

San Diego Craft Brewing Industry: 2016 Update

Executive Summary

San Diego's craft brewing industry has experienced strong growth over the last few years. As the industry footprint expands within the region, new challenges are emerging that require greater public awareness. From survey responses and public data, the National University System Institute for Policy Research (NUSIPR) found:

- **2015 was a good year for industry growth.** Overall, 114 San Diego based breweries and brewpubs generated \$851 million in sales last year, and employed 4,512 workers.
- **Industry wages are less competitive.** The craft brewing regions of Portland and Boulder now match San Diego for average industry wages. Overall, San Diego industry wages have been flat.
- **Craft breweries and brewpubs in the center-north part of the City of San Diego (City Council District 6) generated a \$71.4 million economic impact in the region.** Establishments in the San Diego City Council District 6 area also produced \$102.9 million in sales and support 638 jobs, or about 10% of county's total for craft brew employment and sales.
- **Regional policy choices are directly impacting local brewers.** Public debates over water supply, land use and housing may affect the brewing industry's economic competitiveness long term.

2015: The Industry Expands

For 2015, NUSIPR made some revisions to its methodology on data collection and analysis (See Appendeix A). Overall, 2015 was a good year for industry growth in the region; jobs, establishments and sales all increased on a year-to-year basis. In all, 114 breweries and brewpubs operated in San Diego County at the end of last year, generating \$851 million in gross annual sales, and employing 4,512 workers. This was an increase of \$125 million over 2015 levels.

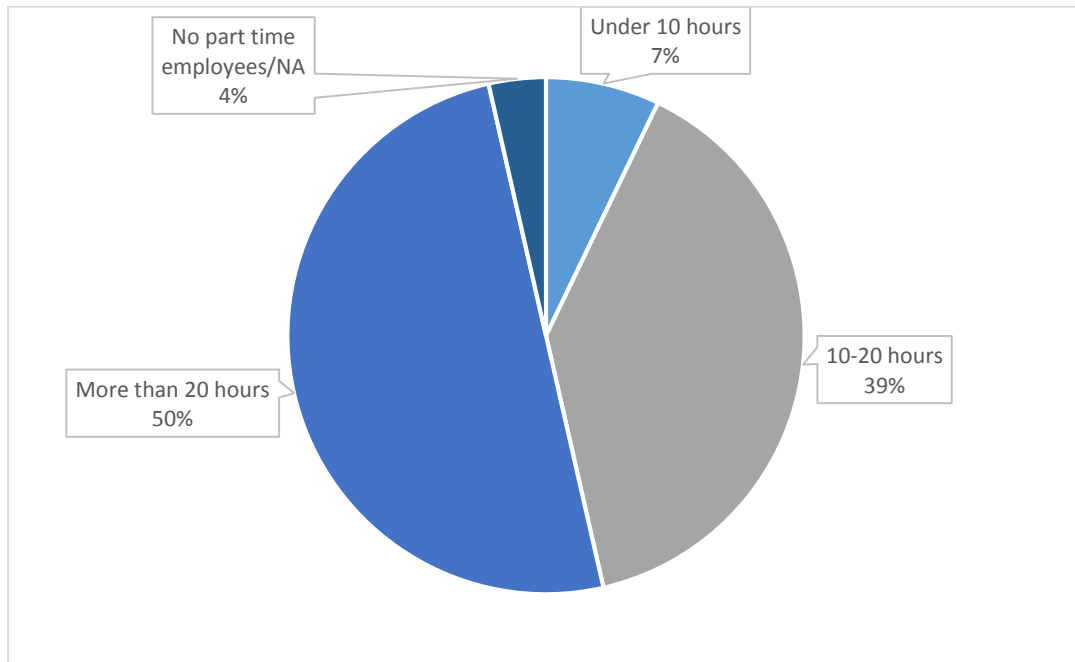
Table 1: San Diego County Brewing Industry Dynamics, 2011-2015

| | 2011 | 2012 | 2013 | 2014 | 2015 Craft | 2015 Total |
|--|-------|-------|-------|---------|---------------|---------------|
| Breweries & Brewpubs | 37 | 58 | 82 | 97 | 109 | 114 |
| Total Annual Sales (In Millions of Dollars) | | | | \$726.6 | \$734.7 | \$851.0 |
| Industry Jobs | 1,630 | 1,820 | 2,279 | 3,752 | 4,005 | 4,512 |

Industry Workforce

Respondents to the 2016 NUSIPR craft brewing workforce survey indicated that 52% of their staff was full time and 48% part time. The smaller, newer breweries and the largest, most established ones indicated higher shares of full time workers. Mid-sized breweries and all brewpubs had a greater share of part-time workers. Part-time workers do appear to have steady work available; when asked to indicate the average number of hours worked per week by part-time employees, half (50%) responded with “more than 20 hours.”

