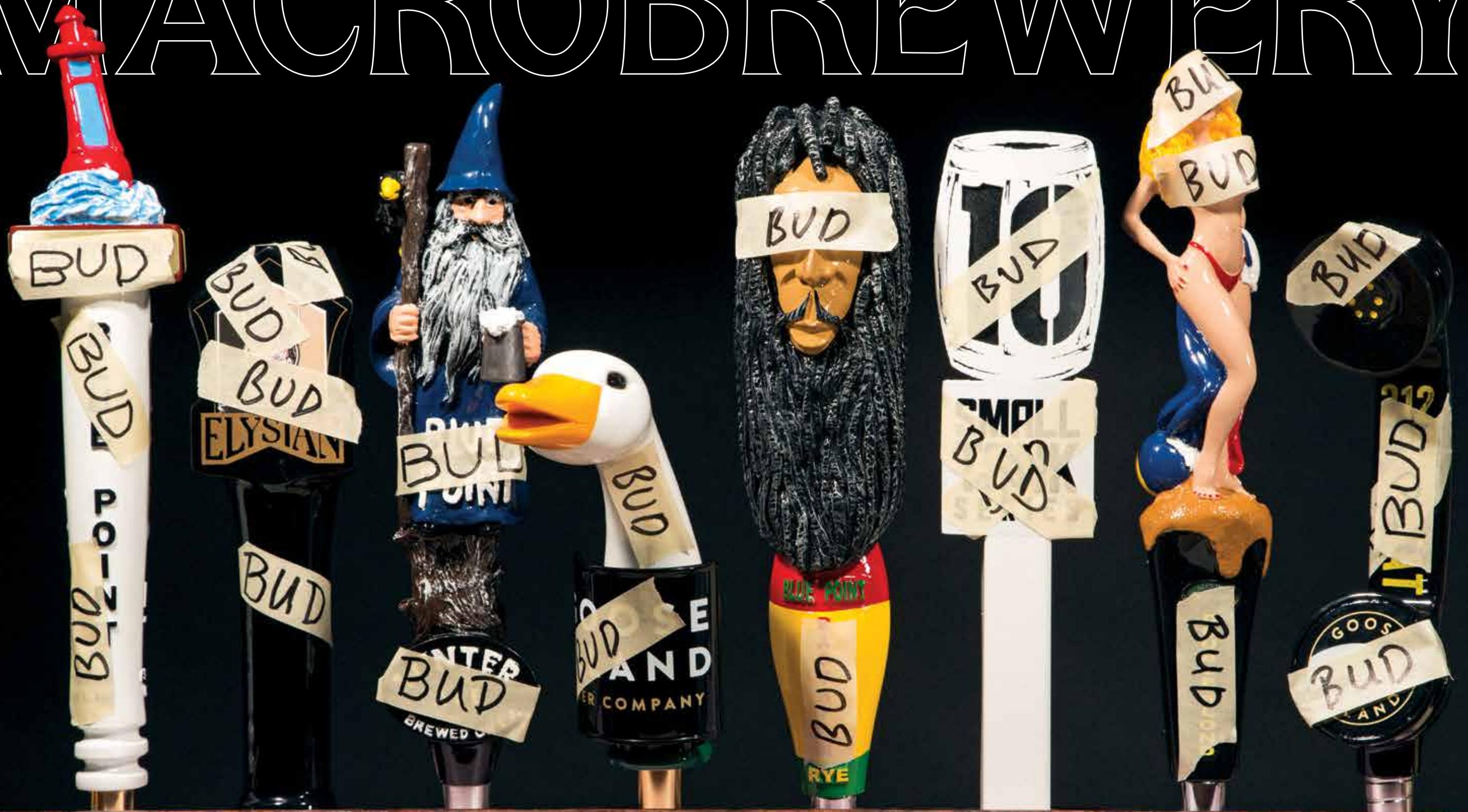


MACRO BREWERY



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CAN CRAFT BEER SURVIVE AB INBEV? BY DEVIN LEONARD

PHOTOGRAPH BY ERIC HELGAS

After 19 years of running Elysian Brewing, a craft beer maker in Seattle, Chief Executive Officer Joe Bisacca was ready for a change. He was tired of worrying about making payroll, feeling guilty about the company's miserly 401(k) plan, and trying to keep pace with the ceaseless demand for Elysian's irreverently named beers, such as Space Dust, Superfuzz, Mens Room, and Loser Pale Ale. The last was inspired by the grunge-rock band Nirvana and carries the slogan "Corporate beer still sucks." So he and two partners, David Buhler and Dick Cantwell, talked about selling. Before long they were in touch with Andy Goeler, CEO of craft beer for AB InBev's Anheuser-Busch division. Elysian and AB InBev might seem like a strange match. AB InBev, the world's biggest beer company, manufactures Budweiser and its sister brand, Bud Light, the kind of corporate products that get the rhetorical middle finger from Loser Pale Ale. AB InBev is also an assiduous cost trimmer. That didn't seem to bode well for Elysian's 217 employees.

Still, the founders went ahead, in part because Goeler, a former Bud Light marketing director, assured them the company didn't want to make any major changes at Elysian, whose sales climbed 31 percent last year, according to IRI, a market-research group. In fact, Goeler wanted them to stick around and run the place. "Talking to Andy made me feel more confident about this," says Bisacca. "They don't need a 100,000-barrel brewery. They're looking for the brain trust. They're looking for the people that create these recipes and these brands."

AB InBev's purchase of Elysian for an undisclosed sum in January had its rough spots. Angry drinkers registered their displeasure on the brewery's Facebook page. "They've already lost a certain number of customers," says Kendall Jones, producer of the Washington Beer Blog in Seattle. "Hard-core beer geeks have copped an attitude: 'We're definitely not going to support AB InBev.'" In April, Cantwell left Elysian, saying he'd never wanted to sell Elysian to AB InBev in the first place but went along because he was outvoted by his partners.

