 2018, up from 9.9% in 2013. Both industry employment and average industry wages have been increasing steadily over the past five years, which is consistent with the industry’s revenue growth in recent years. It is possible for many expanding breweries to transition wage expenses toward investments in more efficient capital, but these investments have not been drastic over the past five years. In 2018, depreciation is estimated to account for 4.9% of industry revenue. Since beer brewing is a

**Sector vs. Industry Costs**

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<td>14.8</td>
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</tr>
<tr>
<td></td>
<td>1.3</td>
<td>26.5</td>
</tr>
</tbody>
</table>

*SOURCE: IBISWORLD*
Competitive Landscape

Cost Structure
Benchmark continued

A recent influx of small, local breweries into the Breweries industry in Canada has created additional competition for the few major breweries that have dominated the Canadian beer market in recent decades. The industry consists of a small number of major international alcoholic beverage producers, many domestic and regional brewers and a new class of upstart brewers throughout the country. Major imported brands, such as Heineken, present the largest source of competition to all the industry's domestic brewers.

Internal competition
Since the Breweries industry produces many types of beer that cater to a wide range of customer taste preferences, many small-scale breweries emphasize seasonal flavours, limited edition styles and new brands rather than compete exclusively on price. Conversely, the industry's larger beer brands, such as Molson, Moosehead and Sleeman, are produced and marketed with the brands' cost-effectiveness in mind, and competition from major beer manufacturers is of little concern to local microbrewers whose products are geared toward connoisseurs and those that prefer more intricate styles of beer. Therefore, industry competition is based primarily on brand, quality and retail pricing. In general, marketing efforts typically focus on consumers aged 19 to 25 years, because this demographic represents the market in which consumers are most likely to try new beer products. Alternative marketing techniques such as beer tastings and brewery tours have become common among both small and large brewers, while major brewers tend to focus their advertising efforts toward celebrity endorsements and primetime TV spots.

Consumers show significant brand loyalty, making it difficult for new entrants to capture market share from established brands. Competition for brand loyalty has intensified on a regional level and, as a result, many regional players have sought to expand their geographic market reach. Competition has also increased with the rise of the craft brewing over the past five years. Internal competition is anticipated to continue growing over the next five years.

External competition
Competition from other beverages and foreign producers is escalating. Imports increased over the five years to 2018, as consolidation among the industry's largest beer brands compelled consumers to increase purchases of major foreign brands. Continued merger and acquisition activity among international beverage manufacturers has made it easier than ever for consumers to have access to popular alcoholic beverage styles that had once been obtainable only in their country of origin.

Other beverage industries are also posing a major threat to the industry, offering drinks that compete directly with...
Competitive Landscape

Basis of Competition continued

beer. Not only is wine becoming increasingly popular among 18- to 35-year-olds, but there are also new adult drink categories emerging that are aimed at consumers in this age range. These include low-sugar sodas that are marketed as healthy alternatives, relaxation drinks and exotic juices that retailers, restaurants and other establishments are increasingly selling alongside beer.

Barriers to Entry

Different barriers exist depending on whether a new operator wishes to enter the Breweries industry in Canada as a small local brewer or as a large regional producer. Entry for craft brewers, for example, can be facilitated by the option to purchase turnkey facilities, but starting a large-scale production facility will require significant cash investments and substantial purchases of capital equipment. Barriers to entry include the sunk costs and other high ongoing capital requirements necessary to operate large brewing operations. However, before a new brewer can even enter the industry it must fulfill major regulatory obligations. The manufacture and distribution of alcohol in Canada is highly regulated, and most provinces require that all breweries distribute their products through provincial liquor boards. Licensing fees, audits and excise taxes on production also compound the total costs breweries incur on a regular basis.

Many major brewers can ship large quantities of beer because they have pre-existing agreements with distributors. Establishing relationships with distributors is an important component of achieving success in the industry, and new entrants will experience the challenge of developing these relationships from the bottom up. A lack of major relationships in the industry is a significant issue for new breweries; since distribution is heavily regulated and limited on a regional basis, distribution opportunities are scarce. Shelf space in retail outlets is limited and major breweries are often the first to claim retail space because of their large distribution contracts and heavy negotiating clout with wholesalers and retailers.