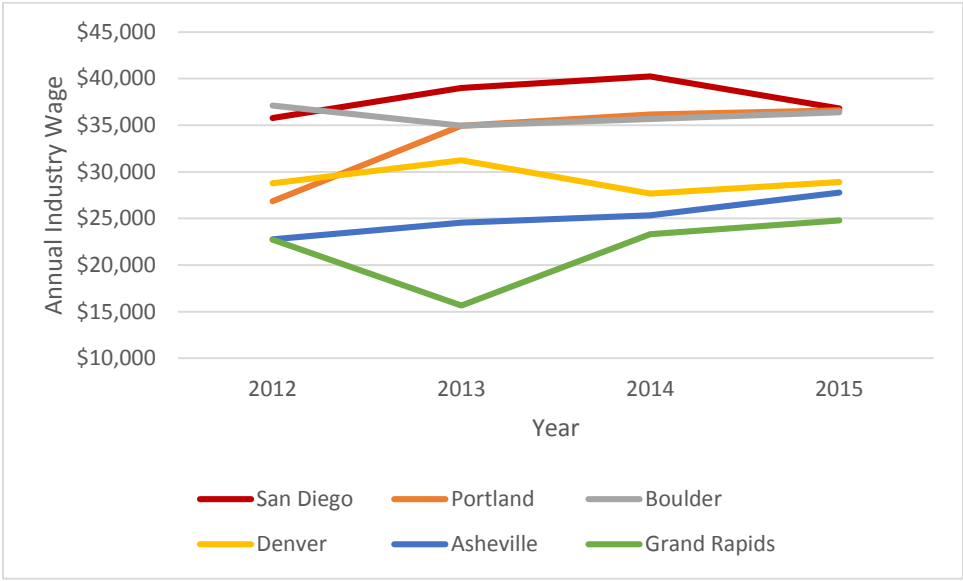
Chart 1: Average Number of Hours Worked per Week by San Diego Brewing Industry Part-Time Workers



Wages: Industry wages in the region remain high, though now less competitive compared to other major craft brewing regions in the country. Previously, NUSIPR reported that San Diego industry establishments offered the highest average industry wages among craft brewing regions. By 2015, however, that wage gap has closed. Data from Quarter 3 2015 indicates that wages in Portland and Boulder are now nearly identical to that paid in San Diego (\$36,608, \$36,400, and \$36,816, respectively).¹ We expect wages to rise overall through the end of the decade. Still, it is important to understand why wages have fallen while industry employment rose in 2015. NUSIPR plans a follow-up investigation on this issue.

¹ United States Department of Labor, Bureau of Labor Statistics. Quarterly Census of Employment and Wages online database. Accessed March 1, 2016.
<http://www.bls.gov/cew/apps/data_views/data_views.htm#tab=Tables>.

Chart 2: Average Brewing Industry Annual Wages, by Brewing Region (County), Q3 2012-2015



Survey: Training and Skill Acquisition: Most industry workers receive on-the-job training, or learn industry knowledge through hobbyist and competitive home brewing. However, formal industry education is a growing trend, particularly in San Diego, where there are two major industry education programs – the San Diego State University (SDSU) College of Extended Studies Business of Craft Beer Professional Certificate, and the University of California – San Diego (UCSD) Extension Brewing Certificate, both founded in fall 2013.

Respondents were asked whether their employees have completed or are currently enrolled in various industry education programs. The majority (57%) indicated employees have participated in the Cicerone Certificate program. Founded in 2008, the Cicerone® Certification Program was established to increase workforce education and introduce expert craft beer stewards throughout the world. The program seeks to replicate what sommelier training provides the wine industry – a trained professional knowledgeable in an artisanal food product, which they can proficiently serve to the public. Participation in the SDSU and UCSD programs was lower (32% and 39%, respectively) but still significant.

Table 2: Industry Education Program Participation

| Industry Education Program | Percentage Yes |
|--------------------------------------|----------------|
| Cicerone Certificate | 57% |
| UCSD Extension – Brewing Certificate | 39% |
| SDSU Professional Certificate | 32% |
| Other | 21% |

Survey: Industry Policy Concerns

Key to understanding the direction of the craft brewing industry is learning about the challenges and concerns of industry participants, and measuring those viewpoints in a quantitative way. As part of our survey, we asked respondents “looking towards future growth for your business, please rank only the top five issues that are impediments to growth.” We offered nine major policy categories to select from, based on prior surveys in other markets and interviews with industry participants. We tabulated the responses, and created a hierarchical index based on the number of responses and values awarded by respondents (See Table 3). The higher the score the more concerned the industry is with the issue.

