

20 BY 25

CRAFTING THE FUTURE

A Vision for 20% Market Share
for Craft Beer in Ontario
by 2025



An Eco-System Approach to Support the Sustainable Growth of Ontario's Craft Beer Industry

Volume 1: Discussion Paper

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earthshine™

Vision Statement

By 2025, Ontario's craft beer industry has achieved a 20% market share.

- › Ontario craft brewers are selling their products freely across Ontario, other Canadian provinces and growing export markets.
- › Ontario has the most sustainable breweries in the world, integrating low carbon, circular economy and water stewardship practices in all facets of their businesses.
- › Ontario has become the Napa Valley of craft beer tourism.
- › Ontario's hop and barley growers are the ingredient 'suppliers of choice', generating further economic and social prosperity for the Province.
- › The 'Sustainably Crafted in Ontario' brand is recognized as a mark of quality, innovation and sustainability.
- › Industry success is driven by a deeply connected and networked innovation eco-system that is the envy of the world.

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1.0 The Golden Age: Ontario Craft Beer Success



The OCB's long term vision is to have at least one brewery in every city and town in the province and to make Ontario a North American Centre of Excellence for Craft Brewing.

Ontario's craft beer industry is a success story that continues to evolve. It has grown rapidly since the mid-1980's, now boasting 234 independent craft breweries, operating in more than 110 communities across Ontario, with a further 109 new breweries in the planning and development stages.¹ The Ontario Craft Brewers (OCB) industry association is now close to reaching its goal to have at least one craft brewery in every city and town across the Province.

Ontario's craft beer industry has an enviable reputation for producing great tasting and award winning craft beers. The sector has now achieved a six percent market share and contributes around \$1 billion towards the Provincial economy.²

Consequently, the craft beer industry is now an important part of the broader agriculture and food and beverage processing sectors that have been identified as key strategic sectors to increase economic and social prosperity in Ontario and Canada.³

¹ <http://www.momandhops.ca/brewery-listing/>

² http://www.ontariocraftbrewers.com/pdf/media_backgrounder.pdf

³ Advisory Council for economic Growth (2017) Unleashing the Growth Potential of Key Sectors: <http://www.budget.gc.ca/aceg-ccce/pdf/key-sectors-secteurs-cles-eng.pdf>

Growth in Ontario's craft beer industry has led to a significant amount of spin-off and economic development activity within local communities.

Ontario craft brewers generate thousands of direct jobs, accounting for almost 30 percent of all brewing industry jobs within the Province.⁴ It is estimated that Ontario craft brewers deliver between four to seven times the number jobs per hectolitre (hL) of beer produced compared to multi-national global brewers.

In addition, thousands of indirect jobs have been created within related industries such as agriculture and farming, packaging and distribution, equipment manufacturing and supply, restaurants and food service, and tourism.

Yet, the success to date of Ontario's craft beer industry could not have been possible without the support of key stakeholders in the sector's inter-connected eco-system.

For instance, the Ontario Craft Brewers (OCB) has played a pivotal role in facilitating the industry's growth. It has raised the profile of independent craft brewers through events such as the Ontario Craft Beer Week festival, worked with the Government of Ontario to develop supportive policies, and promoted sector collaboration and knowledge transfer through an annual conference, technical sessions and other activities.

⁴ http://www.ontariocraftbrewers.com/pdf/media_IndustryFactSheet.pdf



ONTARIO CRAFT BEER FACTS & FIGURES FOR 2015:

- › \$240 million in sales revenue.⁴
- › 6% market share.
- › 20%+ annual growth.
- › 1,500+ FTE direct jobs.
- › 6,000+ indirect jobs.
- › \$600 million broader economic impact.