Bisacca has no regrets. He likes that Elysian can continue to grow using AB InBev's money instead of taking out bank loans. He's tickled that his brewers have access to the multinational company's hop farm in Idaho. Elysian will continue to make Loser. And thanks to AB InBev, its beers will soon be available in Fairfield, Conn., where Bisacca's parents live. "I want my dad to be able to buy my beer at the grocery store around the corner," he told an audience in April at the Craft Brewers Conference in Portland, Ore. "I asked them, 'Can you do that?' And they said, 'Sure.'"

Since 2011, AB InBev has purchased four U.S. craft breweries: Goose Island Brewing in Chicago; Blue Point Brewing in Patchogue, N.Y.; 10 Barrel Brewing in Bend, Ore.; and Elysian. Goeler says it's looking at others, too. The craft industry has nothing to fear from AB InBev, he says; his company is buying up small breweries to satisfy the changing tastes of customers. Last year, AB InBev's sales volume in North America, its largest market, fell 1.3 percent, in part because of the declining popularity of Budweiser, shipments of which dropped 4.8 percent in 2013, according to *Beer Marketer's Insights*. Bud Light remains America's most popular beer, but shipments to retailers fell 3.9 percent. Carlos Laboy, an analyst who covers AB InBev at HSBC, applauds the company for buying upstart breweries such as Elysian. "It's the right thing to do," he says.

To the clubby craft brewing movement, however, the acquisitions are unsettling. Craft brewers

Goeler (left) and Porter at Goose Island's tasting room

have built a thriving niche; their volume grew 18 percent last year while the overall industry was essentially unchanged. And they did it by positioning themselves as the underdogs in a war with large corporations, most notably AB InBev.

The little guys aren't necessarily so small anymore. Jim Koch, CEO of Boston Beer, the largest craft beer company, according to IRI, is a billionaire. So is Ken Grossman, founder of Sierra Nevada Brewing in Chico, Calif., the second-largest. Still, the vilification of AB InBev by craft brewers and their customers still goes on.