Brewers benefit from establishing economies of scale throughout the brewing process. As fermenting tanks, bottling facilities and ingredient contracts expand, the cost to produce a single bottle of beer substantially declines. As a result, prospective entrants may struggle for success in the industry unless substantial upfront investment is made on large brewing equipment. Although the industry has experienced steady growth in small-scale microbreweries over the past five years, many of these breweries cannot support national distribution and thus achieve far smaller profit margins than larger brewers. Entering the industry is costly for new breweries of all sizes and increasing competition among the industry’s smallest brewers has made it even more difficult for new entrants to achieve success.

Economies of scale enable greater profit margins, which the industry’s largest breweries direct toward major advertising campaigns. The major

Barriers to Entry checklist

<table>
<thead>
<tr>
<th>Level &amp; Trend</th>
<th>Barriers to Entry in this industry are High and Steady</th>
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</thead>
<tbody>
<tr>
<td>Competition High</td>
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<tr>
<td>Concentration Medium</td>
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<td>Life Cycle Stage Mature</td>
<td>Life Cycle Stage Mature</td>
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<td>Capital Intensity High</td>
<td>Capital Intensity High</td>
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<td>Technology Change Low</td>
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<td>Regulation and Policy Heavy</td>
<td>Regulation and Policy Heavy</td>
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<tr>
<td>Industry Assistance Low</td>
<td>Industry Assistance Low</td>
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</table>

SOURCE: IBISWORLD
Competitive Landscape

Barriers to Entry continued

Both of the largest companies in the Breweries industry in Canada are foreign owned and engage in a significant amount of international trade. Belgium-based Anheuser-Busch InBev is the largest brewing company in the world while US-based Molson Coors, the world’s seventh-largest brewer, completed a full acquisition of the MillerCoors brand portfolio in 2016 following a joint venture agreement, which featured both holding a financial stake in many of the country’s retail locations for The Beer Store. With the increase of global acquisitions, the Breweries industry in Canada is becoming more globalized, and the interconnection of the world of beer is expanding.

However, despite the growing inter-connectedness in the industry, international trade is decelerating, therefore discouraging globalization. Exports have declined as a percentage of industry revenue over the past decade. The United States, which is the leading purchaser of Canadian beer, has reduced overall purchases of Canadian beer brands in response to unfavourable exchange rates and waning consumer interest in Canadian brands. Exports’ share of revenue has fallen from 4.5% in 2013 to an estimated 3.2% in 2018.

Imports are projected to grow slowly over the next five years, although imports as a percentage of domestic demand for beer have historically been low. In 2018, the value of imports will reach a projected $808.4 million, which represents 11.5% of domestic demand for beer, down from 11.9% in 2013. However, with total imports projected to increase over the next five years, IBISWorld anticipates imports to satisfy 12.1% of domestic demand for beer by 2023.

International trade is a major determinant of an industry’s level of globalization. Exports offer growth opportunities for firms. However there are legal, economic and political risks associated with dealing in foreign countries. Import competition can bring a greater risk for companies as foreign producers satisfy domestic demand that local firms would otherwise supply.

<table>
<thead>
<tr>
<th>Trade Globalization</th>
<th>Going Global: Breweries 2004–2018</th>
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<tr>
<td>200 Export</td>
<td>Export Revenue</td>
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<td>2004</td>
</tr>
<tr>
<td>50</td>
<td>2018</td>
</tr>
<tr>
<td>0</td>
<td>Imports/Domestic Demand</td>
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Source: IBISWorld
Anheuser-Busch InBev SA/NV (AB InBev) is the result of a merger between Anheuser-Busch (AB) and InBev, which already represented the culmination of numerous mergers and acquisitions (M&A) of major brewers over the past decade. The company’s continual growth has facilitated the takeover of many leading Canadian brands, and although AB InBev lets these brands operate with relative autonomy in terms of production and marketing, many of Canada’s most popular independent brewers have been absorbed by foreign beverage manufacturing operators in a similar fashion.