STAKEHOLDERS IN ONTARIO’S CRAFT BEER ECO-SYSTEM

CRAFT BREWERS:

- › Individual Craft Brewers (urban, small town rural, on-farm rural)
- › Ontario Craft Brewers - Industry Association

COMMUNITIES:

- › Urban, rural and remote
- › Direct/indirect jobs
- › Local tourism

SUPPLIERS:

- › Ingredient Inputs:
 - Farmer direct (hops, grains/ malts)
 - Intermediary ingredient suppliers
- › Non-Ingredient Suppliers (e.g., packaging, labelling)
- › Technology/Equipment

PROFESSIONAL SERVICES:

- › Financial/Business
- › Technical/Engineering

PRODUCT CUSTOMERS:

- › Consumers
- › Retailers, Restaurants, Food Service

ACADEMIA/ASSOCIATIONS:

- › Formal Degrees (Ontario College/University Programs, International)
- › Professional Development (OCB, other industry associations)
- › Applied R&D

UTILITIES/SUPPLIERS:

- › Water Supply (municipal infrastructure, well)
- › Wastewater Treatment (municipal infrastructure, on-site septic)
- › Energy Supply (on-grid, off-grid renewable)
- › By-Product/Waste Management

GOVERNMENT AGENCIES:

- › Policies/Regulations
 - Economic Development
 - Environmental/Low Carbon
 - Financial

“Improved market access increases the availability and visibility of local craft beer, provides choice for consumers, and helps local craft brewers create more jobs, improve productivity and build stronger communities.”

Scott Simmons, President, OCB

The Ontario government has also played a key role through the development of an initial Microbrewery Strategy, which provided a foundation and essential funding for the growth of this emerging industry.⁵ More recent actions by the Ontario government have improved access to markets and distribution channels, enabling Ontario craft brewers to sell their products through The Beer Store, the Liquor Control Board of Ontario (LCBO) and a wide range of grocery retail stores.⁶

Other eco-system support has come from Ontario’s network of colleges and the programs being developed to educate and provide the skill sets for the ‘next generation’ of craft brewers. An example is the ‘Brewmaster and Brewery Operations Program’ at Niagara College.

⁵ <http://www.canadianbeernews.com/2016/02/26/ontario-government-extends-funding-for-microbrewery-strategy/>
⁶ <https://www.ontario.ca/page/modernizing-beer-retailing-and-distribution>

This eco-system also includes suppliers such as the farmers and growers that are expanding to meet the primary ingredient requirements of craft breweries and their desire to buy more Ontario-grown ingredients. This demand is driving the growing resurgence in the Ontario hops industry.⁷

There is also an internal network of individual craft breweries that are collaborating in ‘pre-competitive’ areas for the ‘betterment’ of the entire sector. This has included working together to develop recipes for seasonal and special occasion brews and jointly shipping their products for distribution to LCBO stores to reduce transportation costs. In addition, more than 30 craft breweries have collaborated with BLOOM to develop the award-winning Water & Beer initiative to improve the industry’s water and resource management performance.

While there is reason to pause and celebrate the industry’s success to date, there are further untapped opportunities. Ontario’s craft beer industry can build on the successful foundation that has been created and continue to ride the global wave of opportunity in the craft beer market. The province is literally sitting on a liquid gold mine.

Ontario’s craft beer industry is well positioned to ride this wave and could see the industry more than triple its size by 2025; yielding an overall annual economic impact in excess of \$3 billion for the Province.

⁷ <https://www.theglobeandmail.com/report-on-business/small-business/sb-growth/surge-in-craft-breweries-fuels-hop-farming-revival/article33905921/>



Ontario’s craft beer industry can build on the successful foundation to yield an estimated \$3 Billion annual economic impact by 2025.

Vision 20 by 25: Crafting the Future



“We are in the midst of a craft revolution, where growth of the craft beer segment could reach 20% of total beer consumption globally within the next five years.”

Goldman Sachs, May 2016

The opportunity in Ontario reflects the North American craft beer phenomenon that started in the early 1980's and has accelerated considerably over the last decade. While the total consumption of beer has remained static, there has been considerable growth in the craft beer segment. Beer drinkers continue to migrate towards the craft beer experience – attracted by the variety of recipes, the quality of the craft taste – along with an appreciation of artisan production and the use of local, natural ingredients.