The Brewers Association, the craft industry trade group, has specific requirements to discourage its voting members from selling out to AB InBev or any other large beer manufacturer. They're forbidden from brewing more than 6 million barrels a year and selling more than a 25 percent stake in their company to a noncraft brewery. The rules are not always necessary. "There are many craft brewers who would never, never sell to AB InBev, even if they were offered a gazillion dollars," says Townsend Ziebold, managing partner of First Beverage Group, a Los Angeles-based investment bank that's advised many top craft beer makers. But the number of purists is dwindling. Foreign beer companies are swallowing them up. In 2013, Belgium's Duvel Moortgat bought Boulevard Brewing in Kansas City, Mo. Last December, Mahou San Miguel, Spain's leading beermaker, purchased 30 percent of Founders Brewing in Grand Rapids, Mich. "We used to all know each other," says Larry Bell, founder of Bell's Brewery in Galesburg, Mich. "Here's my line about the current situation: We are in the middle of the end of the beginning of craft beer. All the pioneers who started it off are getting older, and they have to look at an exit strategy."

Nobody is investing in the craft breweries as aggressively as AB InBev. Some craft brewers say the company wants to flood the market with its own quirky beers and confuse consumers who are looking for alternatives to Budweiser. Others say the company wants to do more than just befuddle beer fans—it wants to drive its craft rivals out of business. Tony Magee, founder of Lagunitas Brewing in Petaluma, Calif., says AB InBev is selling barrels of Goose Island for half what its free-spirited competitors charge for their products. "What they really want to do is disrupt this whole craft thing so they can go back to the business that they'd like to be in, which is making lighter beer with inexpensive ingredients," he says.

Goeler finds such talk exasperating. "People say, 'You guys are trying to put craft out of business,'" he says. "Well, we've done more to get craft beer to more people than anyone in the industry."

In late April, Goeler is at the Goose Island brewpub in Chicago, extolling Blue Line, a new beer named after a local subway route. He says it's both tasty and good for the environment. A friendly 57-year-old, Goeler has brown hair and wears rimless glasses through which he seems to constantly squint, like Mole in the children's book *The*



Wind in the Willows. He explains that Blue Line is a small-batch offering sold only on draft in Chicago, which obviates the need for bottles and cardboard packaging. Its tap handles are made of local elm. "We'll have a little sample," Goeler says. "It's great pale ale. I love it!"

It's a new pitch for Goeler, but one he relishes. "I never had the bug to brew beer," he says. "I have never had the bug to write a recipe. But I love being around the beer culture and the people that are making the beer. I am the guy that appreciates drinking the beer that's made. And I love talking about beer and selling beer."

Goeler grew up in Pompton Plains, N.J. After graduating with a marketing degree from nearby Fairleigh Dickinson University, he joined Anheuser-Busch as a salesman in 1980. He peddled Budweiser to bar and liquor store owners in blue-collar Jersey City, which he describes as a challenging experience for a newbie. He worked his way up through the company and in 1995 was named director for marketing for Bud Light, which he helped make America's top beer, displacing Budweiser. "The guy is absolutely driven," says Bob Lachky, a former Anheuser-Busch chief marketing officer and Goeler's boss at the time.

In 2000, Goeler earned a spot on the *Advertising Age* Top 100 for his Bud Light work. He could stand in front of a room full of Anheuser-Busch distributors and get them excited about moving the company's beverages. "Andy's kind of a natural showman," says Keith Levy, a former Anheuser-Busch vice president for marketing. "He had a reputation within the Anheuser-Busch world of being an inspirational guy onstage at the big national sales meetings. He was always there late at night and on the weekends, just a complete workaholic."

In 2005, after his success with Bud Light, he was made vice president for imports and soon after for craft beer, too. "We didn't really have anything," Goeler recalls. "I was thinking, Oh my God, what did I do wrong?" Goeler admittedly struggled for awhile. He did a deal to import Grolsch beer from the Netherlands and helped launched an in-house faux craft brand called Shock Top, which was much ridiculed in traditional craft circles. He also hawked what he described as "a great-tasting" purple energy drink called 180 Blue, which somehow became one of his responsibilities.