The 2008 merger of AB and InBev marked a significant change in the market share concentration of the Breweries industry in Canada, and gave the company a clear leading position in the global brewing industry. Prior to the merger, InBev had a strong global presence of its own and was the primary operator in the Canadian Breweries industry as the owner of Labatt Brewing Company. Meanwhile, AB had already distributed InBev’s global brands in the United States, and the company was previously the largest brewer by volume in North America. AB’s businesses included brewing, packaging, theme parks and real estate. As part of the merger agreement, AB sold its Busch Gardens theme park business to recover debt generated by the merger and to gear operations exclusively toward beer production.

Financial performance
AB InBev’s industry-specific revenue is expected to grow at an annualized rate of 14.7% over the five years to 2018 to $2.5 billion. The scheduled merger of AB InBev and SABMiller was finalized in...
Major Companies

Player Performance

The Molson Coors Brewing Company (Molson Coors) is the product of mergers and acquisitions (M&A) among several major North American breweries. Originally founded in 1786 in Montreal, the Molson Brewery is the oldest in North America and still produces beer at its original location along the Saint Lawrence River in Montreal. To keep up with the industry's growing trend of M&A, Molson Brewery merged with US-based Coors Brewing Company to create the Molson Coors Brewing Company, a partnership that has turned the company into one of the largest breweries in the world. The Molson brand is still owned and operated by the Molson family and the company has expanded its operations across Canada, the United States and Europe. The company restructured its position in the European market in 2012 with the purchase of StarBev LP, which has resulted in both the expansion and

Player Performance continued

October 2016, and the resulting company is the largest beer manufacturer in the world. This merger has led to significant revenue growth over the past three years, with a 60.6% growth of Canadian revenue in 2016, followed by a 17.3% growth in 2017. In 2017, the company reported that it has experienced a challenging industry environment in Canada due to the heightened competition. However, Bud Light is still the fastest growing brand in the country. The company continues to do well as a craft beer and Stella Artois encourages revenue growth.

Additionally, the company’s massive size has provided many of its major brewing facilities tremendous economies of scale. The company’s operating income is typically far greater than that of the Breweries industry in Canada, and AB InBev’s brewing units consistently boast the highest profit margins in the industry. However, due in large part to M&A costs, operating income among its Canadian brewing facilities is estimated to decrease an annualized 3.4% to total $397.9 million in 2018, representing a profit margin of 16.2% among AB InBev’s Canadian brewing activities. This is significantly higher than the average profit margins for the Breweries industry in Canada, which account for 4.7% of revenue.

Molson Coors Brewing Company (industry-relevant operations) - financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating profit ($ million)</th>
<th>(% change)</th>
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</thead>
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<td>181.6</td>
<td>N/C</td>
</tr>
<tr>
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<td>2018</td>
<td>1,905.8</td>
<td>-4.3</td>
<td>318.2</td>
<td>24.4</td>
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</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
Major Companies

**Player Performance continued**

consolidation of its disparate Ireland, United Kingdom and Central European operations. In Canada, Molson Coors’ portfolio of brands includes Coors Light, Molson Canadian, Molson Export, Molson Canadian 67, Molson Dry, Molson Canadian Cider, Carling, Keystone Light, Creemore Springs and the Rickard’s family of brands. The company also holds major joint venture agreements with the London-based beer manufacturer SABMiller PLC and the Mexico-based brewer Grupo Modelo, both of which grant limited rights to distribute and bottle the other’s brands.

Much similar to Anheuser-Busch InBev (AB InBev), Molson Coors’ M&A activity represents a continual trend in the Canadian beer market toward major market share concentration among the industry’s largest companies. The company has continued to consolidate within the Canadian market. Most recently, Molson Coors acquired microbrewery Granville Island Brewing in response to growing consumer interest in craft beer styles. Experiencing weakening demand for the company’s core brands of light beer, Molson Coors is expected to raise more than $2.0 billion in capital to complete a takeover of SABMiller’s share of the MillerCoors joint venture. In July 2016, SABMiller agreed to sell its share of the venture to Molson Coors to facilitate a planned merger with AB InBev in 2016, both of which were finalized in October 2016.