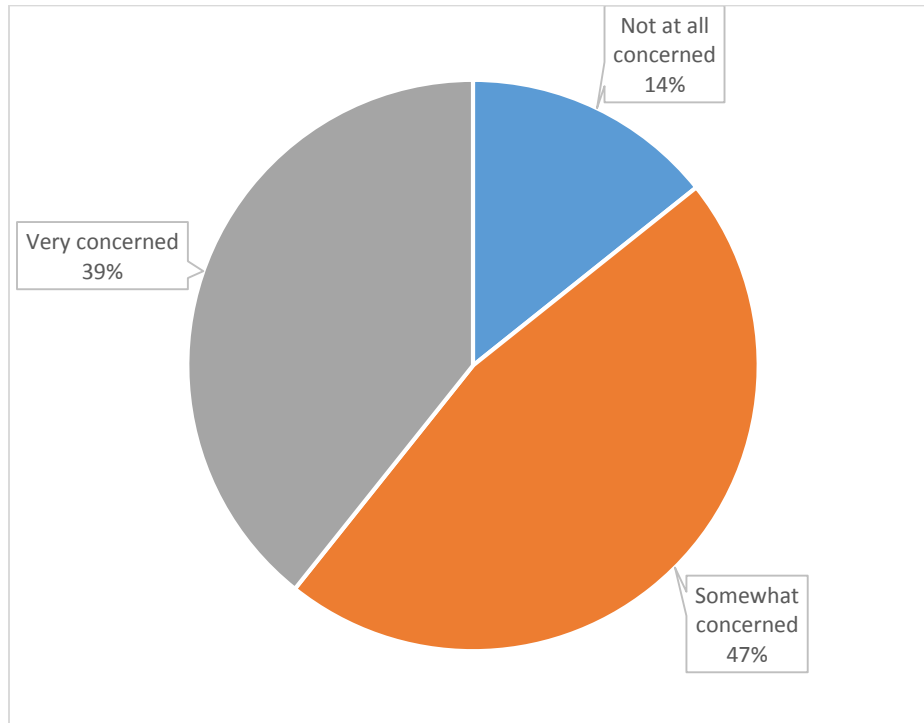
Overall, “access to capital” was the clear top choice among survey respondents, followed by “land/space/available real estate” and distribution. Taxes, state and federal regulations ranked lowest on the index scale.

Table 3: Impediments to Growth Index

| Issue | Index Score | Sample |
|--|-------------|--------|
| Access to capital | 2.90 | 20 |
| Land/space/available real estate | 2.59 | 17 |
| Distribution | 2.33 | 15 |
| Water/wastewater management | 2.00 | 16 |
| Availability/price of inputs/materials | 1.75 | 16 |
| Permits/local regulation | 1.73 | 15 |
| Marketing | 1.55 | 11 |
| State/federal regulation | 1.41 | 17 |
| Taxes | 1.33 | 12 |

A separate section deal with the future of our state’s water supply. Water is beer’s main ingredient and escalating rates and conservation-related cutbacks could affect the cost and availability of beer’s main ingredient. When asked “how concerned is your brewery or brewpub about the California drought, water policy, and the price and availability of water in the coming years,” nearly 8 out of 10 responded either “somewhat concerned” (47%) or “very concerned” (39%). Only 14% responded “not at all concerned.”

Chart 3: Drought Concerns of San Diego Brewing Industry



Survey: Community Engagement

The survey also found strong evidence that San Diego County brewers are charitable with their time and resources. Nearly all respondents (96%) said they participated in a beer festival and donated to a charitable or non-profit organization (93%) with cash or in-kind ways, including kegs or free merchandise. Fewer indicated they volunteered (32%) or participated in fundraising events (71%).

Table 4: Industry Participation in Community Activities for 2015

| Community Activity | Percentage Yes |
|---|----------------|
| Beer festival | 96% |
| Donations (In-kind and/or cash) to charitable or non-profit organizations | 93% |
| Volunteering | 32% |
| Participating in fundraising events | 71% |

District 6 Craft Brewing Community

As a new feature in our annual industry updates, NUSIPR will profile an area or aspect of the craft brewing sector for greater review. Our first profile is of the San Diego City Council District 6 craft brewing community, one of the largest concentrations of breweries and brewpubs in San Diego County. Located in central San Diego, District 6 includes the neighborhoods of Mira Mesa, Sorrento Valley,

Kearny Mesa, and parts of Rancho Penasquitos and Clairemont Mesa. Unofficial nicknames for the general area include “San Diego’s Beer Belt,” “Beeramar” and “Beera Mesa.”