According to Goldman Sachs, the craft beer segment is predicted to grow to around 20 per cent of total beer volume, globally, over the next five years.⁸

There is now an opportunity to build on the foundation in Ontario – and to set a vision of 20 percent market share by volume by the year 2025.

Achieving this vision would result in considerable benefits for local communities and the broader Ontario economy, including:

- › Creating local, skilled jobs within craft breweries, their suppliers, and across the broader craft beer sector eco-system.

⁸ Judy Hong, Senior Equity Research Analyst, Beverage and Tobacco, Goldman Sachs Research: <http://www.goldmansachs.com/our-thinking/pages/rise-of-craft.html?>

20 BY 25

CRAFTING THE FUTURE



THE VISION:
20% MARKET SHARE
BY 2025

- › Enhancing the productivity, competitiveness and sustainability performance of Ontario's craft breweries to create more resilient and profitable enterprises that can deliver long-term shared prosperity.
- › Revitalizing neighbourhoods and communities in urban cities and rural towns across Ontario to improve local tourism and economic prospects, generate lasting jobs and enhance local prosperity.
- › Creating international recognition and visibility of the 'Sustainably Crafted in Ontario' brand, resulting in additional tourism and investment.
- › Supporting and contributing towards broader public policy goals, including Ontario's Agri-Food Growth and Climate Change strategies, along with the transition to a circular and low carbon economy.

- › 500 craft brewers operating across Ontario
- › Annual Ontario craft beer sales of \$800 million+
- › Annual export sales of \$60 million+
- › 5,000 direct jobs and 20,000 indirect jobs
- › Annual craft beer tourism revenue of \$500 million+



With Opportunity Comes Risk

While there is this considerable opportunity, there are also risks facing the craft beer industry that will need to be properly managed and addressed.

To begin with, to reach a 20 percent market share by volume would require an approximate three-fold increase in total craft beer production in Ontario.

Key questions that would need to be addressed with such a magnitude increase include:

- › Will the industry have sufficient skill sets, know-how, capital, equipment and technology, and market access to reach this production level?
- › Will the industry have sufficient consumer market demand in Ontario, Canada and other export markets, or could there be a risk of market saturation and quality dilution of the independent craft beer product?
- › Will competition intensity amongst craft breweries, as well as the multi-national incumbent breweries, reduce the number of craft breweries and/or erode craft beer market share?
- › Will the industry have access to an affordable and sufficient supply of input requirements, in terms of both primary ingredients such as hops and barley, as well as resource inputs such as energy and water?

⁹ <https://beta.theglobeandmail.com/report-on-business/canadas-craft-breweries-angle-for-market-advantage-by-playing-to-varied-consumer-tastes/article36522120/>



GROWTH RISKS AND CONSTRAINTS

- › Market saturation of independent craft brewers
- › Quality dilution and impact on craft beer experience and reputation
- › Competition intensity amongst Ontario craft breweries
- › Competition intensity and protectionist behaviours from global multi-national 'big-beer' incumbents
- › Restrictive government policy on market access inhibiting industry growth
- › Access to a high-quality and affordable supply of input materials, and energy and water resources
- › Compliance with government policies such as climate change and a low carbon economy

- › Will the industry be able to manage the by-products and other non-value outputs from their operations in a sustainable manner that is practical, affordable and aligned with both government policy and community expectations?

Concurrent with achieving the vision of 20 percent market share by 2025, managing and mitigating these risks will require Ontario's craft beer sector and the eco-system that supports it, to innovate beyond business-as-usual, and collaborate to implement coordinated strategies and actions to ensure long-term craft beer success. At minimum, these are required to protect the current market share that has been achieved.

¹⁰ <https://beta.theglobeandmail.com/report-on-business/canadas-craft-breweries-angle-for-market-advantage-by-playing-to-varied-consumer-tastes/article36522120/>

“The biggest obstacle facing independent craft brewers is the commoditization of the industry as large international brewers bring their own mass-marketed products into the space. If people stop seeing craft as special because it's so ubiquitous, it's going to be a big challenge for the industry”.⁹

Steve Beauchesne, Co-Founder,
Beau's All Natural Brewing
Company

“We really have to compete on the authenticity of what we do. For us, it's about innovation and bringing great beers to the marketplace.”¹⁰

Wayne Arsenault, CEO,
Big Rock Brewery

3.0 From Vision to Practical Reality: An Ontario Craft Beer Eco-System Hub



A key success factor for the eco-system hub is to be industry-led and supported.