In 2008, InBev bought Anheuser-Busch in a \$52 billion hostile takeover. Carlos Brito, the Brazilian-born CEO of the merged company, fired roughly 1,400 people, about 6 percent of the U.S. workforce. Goeler's colleagues, who once traveled in corporate jets, flew commercial. Once-imported brews, such as Beck's, were made in the States. Many remaining Anheuser-Busch executives couldn't stomach the changes and left, but not Goeler. Thanks to the merger, he now had some top-tier imports to sell, including Stella Artois and Leffe. "I was in heaven," he says.

Within a few years he also had a legitimate line of craft beers. In 2011, AB InBev purchased Goose Island for \$38 million. Its founder, John Hall, didn't have a problem selling his company to AB InBev. He was approaching 70, and after two knee replacements, he needed to slow down. "I was really pretty confident they wouldn't spend that money if they were going to screw it up," says Hall. "And I think they also realized that craft was something they didn't understand."

When Hall delivered the news to his employees, many were shocked. Some immediately sent out text messages looking for new jobs. "There's no question we lost some people," Hall says. But he turned out to be right about AB InBev's intentions for Goose Island. It didn't fire employees or change ingredients, which was

wise. Bud Light drinkers may not scrutinize the ingredients or care who brews their beer, but craft beer drinkers do. A year after the acquisition, Hall felt secure enough to step aside and let Goeler take over as CEO. Goeler says he felt uncomfortable at first in his role, but he eventually won over the Goose Island people. "He wore dad jeans," says John Laffler, a former Goose Island brewer who eventually left to start his own company, Off Color Brewing in Chicago. "People made fun of him for that. But he was very personable. Just because he worked at a big company doesn't mean he's an asshole."

The Goose Island staff warmed to Goeler also because he was willing to play the role of sugar daddy. He increased the number of brewery employees. He expanded Goose Island's much praised barrel-aging operation, which produces exotic ales in wine casks and bourbon barrels. Brett Porter, Goose Island's former brewmaster, who's now director for brewing for Goeler's division, discovered how generous his new boss could be when he asked for some large French wine barrels, each of which would hold 1,585 gallons of beer. They cost \$12,000 apiece, before shipping. Goeler told him it wouldn't be a problem. "We ordered four of them," Porter says. "When the shipping container arrived, there were only three. I guess somebody has one in the garage somewhere."

AB InBev decided to brew some of Goose Island's more prosaic beers, like 312 Urban Pale Ale, alongside Budweiser at its plants in Baldwinsville, N.Y., and Fort Collins, Colo. Goose Island's brewers oversaw the process and made sure they tasted right.

"We dumped more beer than every frat house in the Midwest could drink in a year," Porter says. "It offended our sense of Yankee frugality, but it was the right thing to do." Some people in the craft community snickered that 312 Urban Pale Ale was now being brewed in parts of the country where the area code was 315 and 970. But even AB InBev's harshest critics conceded that the quality of Goose Island's product didn't suffer. "I think they figured out the smartest strategy is go out and buy some craft breweries with some heft and then get out of the way," says Maureen Ogle, author of *Ambitious Brew: The Story of American*

Beer. "Like at Goose Island, as near as I can tell, they're just leaving those guys alone."

AB InBev's uncharacteristically gentle stewardship of Goose Island helped when it approached other brewers, but not everybody swooned. Lagunitas founder Magee says an AB InBev executive visited him at his brewery in Petaluma and asked over burgers if he was interested in parting with his company. "I told him, 'I would rather pull my eyes out,'" Magee recalls. He adds that he crossed paths with Goeler at a convention and found him absurdly un-craftlike. "He was presenting Goose Island in all his glory and talking about how all these bearded and tattooed people loved him," Magee says. "Andy is walking around in Levi's with a pressed crease down the front like he had just gotten them."

