00;00;00;00 - 00;00;37;24

Caleb Stair

Hello everyone, I am Caleb Stair, one of the hosts of FRE Lunch. In between the recording and release of this episode. Hurricane Helene struck the Southeastern United States. Some of the areas mentioned in today's episode were severely impacted and are still experiencing and recovering from the storm's damages. If you or anyone you know were impacted, or if you are looking for ways to help, we will include hurricane recovery resources in this episode's description.

00;00;37;27 - 00;00;48;25

Alena Poulin

Welcome to FRE Lunch, the official podcast of the Food and Resource Economics department at the University of Florida. I'm Alena Poulin, the marketing and communications specialist for the department.

00;00;49;00 - 00;01;03;21

Caleb Stair

I'm Caleb Stair, assistant instructional professor of food and resource economics and the coordinator for undergraduate research in the department. Meaning I get to interact regularly with the members of our FRE community and see all the cool and interesting topics being explored.

00;01;03;27 - 00;01;15;15

Alena Poulin

That's why we made this podcast! To showcase the many ways students and faculty are using economic research to understand and address the complex issues facing agricultural and natural resource industries.

00;01;15;15 - 00;01;25;04

Caleb Stair

From hops to homebrew. That's right, we’re tapping into the economic value of microbreweries and beer. But don't worry, our guest is just as intoxicating.

00;01;25;04 - 00;01;35;28

Alena Poulin

With humble beginnings as the local passion projects to their explosive growth Into a multi-million dollar enterprise, microbreweries have become a cornerstone of the modern beer industry.

00;01;36;00 - 00;01;48;14

Caleb Stair

According to the Brewers Association, small and independent American craft brewers contribute more than $72 billion to the U.S. economy and supported nearly 460,000 jobs.

00;01;48;15 - 00;01;59;13

Alena Poulin

There is nothing micro about that! And it's no less true here in Florida. We have 350 breweries listed in the Florida Brewery Database. There's at least five here in Gainesville alone.

00;01;59;14 - 00;02;15;20

Caleb Stair

We are joined by Doctor Nathan Palardy. He is an assistant professor and extension economist in the Food and Resource Economics department at the University of Florida. He specializes in economic analysis related to state and local policy and is the department's resident beer economist. In my humble opinion.

00;02;15;20 - 00;02;25;01

Alena Poulin

Talk about a dream job! And since Oktoberfest is right around the corner. Yes that's right, it starts in September, we figured it would be a great idea to chat with him. Thanks for being here, Nathan!

00;02;25;05 - 00;02;26;25

Nathan Palardy

Happy to be here. Thank you for having me on.

00;02;26;26 - 00;02;30;21

Caleb Stair

So how on earth did you get involved in this line of work?

00;02;30;23 - 00;02;52;25

Nathan Palardy

That's a great question. So actually, when I was an undergrad in college, I started working at a brewery, Terrapin Brewing Company in Athens, Georgia, and through that became interested in some of the strange nuances that dictated how and when beer could be sold. At the time, Georgia had regulations that said you couldn't actually sell beer directly to consumers.

00;02;52;25 - 00;03;15;13

Nathan Palardy

If you were a brewery, you could sell a tour to people, but at that tour, you were allowed to give up to 32oz of quote unquote free samples. I thought this was strange, so I looked more into it, figured out that this was one of the many strange laws that regulated alcohol distribution and sales, and decided to make that the subject of my PhD.

00;03;15;16 - 00;03;22;09

Caleb Stair

For the sake of our audience, myself included, can you explain what makes a beer a craft beer?

00;03;22;12 - 00;03;43;09

Nathan Palardy

Yeah, that's an excellent question. There's two dimensions to what makes a beer craft beer. One is size and the other is independence. So to be a craft brewery, you need to produce less than 6 million barrels of beer or less. This is put out by the Brewers Association and is a self-determined definition that breweries have collectively agreed. This is what makes beer craft beer.

00;03;43;11 - 00;04;07;29

Nathan Palardy

So that is the size component. The independent component is that a brewery is less than 25% owned by somebody else. So if you are independent and you will produce less than 6 million barrels of beer or less, then you are considered a craft beer. Now that is separate than a microbrewery. A microbrewery produces less than 15,000 barrels of beer a year.

00;04;08;01 - 00;04;13;01

Caleb Stair

Can you explain, then, what an economist who researches this particular topic does?

