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Trust in Beer

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Trust in Beer

FEBRUARY 18, 2013 BY ANDY BRUNNER-BROWN 4 COMMENTS

Not all beer is created equal, but almost all beers available in the United States are created by two companies: Anheuser-Busch InBev and MillerCoors. Together they make up 65% of the country's beer consumption (39% and 26%, respectively). On the other hand, the third largest beer company in the United States, Grupo Modelo, only controls about 6% of the market—which is largely driven by the Corona brand.

This market strength of Anheuser-Busch makes the proposed merger with Grupo Modelo startling and prompted the Department of Justice to step in. Eliminating Grupo Modelo would essentially eliminate any potential threats to Anheuser-Busch and MillerCoors. Because the brands available in the supermarket would likely change only slightly, the merger would create "the appearance of competition without any real competition."

Microbrews, on the other hand, cumulatively make up 6% of the market. This might seem startling provided the large variety of beers available at the supermarket or at an establishment, but together Anheuser-Busch and MillerCoors use hundreds of names to sell their beers—what looks like competition among the options is really a duopoly. (Seriously: Anheuser-Busch alone has over 200 brands.)

Duopolies concern the Department of Justice for the same reasons as monopolies (higher prices, inefficiencies, worse products, and super-normal profits). Even seemingly small price changes can cost consumers significantly and provide the companies profits through monopoly power. Mergers and acquisitions among beer companies have happened before—there were 48 major beer companies in the 1980s—but the potential acquisition of Corona goes a little too far.

The Department of Justice challenged the merger last month using the antitrust theory of coordinated effects. Nevertheless, the companies are still in negotiations; Anheuser-Bush is offering concessions to address the Department of Justice's concerns.

Even if the economic concerns are evaded, consumers should still be concerned about the control and influence the two major companies have.

By controlling the vast majority of beer options available to consumers, two major companies are able to shape consumers' tastes. As a result of the greater market concentration, "most consumers are no longer familiar with the full range of what beer is and can be"; i.e., Americans drink low-quality, generic beer.

For instance, American beer is often advertised as "ice-cold." But serving beer "ice cold" is important only when the beer does not taste good, because the coldness numbs the taste buds. The major companies' emphasis on serving beer cold has altered even some craft beer perception that beer should be cold. While a properly-served craft beer is full of flavor, a cold craft beer is "no more interesting than a Schlitz" but costs more than a big name beer. Essentially, the major companies' advertisements destroy craft beers. Because of the misperception, consumers will not understand the point in paying more for craft beer that is served too cold because they cannot taste the better flavors of the more expensive beer.

Consumers should be well informed when purchasing goods.

For instance, in 1516 Germany passed the *Reinheitsgebot*—essentially a resource protection (i.e. bread ingredients) and consumer protection law—which mandated that beer could contain only water, barley, and hops. Although a European court overturned the law in 1987 because it impeded free trade within the European Union, many German breweries still adhere to the *Reinheitsgebot* as a standard of quality.

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- November 2013
- October 2013
- April 2013
- March 2013
- February 2013
- January 2013
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But many beers have great flavors from ingredients prohibited by the *Reinheitsgebot*; regulating what goes into beer limits creativity and the range of possible flavors. Even President Barack Obama's beers contain prohibited ingredients like honey.

Instead, consumers should be afforded the greater knowledge of the beer makers. A labeling system indicating company size (e.g. "nano," "micro," "small," "medium," or "large") cuts through the strength of the duopoly. To simplify the process, the labeling could be a voluntary certification (akin to the USDA National Organic Program but dissimilar to Proposition 37's GMO labeling).

An independent party would have to oversee the certification process. Independent regulation is important when the beer industry can easily modify its own bylaws and standards. For example, the Brewers Association increased the production ceiling for the definition of "craft brewery" in order to keep Boston Beer Co. eligible. And because the system is voluntary, companies can still hide the brands' true origins by not seeking a label.

As consumers realize that most of the options are simply different flavors from just two companies, consumers can make informed purchases based on price, flavor, and business model—such as supporting local beer companies.

By providing all breweries an additional tool to inform consumers of the truth behind a purchase, a labeling system will increase competition between microbreweries and major breweries. Not only do consumers win from this competition in terms of price, but consumers win in terms of quality of beers available.

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4 Responses to "Trust in Beer"

Shayla Kathleen Thrower February 19, 2013 at 10:52 am Reply

Interesting. Never realized the duopoly of the beer market in America, as I've almost always been exclusively a part of that 6% consumption or, like our

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president, making my own. Well written Andy, Bravo! x

Colleen Clark February 19, 2013 at 11:55 am *Reply*

I like the idea of having a label on beers that shows their origin. I would probably not buy a beer knowing that it's one of Anheuser-Busch's 200 brands. Consumers should at least have the ability to research the origins of their beer and make informed decisions about which they prefer to buy and from whom. People that truly care about beer, its flavor and its production would likely read these labels and make different decisions at the grocery store.

Sasha February 19, 2013 at 2:16 pm *Reply*

Neato. That's true pride in forward(ish) thinking ways as opposed to our Volstead Act. Brought here when I turned 21,the youth of America could potentially avoid such beers as PBR and so forth. Nicely done.

Edgar February 20, 2013 at 10:18 am *Reply*

Very nicely laid out. Until now, I did not know of the duopoly which controls what goes out to consumers and the quality of it. I absolutely support the idea of labeling beers to show their true origin. However, I wonder if the "Big 2″ will challenge this proposition. I would not be surprised if the Big 2 alleges that a government regulation would violate the commerce clause or, if private parties involved, that the movement is an intentional interference with contractual relations.
Good job Andy!

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