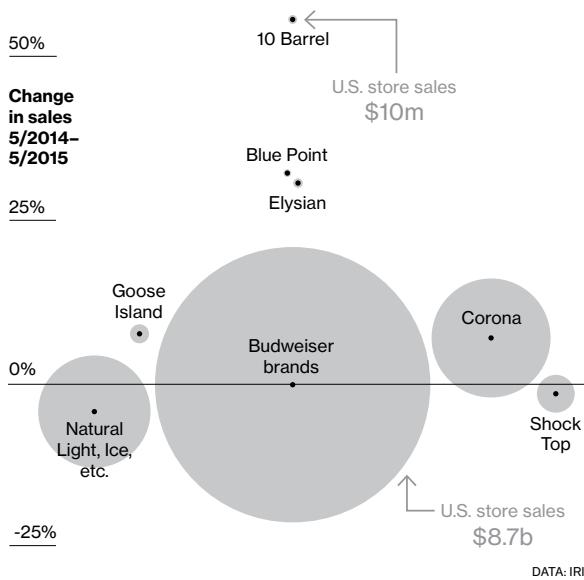
Other craft brewers melted in AB InBev's arms. In February 2014, the company bought Blue Point for an undisclosed sum with little controversy. In November, AB InBev acquired 10 Barrel, known for its promotional vending machines that dispensed a free beer called Swill, a lemony American version of a German wheat beer. Customers appreciated its altruism. In 2014, 10 Barrel's sales rose 72 percent from the previous year.

Goeler made it clear he wanted 10 Barrel founders Chris and Jeremy Cox and Garrett Wales to stay around after the deal closed. "When we first brought that up in our conversations, the response we got was, 'Well, we wouldn't do this if you wanted to leave,'" says Wales. "Like, no way, you know?"

"THEY'RE LOOKING FOR THE BRAIN TRUST. THEY'RE LOOKING FOR THE PEOPLE THAT CAN CREATE... THESE BRANDS"



BIG GROWTH IN SMALL BEERS



AB InBev, it should be noted, has discontinued the use of the Swill machines.

Some Bend beer drinkers were furious with 10 Barrel's founders for selling their company to AB InBev. "Beer fans who really supported 10 Barrel are avoiding them like the plague now," says Larry Sidor, brewmaster at the Crux Fermentation Project in the city. "They are dissing them. They quit buying their beer. They quit going to their brewpub. It's unbelievable." Goeler hopes 10 Barrel's lovelorn fans will change their minds when they find out about the fancy new equipment the company has purchased for 10 Barrel's Bend brewery. "We just put in five more fermentation tanks and a couple of brewing tanks," he says. AB InBev is also likely to boost 10 Barrel sales by mass-producing 10 Barrel's Apocalypse IPA at its large plants as it has done with 312 Urban Pale Ale and Blue Point Toasted Lager.

The Elysian deal followed in January. It seemed to be going according to plan until AB InBev's Budweiser unit ran a Super Bowl ad making fun of craft beers. The spot, "Brewed the hard way," showed virile male Bud drinkers frolicking with their female counterparts in a nightclub while snobby hipsters with beards and handlebar mustaches sniffed beers in fancy glasses in a staid backroom. "Let them sip their pumpkin peach ale," the ad proclaimed. "We'll be brewing up some golden suds."

The craft community was outraged, but Elysian employees felt especially betrayed. The brewery hosts an annual Great Pumpkin Day Beer Fest and brews a peach pumpkin ale, putting Goeler in a sticky position. He had spent much of his career selling Budweiser, but now things were different. "I am the craft guy," he says. "So I was kind of like, 'Oh my God.' We now have over 600 craft employees. I had a little bit of a challenge on my hands, to say the least. They were all like, 'What the hell is going on?'" Goeler confronted the Budweiser team about the ad. "I said, 'Why did you pick that beer?'" he recalls. "They were like, 'Well, we thought that would be a far-out beer.'"