00;04;13;02 - 00;04;37;08

Nathan Palardy

Sure. As much as I would like to say that I research beer, I actually look at the economics behind beer supply chains as well as beer distribution and marketing. So I study how microbreweries operate within policy environments and how those policy environments change state to state, and they vary a whole lot. So again, I look at how breweries market their products, how effective those marketing policies are, and whether or not those marketing strategies can be improved.

00;04;37;08 - 00;04;51;28

Nathan Palardy

That was a big part of my work at Colorado State, as well as some of my recent work here at Florida. And additionally, I look at how breweries add value to agricultural inputs and whether there's potential in that industry to support local agriculture, such as hop production in Florida.

00;04;51;28 - 00;04;58;05

Alena Poulin

So what are some of the main challenges that craft breweries may be facing in this current economic climate?

00;04;58;07 - 00;05;23;06

Nathan Palardy

Yeah, so craft brewing is becoming an increasingly competitive industry as the overall numbers of breweries plateau after a decade of growth. So the past ten years has been characterized by unprecedented rise in the number of craft breweries across the nation. And we knew that that could not go on indefinitely. And it looks like we are at the point where we might be reaching some type of carrying capacity.

00;05;23;09 - 00;05;48;04

Nathan Palardy

Bart Watson, the chief economist of the Brewers Association, says that going forward, the industry's likely to be characterized by slow to no growth and that breweries need to expect this is the new normal. As I said, this is not bad, and reaching this point was inevitable. It's just a sign that the industry is maturing. As far as other challenges as rising cost and labor shortages, which are impacting all industries, that's impacting the brewing sector.

00;05;48;04 - 00;06;12;20

Nathan Palardy

Other challenges would be potential trade disputes. There was an aluminum tariff not to too long ago. You think about what craft beers packaged and most often that's aluminum cans. So sharp increase in the price of aluminum impacts craft breweries because it's a competitive environment. They're not able to easily pass those cost on to the consumer. So craft breweries often must eat the cost of the rise in the price of the inputs that they use.

00;06;12;20 - 00;06;37;28

Nathan Palardy

But breweries will increasingly need to innovate and distinguish themselves on shelves from other beer, as well as thinking of ways to reach new consumer segments through. You know, this can be different styles of beer, such as American lagers, which appeal to a different demographic than, say, your IPAs, or by having inclusive marketing to bring in a more diverse group of consumers beyond the male millennial consumer that has so far supported the industry.

00;06;38;00 - 00;06;52;27

Alena Poulin

And so you mentioned your interest first came out of this interesting policy that they had in Georgia. Are there any particular policies or regulation that have significantly influenced this recent growth of microbreweries and craft breweries?

00;06;52;29 - 00;07;22;00

Nathan Palardy

Sure. So as I mentioned, policies vary a whole lot state by state, and there's a slew of policies that breweries themselves say impact their growth. These include self-distribution laws, which say whether or not a brewery can sell directly to the packaged store or the liquor store in town. So, for example, Florida does not allow self-distribution. So for First Magnitude here in Gainesville to sell to a liquor store here downtown or just a mile down the road, they first have to sell to a distributor.

00;07;22;00 - 00;07;41;26

Nathan Palardy

That distributor has to get the beer from the brewery, bring it to their warehouse, and then take it from their warehouse to the bar or the liquor store. So there, by mandate, there has to be a middleman between the brewery and the retailer that is known as the three tier system. And the laws regulating whether breweries have to go through that distributor vary state by state.

00;07;41;27 - 00;08;07;25

Nathan Palardy

Another policy that breweries cite as being important in regulating their growth is the regulation of distribution territories. So Colorado has a policy where you have to have exclusive distribution territories. If you're a brewery that self distributes in Colorado, your distribution territory cannot overlap with that of your distributor. So if you want to sell to the Kroger and the liquor store and the bar in town, your distributor has to have a distribution outside of town.

00;08;07;25 - 00;08;33;04

Nathan Palardy

They cannot also distribute to any retailer within your distribution territory. And that creates all kinds of logistical hurdles that breweries have to figure out. Franchise laws is another example. Franchise laws just dictate the terms under which a brewery can terminate a contract with the distributor. A lot of times, franchise laws say the breweries have to buy out their value from a distributor in order to terminate the contract, which makes terminating contracts prohibitively expensive.