To achieve the 20 by 25 vision and to allow for continued success of Ontario's craft beer industry, there will be a need to accelerate the evolution of the craft beer eco-system into a 'formalized hub' of collaborative action. This would enable the industry to more effectively leverage, coordinate and procure the products and services available from the market to better serve Ontario craft breweries.

This formalized eco-system along with collaboration pathways is illustrated on pages 11 and 12.

One of the key success factors for this hub is to make it 'industry-led' and supported, and to have an organization such as the Ontario Craft Brewers (OCB) take a lead role in providing overall management and coordination.

The organizational hub would be 'systems-focused' and act as the 'connecting bridge' among the different eco-system stakeholders to facilitate the development of business relationships and knowledge transfer. In essence, to provide the 'glue' between individual craft breweries and the connected craft beer eco-system that can support it.



Creating and nurturing a culture of collaboration and knowledge sharing in the craft brewing eco-system would be a major activity of the hub, to ensure that common challenges and solutions, learnings and best practices are openly shared amongst stakeholders for the benefit of the entire industry.

This would also include facilitating and enabling the development of additional pre-competitive activities amongst craft brewers. For instance, 'collaborative clusters' of craft brewers configured by geographic area could be established to work together on a range of common initiatives such as co-operative sourcing and buying, local supplier market development and sustainable production practices.

"Brewing is at the heart of the community – it links with and provides a catalyst for many other parts of the local economy. By joining up with others, we help to ensure a brighter future for all."

Phil Winters, Co-founder of GoodLot Farmstead Brewing

ONTARIO CRAFT BEER ECO-SYSTEM – STAKEHOLDER COLLABORATION FRAMEWORK

COLLABORATION PATHWAY B

- Craft brewers and/or industry Association provide feedback to suppliers on technical/business gaps and opportunities (e.g., brewing, operations, ingredient/resource management).
- Suppliers provide the necessary products/services to support a competitive and sustainable craft beer sector.
- Maintain an informed collaboration through on-going dialogue, regular communication and knowledge transfer.

COLLABORATION PATHWAY C

- Craft brewers and/or industry Association provide feedback to educators and trainers on capacity and capability skills gaps/needs (e.g., brewing, operations, ingredient/resource management).
- Educators and trainers develop curriculum and comprehensive critical skills development for both new and existing craft brewers.
- Maintain an informed collaboration through on-going dialogue, regular communication and knowledge transfer.