It's Bisacca who sounds more like the corporate guy when he talks about the situation. He doesn't think the Bud guys did anything wrong. "We've been poking at Bud for all these years, and they said something about us," he told Elysian's employees. "It's fine. It's sibling rivalry at this point." Soon after, Bisacca says, Brito toured Elysian. Bisacca made a point of taking him aside. "Brito," he said, "I'd like you to try a beer that we've got."

The two men had a glass of peach pumpkin ale and laughed about the controversy. Unfortunately, that wasn't the end of it.

Elysian co-founder Cantwell went to a Super Bowl party and found the ad harder to shrug off. "We were watching the game over in my little living room," says Steve Luke, a brewer at Elysian. "That commercial came on, and you could hear a pin drop afterwards. It was not good." Soon after, Cantwell tendered his resignation. "I had already decided I would not be able to work with my former partners," he says. "Seeing the ad solidified my unwillingness to ever work with Anheuser-Busch again. There's a big difference between an independent craft brewery that makes its own decisions and an enormous company that has one arm devoted to what they consider to be craft beer. In the case of Anheuser-Busch, they are perfectly content to have the different arms of their company at war with each other."

Goeler laments Cantwell's departure, but he's proud the former brewmaster is the only one of 217 Elysian employees who's left because AB InBev bought the company. "Dick Cantwell wanted to be involved and just changed his mind," Goeler says. "That's fine. We have Joe and Dave, the other two partners that still want to be actively involved." He says his mission is to preserve the successful, offbeat cultures of these breweries, which means keeping the leadership intact, if possible: "If they wanted to sell and run away, what am I going to do? Go run it myself?"

Goose Island's newly refurbished brewery is filled with people who look uncannily like the hipsters lampooned in "Brewed the hard way." They listen to loud rock while tending to the fermentation vats and bottling machines. Goeler, who doesn't look like any of his employees in his pressed shirt and dad jeans, nonetheless mingles easily with the brewers, exchanging fist bumps. "How're you doing, brother?" he asks more than once.

After a tour of the brewery, Goeler heads upstairs for a beer tasting. Brewing director Porter pours out 18 different Goose Island brews from 312 Urban Pale Ale to Gillian, a farmhouse ale flavored with local honey and strawberries that sells for \$55 a bottle in restaurants. Goeler concedes he would have been amazed even five years ago to learn that he could sell such an expensive beer, but that's the beauty of his new position. "It really is such an exciting time for beer," he says, taking a sip.

Goeler says Goose Island has become something of a model for the rest of AB InBev and that people from other parts of the company make pilgrimages to Chicago. Last year, AB InBev's board took a turn peeling oranges at the brewery, one of the ingredients in Sofie, a Champagne-like ale that the brewery says goes nicely with shellfish and brie. Today executives from AB InBev's Canadian division are here. Goeler says visitors are fascinated by how quickly Goose Island can bring new beers to market, making decisions based on Porter's recommendations and seeing how the results go over with brewpub customers. "They are like, 'Wow, you guys just do it like that?'" Goeler says. "And we tell them, 'We just do it like that.'"

Felipe Szpigel, head of the company's U.S.-based high-end beer division and Goeler's boss, is one of the visitors. Like many of AB InBev's top managers, Szpigel, a lean 37-year-old triathlete, comes from Ambev, AB InBev's Brazilian subsidiary. He focuses on getting AB InBev's fancier beers into restaurants and other places they might not have been previously available. He says the company recently put the word out that it wanted to hire 100 craft beer salespeople. "We got 5,000 résumés," he says.

Goeler argues that the old taboos about AB InBev are breaking down and people in the industry realize that it wants to help build the craft sector rather than tear it down. He says the key is for the company to be transparent about what it's doing with its small breweries. "I mean, there's really no hidden agenda," he says.

He turns to Porter. "You're not afraid to say anything, right, Brett?" Goeler asks. "Even though I'm your boss, and you're up for a raise here in the next couple of weeks? I'm just kidding. I'm just kidding." — *With Matthew Boyle and Duane Stanford*