Efforts to elevate the District 6 brewing sector have increased with the assistance of local government. District 6 City Councilman Chris Cate and his staff have partnered with District-based breweries and brewpubs to promote the industry and facilitate greater investment. Last year, they created a District 6 industry website (D6beer.com), which features a D6 brewery map, directory, and step-by-step guidelines to opening a brewery in the City of San Diego. For the 2015 San Diego Beer Week, the District 6 Office partnered with Uber to offer a special “Brew Pass” promotion for visitors to 10 District-based breweries, including discounts and exclusive beer tastings. Plans are in the works for the District office to partner with the U.S. Commercial Service and the World Trade Center to promote locally brewed beer for international export.

The District has also benefited from broader regulatory reform efforts at the City of San Diego. In April 2015, the San Diego City Council approved the 9th Update to the Land Development Code, which streamlined city code for a variety of uses, including brewing beer. Specific regulatory reforms for microbreweries include easing parking requirements, allowing live entertainment in industrial zones, and clarity on the classification of breweries, tasting stores, and tasting rooms citywide.²

Using survey data and business records, NUSIPR identified that in 2015 District 6 was home to 18 craft breweries and brewpubs, employing approximately 373 employees and generating \$102.9 million in sales. To determine the economic impact of the District 6 craft brewing community, NUSIPR analyzed sales data using IMPLAN, a leading regional input/output model. Input/output models are an econometric technique used to explore economic relationships within a designated geography. Overall, we found that the District 6 craft brewing industry generated a \$71.4 million regional economic impact in 2015. We also found that the industry supports a total of 638 jobs, a figure which includes all direct (373), indirect (136), and induced (129) jobs. Approximately one out of ten craft beer dollars generated in San Diego County are made in District 6; similarly, one out of ten industry jobs are found in the District as well.

Conclusion

As the industry footprint grows within the region, so too has the intersection with many of San Diego’s most pressing policy issues. For example, as industry wages become less competitive, and talented brewers consider their options in other craft beer regions, the relevance of housing affordability, smart growth and development become more pronounced. The migration of breweries and brewpubs from far-flung industrial parks to our dense urban corridors heightens the need to consider the impact of land use and regulatory restrictions on manufacturing and selling beer.

As our survey indicated, brewery and brewpub owners have their own policy concerns and challenges that lay before them. Meanwhile, large alcoholic beverage conglomerates like AB InBev are likely to make more acquisitions of craft brewers, spend millions more on marketing campaigns, and expand their presence in the San Diego market. More industry partnerships, such as those between Councilman

² City of San Diego website. Development Services – Microbreweries. Accessed March 1, 2016. <<https://www.sandiego.gov/development-services/industry/landdevcode/workprogram/microbreweries>>.

Cate and District 6 breweries and brewpubs, could lead the way to how the industry meets those challenges and grows in a changing marketplace.

About the National University System Institute for Policy Research

The National University System Institute for Policy Research (NUSIPR) is a non-partisan, non-profit organization that formulates and promotes high quality economic policy, and public opinion research so as to improve the efficiency and effectiveness of local governments in San Diego County and to improve the quality of life enjoyed by the region's residents.

Appendix A: Changes in Methodology

Recognizing the contribution of “non-craft” brewers

2015 was a time of change for the industry. Most notably, San Diego craft breweries attracted the attention of large, multi-national brewing companies looking for acquisition targets. In September of 2015 MillerCoors acquired a majority share in San Diego-based Saint Archer Brewing Company. A month later, Ballast Point Brewing was sold to Constellation Brands. We believe this trend of alcoholic beverage conglomerates acquiring small U.S. craft breweries will continue for the foreseeable future.

We chose to recognize this change by adding a separate sub-grouping in the data tables for “non-craft establishments.” While not meeting the Brewers Association’s definition of craft brewers, these establishments still are generating meaningful economic contributions to the region, through sales tax revenue, job creation, construction activity, and local goods and services purchased as a result of their physical presence here and many of the challenges they face are similar to the independently owned and operated craft brewers.

New data source on sales

Also, prior to 2015, NUSIPR had relied upon a combination of public business records and business database ReferenceUSA to estimate total industry annual sales. However, in evaluating a large sample of actual local sales data this winter, we have found IMPLAN, the best-in-class econometric modeling program, to be a more accurate source of sales figures than ReferenceUSA. We have thus chosen to use IMPLAN sales estimates, starting with revising the previously-published 2014 sales figure, as well as estimating 2015 figures.

Refining our Survey Instrument

Our survey instrument has also been refined. Every fall, NUSIPR, assisted by the San Diego Brewers Guild, sends surveys electronically to brewery and brewpub owners, asking their current employee head count and the number of employees in brewing centric and non-brewing centric work. For 2015, we expanded our survey questionnaire to include more detailed questions about the industry workforce, relevant policy topics, and charitable activities. The responses to those questions are summarized in this report. Over two weeks in early December 2015, NUSIPR received 34 survey responses, 28 of which were complete and usable for our sample. This is a 28% response rate (we estimate there were approximately 99 unique establishment owners in 2015).