00;08;33;05 - 00;08;49;10

Nathan Palardy

So the common joke amongst breweries is that it's easier to get a divorce than to break up with your distributor. Finally, there's retail restrictions on alcohol availability, which is what I studied when I looked at the availability of beer and other alcohol types in grocery and convenience stores, and how that varies state by state.

00;08;49;13 - 00;09;09;12

Caleb Stair

You had an article that came out relatively recently, and the name of that article was Beer Sales in Grocery and Convenience Stores. A glass half full for craft brewers, which, by the way, I want to compliment you on that title. More people should been spend time crafting cool titles like that. Can you tell me some of the interesting findings that you had in that research?

00;09;09;17 - 00;09;27;25

Nathan Palardy

Absolutely. And full disclosure, I can't recall if it was myself that came up with the glass half full or one of my coauthors, but either way, it's probably one of the best puns that I've managed to get into an article title. But as the title suggests, that policy was a mixed bag for craft breweries. In terms of beer entering grocery stores.

00;09;28;02 - 00;09;51;10

Nathan Palardy

So large breweries with brand recognition do extremely well in the grocery and convenience channel, because it offers the convenience of one stop shopping for consumers, and it puts their beer in another channel in front of them and just increases their reach, increases their opportunities to get in front of consumers and perhaps consumers. They wouldn't be able to get in front of otherwise if they were only in the liquor store channel.

00;09;51;11 - 00;10;14;21

Nathan Palardy

However, smaller and emerging breweries have an uphill climb to get on grocery store shelves. Grocery stores have much more limited shelf space, and they expect you to distribute to a minimum number of stores and to always have that product ready to go on their shelves. And if you're a small brewery with a limited production capacity and you want to experiment making different styles, that can be a pretty tough demand for you to meet.

00;10;14;24 - 00;10;32;08

Nathan Palardy

The other challenge that that policy made is it gave consumers less incentive to go to the liquor store. So you see lower foot traffic in liquor stores as a result of this policy. So you have traditional channels small breweries are able to access, but they don't have access to these large grocery stores.

00;10;32;09 - 00;10;46;14

Alena Poulin

And so you mentioned that you were looking at how this liquor seller affected the craft breweries there in Colorado. What are some of the data types that you can use to understand how a policy is affecting micro or craft breweries and their ability to sell their products?

00;10;46;16 - 00;11;08;09

Nathan Palardy

Absolutely. So there's all kinds of different data available, especially related to alcohol, because it is one of the most highly regulated substances. So states and the federal government collect all kinds of data on alcohol sales through taxes. So beer each state taxes beer through excise taxes and collects records on how much beer is produced by who in a given month.

00;11;08;09 - 00;11;32;14

Nathan Palardy

And they aggregate that data for anonymity purposes. But you can get that data from the state. You can also get excise tax data from the federal government, and you can use more traditional economic data sources, such as consumer panel data, sales data through Nielsen and other private sources as well. The problem with those sources is that they don't have great coverage of liquor stores, because liquor stores are small, atomized businesses.

00;11;32;14 - 00;11;37;12

Nathan Palardy

There's not a lot of coverage for those types of businesses when it comes to scanner data.

00;11;37;18 - 00;11;51;16

Caleb Stair

Has the data that you've been able to acquire yielded any information about if here are any kind of demographic or geographic factors that might make an area more likely to be a hotspot for microbreweries?

00;11;51;19 - 00;12;13;08

Nathan Palardy

That's a really good question. So not necessarily data that I've collected, but other research has shown that breweries tend to locate more urban areas with higher population density. More people means more foot traffic. And when you're a brewery that's just starting out, your small brewpub, having people in your taproom is really what's going to drive your growth until you get to a size where you can transition to a larger, more distribution focused model.

00;12;13;14 - 00;12;38;19

Nathan Palardy

If that's your goal as a business. Within urban areas, breweries often tend to locate more in industrial areas with cheaper real estate and suitable infrastructure for their needs. Breweries are considered light manufacturing for zoning purposes and require a certain amount of vertical height and minimum drainage capacity due to their brew houses and tanks, and because of this, they often move into places like former warehouses, factories, or even auto shops.