COLLABORATION PATHWAY D

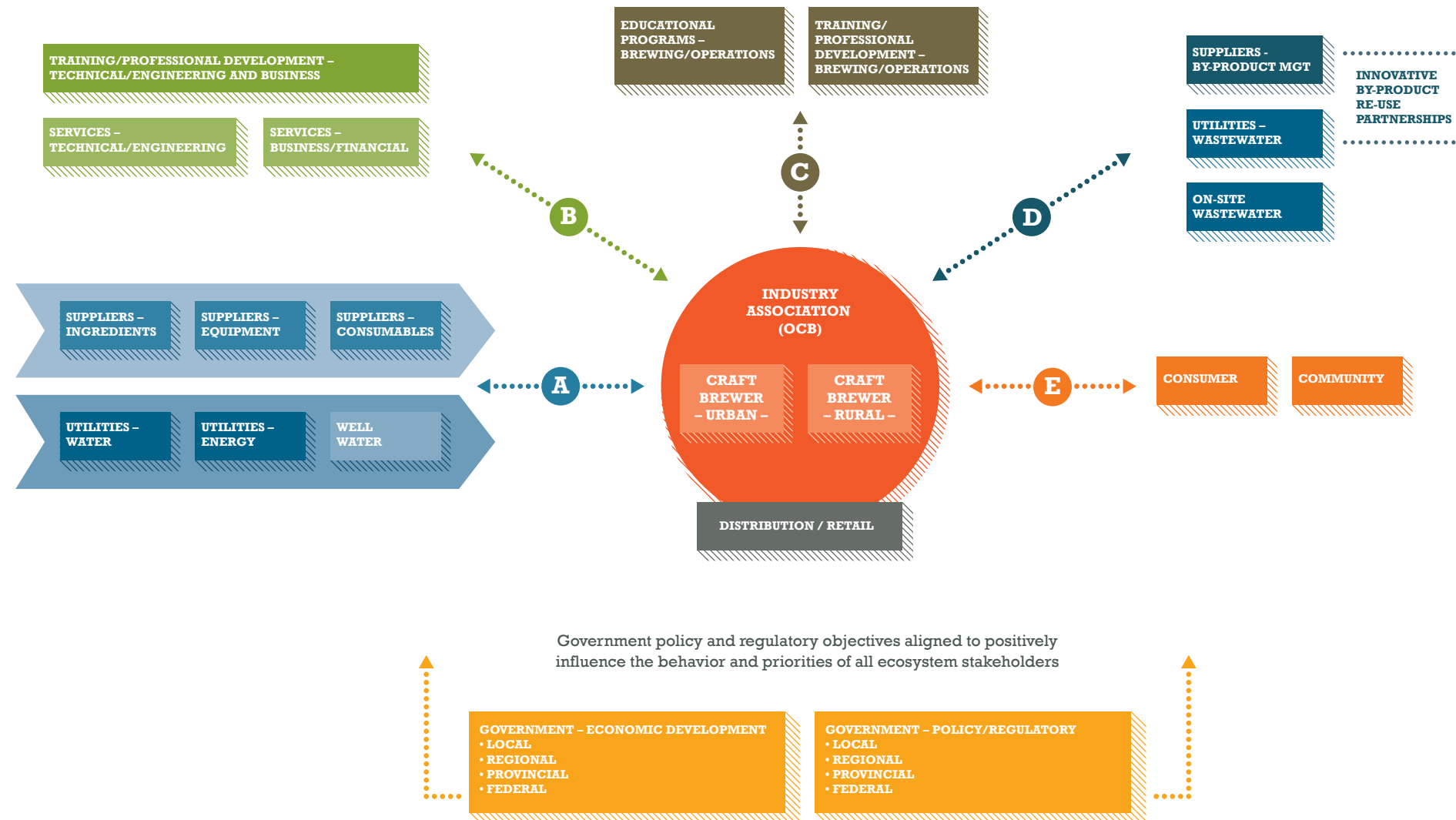
- Craft brewers and/or industry Association provide information on issues/challenges with managing non-value outputs and waste by-products.
- Suppliers/utilities provide feedback on expected quality/ types of material to minimize impact and/or to facilitate innovative solutions.
- Maintain an informed collaboration through on-going dialogue, regular communication and knowledge transfer.

COLLABORATION PATHWAY A

- Suppliers/utilities provide quality ingredients and resource inputs that support a competitive and sustainable craft beer sector.
- Craft brewers and/or industry Association provide feedback to suppliers/utilities on business needs, issues, challenges and opportunities.
- Maintain an informed collaboration through on-going dialogue, regular communication and knowledge transfer.

COLLABORATION PATHWAY E

- Craft brewers continue to produce a high-quality product valued by their consumers as well as creating value within their communities.
- Consumers/local communities provide feedback on issues/opportunities that can impact the success and sustainable growth of the craft beer sector (e.g., products, business operations, tourism, infrastructure).
- Maintain an informed collaboration through on-going dialogue, regular communication and knowledge transfer.



4.0 Recommended Path Forward: Towards 20 by 25



Ontario's craft beer industry will need considerable support from the eco-system of stakeholders.

To realize the 20 by 25 vision, Ontario's craft beer industry will need considerable support from the eco-system of stakeholders to ensure that the business conditions for sustainable growth are in place.