**Financial performance**

Molson Coors’ industry-relevant revenue is estimated to increase at an annualized rate of 7.7% over the five years to 2018 to total $1.9 billion. The company has experienced pressure from consumers turning away from traditional premium beer brands that have historically represented the company’s most heavily produced products. For example, the Molson Canadian and Coors Light brands represent more than half the company’s domestic sales, and have been negatively affected by consumer substitution toward other alcoholic beverages. However, the company has managed to maintain growth by appealing to consumers with regional brands of beer, as consumers place increasing value on locally produced products.

**Other Company Performance**

Moosehead Breweries Limited (Moosehead) was founded in 1867 and is Canada’s oldest independent brewery. Headquartered in Saint John, NB, the brewery has been privately owned and operated by the Oland family since its inception, and therefore, does not publicly disclose its financial information. The company’s flagship brand, Moosehead Lager, remains one of the most popular domestic beers in the industry. Moosehead is also supported by a family of light, flavoured and dry versions of the flagship brand, in addition to licensed brands such as Sam Adams, Boris, Magners and others. Moosehead announced in 2016 that it would be shipping its popular Moosehead Radler brand of carbonated soft drink-blended beer into the US market. The company is expected to generate $247.1 million in revenue over 2018.

Moosehead Breweries Limited

Market Share: 3.8%
Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

**Capital Intensity**

**Level**
The level of capital intensity is **High**

The operators in the Breweries industry in Canada require substantial capital investment in the form of equipment, such as boil kettles and fermenters, and other systems that facilitate various mashing, sparging and bottling processes. Stainless steel fermenters, mash tuns, filtration systems, kegging equipment and other machinery must be purchased when a plant is first established and will also require continuous sanitization, maintenance and repair. As production facilities get larger, many brewers prefer to substitute labour with more efficient, fixed investments in larger brewing systems and machinery. On average, breweries spend $0.44 on capital for every dollar spent on labour. However, the specific amount of capital spending varies based on the size of the plant. The industry’s capital intensity is high and increasing.

**Tools of the Trade: Growth Strategies for Success**

**New Age Economy**
*Recreation, Personal Services, Health and Education.* Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labour skills are key to product differentiation.

**Investment Economy**
*Information, Communications, Mining, Finance and Real Estate.* To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

**Traditional Service Economy**
*Wholesale and Retail.* Reliant on labour rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

**Old Economy**
*Agriculture and Manufacturing.* Traded goods can be produced using cheap labour abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.

**Change in Share of the Economy**
Operating Conditions

Capital Intensity continued

In 2013, the industry spent $0.39 on capital expenditures for every dollar dedicated to labour.

Most of the beer production process is mechanized, limiting the need for labour to brewing functions such as sanitizing, hydrometer readings, quality control and other miscellaneous administrative functions. As a result, wages in the industry are relatively low. Some of the industry’s largest breweries, however, have a significant global presence with multiple factories and large corporate offices that hold massive executive and marketing departments. The need for administrative employment drives up labour costs considerably when considering the additional wages that are paid for administrative staff, sales, marketing, accounting and other employees. Additionally, this helps suppress capital intensity.

Technology and Systems

Level
The level of technology change is Low

Although the standard process of making beer has had no major changes throughout history, technological advancements have made brewing processes larger, less expensive and more efficient than ever before. Quality-control improvements through computer automation throughout the brewing process are fast-growing trends in the Breweries industry in Canada. Modern brewing plants are increasingly using brewing, fermenting and conditioning processes that are monitored by computers capable of assessing temperature changes, yeast activity and fluctuations in the pH of the initial beer mash. Increased automation lets brewers more precisely control variables during the critical phases of brewing, such as lautering, boiling and fermenting. Technological improvements in monitoring equipment also enables operators to have better quality control and a more consistent finished product.

The use of renewable energy to power brewing plants is also a growing trend. For example, Beau’s All Natural Brewing Company announced in 2014 that it intends to become Canada’s first brewery to use 100.0% green natural gas captured through landfill emissions and biogas. Additionally, the company has installed solar panels to assist with day-to-day brewing processes, which have expanded to serve parts of Quebec and the state of New York.