00;12;38;19 - 00;13;05;25

Nathan Palardy

In Gainesville, for example, First Magnitude is located in a former warehouse, while Cypress and Grove is located in an old ice plant. Breweries also tend to locate close to other breweries and in economics, you call these economies of agglomeration, which is just a fancy way of saying that breweries benefit from being in close proximity to other breweries. Think of places like Asheville, North Carolina, where you have a large number of breweries located in a relatively small geographic area.

00;13;05;25 - 00;13;23;25

Nathan Palardy

This is because they can share labor, they can share equipment, and they can share knowledge with one another. Finally, breweries also tend to be drawn towards millennial consumers thinking about who tends to consume the most beer and spend the most money on beer. This tends to be millennials, so breweries tend to locate where there's a higher concentration of millennials.

00;13;23;25 - 00;13;37;25

Caleb Stair

You know, it's interesting that you point out that they sort of repurpose these older buildings to put breweries in, because I think even a couple of them use that aesthetic of this. We used to be an old bank, for example, to draw customers in.

00;13;37;26 - 00;13;58;11

Nathan Palardy

Absolutely. The first brewery I worked at was located in a former jeans factory. So this is a common theme throughout. And you think of where hotspots have risen. I mentioned Asheville, but the River North District or the Rhino District of Denver is famous at this point for its brewing scene. That's where Great Divide is located. You can find many, many breweries in the River North district of Denver.

00;13;58;11 - 00;14;06;23

Nathan Palardy

And this area actually used to be a fairly rundown part of town. The rise of the craft beer scene has completely transformed that neighborhood.

00;14;06;24 - 00;14;13;12

Caleb Stair

So what are some of the larger impacts that a craft beer brewery might have on, say, the local economy?

00;14;13;14 - 00;14;34;12

Nathan Palardy

That's a great question. Breweries impact their local communities in a number of ways. So first, breweries, as I mentioned, are considered light manufacturing. And as such they provide a variety of jobs from brewmasters and packaging. But they're also in the customer service business. So they provide service industry jobs as well as management jobs, marketing teams depending on the size of the brewery.

00;14;34;12 - 00;14;59;20

Nathan Palardy

So they provide a variety of jobs to the local area. Second, breweries work with other local businesses including alcohol distributors, banks, tax professionals, and that has positive effects as that money continues to circulate in the local economy. Third, breweries are being more and more recognized for the role they serve in providing neighborhood and community gathering places. They're sometimes referred to as a third place or an anchor business.

00;14;59;20 - 00;15;23;15

Nathan Palardy

And because they serve as destinations that people go to, they drive foot traffic that can benefit other local businesses, and they create affordable meeting spaces for people to hang out, relax, work, places that bring communities together. In contrast to bars, breweries often have family friendly environments with outdoor spaces that people again can engage in leisure or they can bring their pets to.

00;15;23;15 - 00;15;33;08

Nathan Palardy

And this is borne out in studies that show that breweries tend to increase the value of surrounding commercial real estate, and that they can contribute to the economic revitalization of urban neighborhoods.

00;15;33;15 - 00;15;38;11

Caleb Stair

So are there any other projects you have going on or that are coming up that you're excited about?

00;15;38;16 - 00;16;01;15

Nathan Palardy

Absolutely. So I'm currently working with some wonderful collaborators in the Food and Resource Economics department on consumer willingness to pay for things that I just spoke about. So local ingredients. So what would their willingness to pay be for Florida hops? Beer made with Florida hops, as well as beer that bears the label of corporate social responsibility. So there's various labels, one of them being a certified B corporation.

00;16;01;16 - 00;16;15;02

Nathan Palardy

I'm also working with a colleague in horticulture, Dr. Agehara, on the economic viability of hop production in Florida and looking at the Brewers’ willingness to pay for these inputs and whether or not that would support a viable hop industry here in the Sunshine State.

00;16;15;05 - 00;16;29;02

Caleb Stair

And with that, we've just about wrapped up our episode for today. Nathan, thanks for joining us. And to our listeners at home, just remember, beer isn't just a drink. It's a business, a community, and sometimes the best way to explain ag economics.

00;16;29;03 - 00;16;37;13

Alena Poulin

Cheers to that. And if you are interested in learning more about Nathan's work, we'll be sure to put a link to his faculty directory page in this episode's description.

00;16;37;14 - 00;17;04;09

Caleb Stair

If you've made it this far, you've finished the entire episode and we thank you for that. Tune in next time for more food for thought. Thanks again for joining us on this episode of FRE Lunch. We hope you'll come back again for seconds!