The key first steps are to start a dialogue and build on the stakeholder collaboration framework shown on pages 11 and 12, as well as to lay out a high-level industry roadmap to successful change by 2025. This should include identification and mapping of eco-system stakeholder interdependencies; clearly defined goals and targets; a timeline of initiatives; key enablers, barriers and risks to be managed; and establishing clear stakeholder roles and responsibilities.

The path forward will also require the development of industry-wide strategies. An initial set of these inter-connected strategies are outlined below in seven high-level theme areas. A detailed action plan, including the different eco-system collaborations, would need to be developed and implemented for each theme.

Theme 1: Market Access Strategy

- › To enable greater market access for craft beer products in Ontario, other Canadian provinces and export markets.



Theme 2: Skills Development and Training Strategy

- › To develop the educational curriculums and professional development and training programs for the key stakeholders in Ontario's craft beer industry.
- › This includes providing Ontario's craft breweries with the skill sets and competencies they need to grow their businesses and compete.
- › It also includes key suppliers in the eco-system to ensure they can provide practical and affordable products and services to meet the needs of craft brewers.

Theme 3: Business Services and Investment Strategy

- › To provide the craft beer industry with the business support services and capital they will need to operate and grow their businesses.

Theme 4: Ingredient Supply Strategy

- › To ensure an affordable and high-quality supply of ingredients, including a key focus on developing the hop and barley growing industries within Ontario.

Ontario's craft breweries will need to be equipped with right mix of skill sets and competencies to compete and grow their businesses.



“To become a North American centre of excellence in craft brewing, we’ll need to be leaders in every area of the business, which includes minimizing water and resource use and moving towards a vision of zero discharge operations.”

Garnet Pratt Siddall,
Chair (former) of Ontario
Craft Brewers

Theme 5: Sustainable Craft Beer
Production Strategy

- › To ensure long-term success, there will be a fundamental need for craft breweries to become truly sustainable businesses.
- › This will include sourcing of ingredients, the sustainable use of energy, water and other resources, and the transportation and distribution of products to market.
- › This will allow the industry and individual craft brewers to be in compliance with government policies and community expectations related to protection of the environment, water stewardship, climate change and efforts to support the transition to a low carbon, circular economy.

Theme 6: Marketing and Branding Strategy

- › To promote the ‘Sustainably Crafted in Ontario’ brand across North America and international markets to support growing sales of Ontario craft beer worldwide.

Theme 7: Tourism Strategy

- › To position and enable Ontario to become the Napa Valley of the craft beer world.

This Discussion Paper has provided a high-level vision and a recommended path forward for the continued success of Ontario’s craft brewing industry.

BLOOM and Earthshine have also prepared a larger Research and Reference Paper to accompany this Discussion Paper.

The next step is a consultation process whereby the Discussion and Research and Reference Papers can be shared with key stakeholders in Ontario’s craft beer eco-system.

“This is a really exciting time for craft beer in Ontario. People want locally brewed, craft product and are willing to travel for it.”

Rebecca LeHeup, Ontario
Culinary Tourism Alliance



About BLOOM

BLOOM is a trusted go-to authority on environmentally sustainable practices that connect social responsibility with business success, to create vibrant and thriving industrial sectors and communities across Ontario.

BLOOM has developed a practical, sector-based approach – including a deep expertise for integrating sustainability within the food and beverage sector – producing a range of materials, case studies, insights, and practical guidance for the benefit of the industry.

BLOOM has been working with the Ontario Craft Brewers association and other eco-system stakeholders to improve the craft beer industry's water, energy, resource and environmental management performance and to support its sustainable growth.

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About Earthshine

Earthshine is an international business consultancy/think-tank focused on business and economic transformation, toward a sustainable and low carbon economy.

Earthshine was founded in 2006 by Mike Townsend, business and economic transformation leader, author, teacher, advisory board member and inspirational keynote speaker.

We focus on progress in four key dimensions: sustainable business models and strategies, sustainable business leadership, systemic change, and business education. We are passionate about making a real difference – always with a strong focus on the holistic business case.

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