Technologies used to distribute, store, package and keep track of beer products are also constantly evolving, giving an indirect boost to the industry by decreasing middleman costs and thus lowering final sale prices. From electric and hybrid fleet vehicles adopted by distributors to inventory management software used by warehouses, technology helps the industry provide consumers with lower-cost beer.

A range of brewing methods exist and vary depending on the type of beer that is manufactured. Barrel aging is a common practice for manufacturers of sour beers. Much similar to the process used to ferment wine, oak barrels may be used in tandem with yeast fermentation to produce a desired result. Different ranges of brewing styles are regularly tested and modified over time to produce a slightly different look and taste to specific beers. Craft brewers have adopted popular English beer styles and developed new twists on traditional styles. US-style IPA beers, for example, represent a new interpretation by increasing the hop aroma, bitterness and alcohol content of classic English IPA flavour profiles.
Operating Conditions

Revenue Volatility

Unlike the Breweries industry in the United States (IBISWorld report 31212), in which changing distribution laws and rapidly expanding craft brewing facilities have created a volatile climate for brewers, the Breweries industry in Canada has been mostly stable over the five years to 2018. Much of this is due to the rigid structure of the country’s alcoholic beverage distribution system, which has been almost entirely operated by provincial governments for decades. This inherent stability in downstream distribution has contributed to mostly stable growth in brewers’ revenue over the past five years.

Industry revenue volatility, measured as the average absolute change in industry revenue over the five years to 2018, is moderate. Historically, the industry has been more volatile due to the drastic decline in the previous period. Although state-by-state dismantling of government-operated alcohol distribution has created a frenzy among small-scale brewers to open new facilities across the United States, provincial regulations for small-scale microbreweries is likely to remain stable over the next several years. The growing popularity of craft beer has increased the number of industry establishments significantly since 2013 and industry revenue expanded 7.0% over 2015 alone, which is its strongest year of revenue growth during the five-year period. However, sustained periods of massive revenue growth among domestic breweries is unlikely to occur over the next five years.

Regulation and Policy

The Breweries industry in Canada is regulated by Health Canada, which establishes standards for food safety and nutritional quality. Meanwhile, the Canadian Food Inspection Agency (CFIA) enforces these health and safety standards, in addition to packaging, labelling and marketing regulations. The Organic Products Regulations require certification from the CFIA if a brewery chooses to advertise its products as organic. Under the CFIA’s regulations, breweries may claim their products as organic if organic ingredients comprise at least 95.0% of the beverage’s total content. Products with 70.0% to 95.0% organic content can have labels that advertise the product’s nutritional qualities.
Operating Conditions

Regulation and Policy continued

percentage of organic ingredients, but they may not use the CFIA’s official logo identifying the product as organic.

Manufacturing
Other policies regulate the industry’s manufacturing facilities. For example, breweries must meet all laws about zoning and environmental requirements, such as those included in the Canadian Environmental Protection Act and the Canadian Environmental Assessment Act. If a brewery wishes to expand the size of their facility, municipal bodies may choose to assess the environmental effects of this expansion before construction can begin. Provincial regulations can also apply. For example, Prince Edward Island banned nonrefillable containers to reduce or eliminate waste from packaging. The country’s environmental policies have extended the circulation of each beer bottle. According to the Brewers Association of Canada, an estimated 97.0% of bottles are recycled, with each bottle being sterilized and reused on average between 15 and 20 times.

Retail
Regulations limit the sale of beer by retailers and set minimum prices for alcoholic beverages, which reduces price-based competition for value products. The existing system favours the industry’s major companies, which have each established a significant network of proprietary stores. If a brewery wants its products to be sold by these stores, it must pay these stores a fee to carry its merchandise. Although this fee is set by federal and provincial laws, it favours breweries that own a network of stores because they ultimately control the in-store exposure of each product.

Each provincial liquor board establishes appropriate retail practices within its borders, with each state holding a varying degree of control over the private sale of alcohol. Ontario represents one of the most stringent provinces and only permits the sale of beer at its sanctioned Beer Store locations. Government-owned stores also are mandated to carry a variety of products. However, there are fewer such stores and beer sales are a fraction of their revenue. As a result, brewers significantly limit their market reach if they choose not to sell their products through their competitors’ outlets.

Industry Assistance

The Agreement on Internal Trade is responsible for the regulatory system that limits provinces from impeding interprovincial alcoholic beverage transactions. As a result, most of the trade barriers between provinces have been slashed for domestic brewers. This effectively protects operators in the Breweries industry in Canada from new or existing regulations that would deter shipments of beer within Canada. Provincial and federal sales and excise taxes are due upon receipt at the retail level. These costs are typically passed along to consumers in the form of higher prices.

Canadian breweries are heavily supported by provincial government assistance. Canadian provinces and territories operate their own liquor boards, which monitor the production, distribution and sale of alcoholic beverages within their respective provinces. Each body operates autonomously, with varying degrees of assistance based on the regulatory preferences of each region. For example, the Liquor Control Board of Ontario purchases all beer, wine and spirits for its Ontario consumers and licensed retailers and distributes these products using its
Industry Assistance continued

integrated distribution network. Conversely, Alberta operates a fully privatized system in which all forms of alcoholic beverages are distributed and sold to private, licensed premises. Despite the province’s privatization, industry wholesalers are still heavily supported by the Alberta Gaming, Liquor and Cannabis Commission, which oversees the manufacture, importation, sale, possession, storage, transportation and consumption of liquor through collected markups on all alcohol products. The Alberta Gaming and Liquor Commission charge breweries a $0.22 markup per litre brewed up to 20,000 hectolitres. Breweries that produce more than this level are required to pay $0.51 per litre. Although the commission has justified this markup policy by arguing that the lower markup for small breweries assists these smaller establishments to compete with larger breweries, many small brewers have been reluctant to expand their overall output beyond 20,000 hectolitres due to the additional markup costs.
**Key Statistics**

### Industry Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Enterprises</th>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Exports ($m)</th>
<th>Imports ($m)</th>
<th>Wages ($m)</th>
<th>Domestic Demand</th>
<th>Per capita alcohol consumption (Litres)</th>
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<td>218</td>
<td>210</td>
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**Key Ratios**

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<th>Imports/Demand (%)</th>
<th>Exports/Revenue (%)</th>
<th>Revenue per Employee ($'000)</th>
<th>Wages/Revenue (%)</th>
<th>Employees per Est.</th>
<th>Average Wage ($)</th>
<th>Share of the Economy (%)</th>
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Figures are in inflation-adjusted 2018 dollars. SOURCES: IBISWORLD.
**Industry Jargon**

**ADJUNCTS** Nonessential beer ingredients such as rice or corn that are often included in the mash to alter flavor or reduce ingredient purchase costs.

**CRAFT BEER** Beer broadly defined as having annual production of less than two million barrels made by an independent brewer.

**HYDROMETER** An instrument used to determine specific gravity of liquid. For brewers, hydrometers are used before and after fermentation to determine if yeast has properly converted fermentable sugars to alcohol.

**LAUTERING** The process of soaking malted grains in hot water and then draining the water to create a liquid that contains fermentable sugars.

**NANOBREWERY** A very small commercial microbrewery that is often operated by a single owner and produces very small batches for local distribution.

**IBISWorld Glossary**

**BARRIERS TO ENTRY** High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

**CAPITAL INTENSITY** Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

**CONSTANT PRICES** The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using Statistics Canada’s implicit GDP price deflator.

**DOMESTIC DEMAND** Spending on industry goods and services within Canada, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

**EMPLOYMENT** The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

**ENTERPRISE** A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

**ESTABLISHMENT** The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

**EXPORTS** Total value of industry goods and services sold by Canadian companies to customers abroad.

**IMPORTS** Total value of industry goods and services brought in from foreign countries to be sold in Canada.

**INDUSTRY CONCENTRATION** An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

**INDUSTRY REVENUE** The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

**INDUSTRY VALUE ADDED** The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.

**INTERNATIONAL TRADE** The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

**LIFE CYCLE** All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

**NONEMPLOYING ESTABLISHMENT** Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.
Jargon & Glossary

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. Benefits and on-costs are included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

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We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 400 Canadian industry reports. When tough strategy, budget, sales and marketing decisions need to be made, our suite of industry and Risk intelligence products give you deeply-researched answers quickly.

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