

The New Brew: The Reaction of America's Big Breweries to the Microbrew Revolution
of the 1980s and 90s

by John Patrick Melia

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Dr. Daniel Pope

In the 1980s and 90s, the United States beer industry entered a period known as the Microbrew Revolution. During this period, a myriad of small breweries emerged to meet the new demand for specialty beers among American beer drinkers. Current literature generally judges America's biggest breweries (Anheuser-Busch, Miller and Coors) to have been failures in this market niche and downplays their activity in the specialty beer market. In fact, big breweries were quite active in the domestic specialty market. This paper analyzes the various international partnerships, domestic partnerships and new brands that the Big Three undertook during the Microbrew Revolution in an attempt to profit from the American specialty beer market. While many of the big brewery's efforts in this emerging niche indeed flopped, the Big Three's strategies often proved to be quite profitable as well. This presence of so many successful specialty brands affiliated with big breweries challenges the popular conclusion that the Big Three were failures in the domestic specialty market during the Microbrew Revolution.

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Introduction

It's a good time to be a beer drinker.

Over the last twenty-five years the American beer industry has undergone radical change. While mass produced light lagers continue to dominate the market as they have for over a century, an army of new brewers now offer a mind-boggling variety of beers the likes of which previous generations of beer drinkers had never heard. Hop-loving beer drinkers can quench their thirst with Stone Brewing Company's Ruination IPA, a strong and bitter beer in the recently-developed American style of imperial IPA. For someone with a taste for the uniquely Belgian, New Belgium Brewing Company in Boulder, Colorado provides their tart and fruity La Folie, a Flemish-style sour ale. Drinkers with a sense of adventure can pick up Raison D'Etre from Milton, Delaware's Dogfish Head Brewing Company, an experimental ale brewed with raisins and beet sugar. Thirty years ago beers such as these were virtually unheard of, let alone available in specialty bottle shops across the country. Indeed, it is a good time to be a beer drinker.

Sudden though this flurry of variety was in an industry that the same companies and styles had led for decades, the recent change in America's beer taste is certainly not inexplicable. The research of economists, journalists and historians has revealed several reasons for why Americans have recently demanded more variety in their beer. In his recent book, *The Long Tail: Why the Future of Business Is Selling Less of More*, editor-in-chief of *Wired* magazine Chris Andersen explains how consumers in virtually every American market, not just beer, have started to demand a greater variety of niche and specialty goods. Though the book spends most of its time talking about increasing

product variety in the entertainment industry thanks to the internet, it also observes the growth of niche markets in other industries before the rise of online shopping.

Increasingly sophisticated distribution methods in department stores, supermarkets and shopping malls have contributed to a rise in the variety of products available to consumers in all markets. The generally increased ease of getting one's product on the market has allowed small providers of such varied goods and services as jam, clothing, university educations, sweatshop labor and beer to compete for the same customers that were once the captive market of big businesses. In the process, consumers have become connoisseurs in any number of areas in which simple lack of variety used to preclude such expertise. Though the rate at which niches are appearing depends on the particular industry, virtually all markets are experiencing some increase in the number of specialty products available.¹ According to Andersen's argument, then, the rise of specialty beers would simply be a byproduct of this more general economic trend towards increased demand for and availability of specialty products.

Andersen's thesis is helpful because it places the popularity of specialty beer in a broader economic context, but it is by no means an exhaustive explanation of the beer industry's recent history. By the late 1970s, the beer industry was ripe for an explosion of variety regardless of changes in the greater economy. One such reason was a series of changes in state and national laws that made it easier for small brewers to make and sell their products. In 1977, for instance, the national government reformed its excise tax on beer to help small brewers keep their marginal costs down. Whereas the previous tax law required all brewers to pay \$9 in tax for each barrel of beer they

¹ Chris Andersen, *The Long Tail: Why the Future of Business is Selling Less of More* (New York: Hyperion, 2006), 41-51

produced, the new law stated that all brewers producing fewer than 2 million barrels per year would only have to pay \$7 per barrel on their first 60,000 barrels. Since all of the new specialty brewers started with a capacity of less than 60,000 barrels, the early microbrewers enjoyed a cost advantage that helped them compete with older, larger breweries. In 1979 the federal government passed a law protecting the rights of home brewers, several of whom later decided to turn their hobby into a profession. Changes to state laws also helped with the growth of specialty beer. In the early 80s, many states began repealing laws banning brew pubs, or restaurants that brewed their own beer on the premises.² Without the changes in these laws, aspiring domestic specialty brewers would have had much more trouble providing specialty beer to thirsty, choosy customers.

While the changes in brewing laws help to explain how microbrewers were able to produce their brews, they do not address how consumer demand shifted toward specialty brews. Two major pressures that drove consumer demand toward specialty brews were a rising social concern about alcohol abuse and the homogeneity of American beer.

Through the 1970s and 80s, an increasingly large number of Americans began to realize that alcohol abuse was a major social problem. Organizations such as Remove Intoxicated Drivers, Mothers Against Drunk Driving and the National Institute on Alcohol Abuse and Alcoholism reminded people that, in excess, alcohol could be a dangerous substance. Aside from the numerous anti-alcohol laws that sprung up thanks to these leading organizations, this general social awareness of the harms of alcohol

² Victor Tremblay and Carol Tremblay, *The U.S. Brewing Industry: Data and Economic Analysis* (Cambridge: The MIT Press, 2005), 118-119

abuse changed the way consumers purchased beer. First, it had a stagnating effect on aggregate brewing industry demand, since many people were now less inclined to drink excessive amounts of beer. Second, many drinkers adopted the mentality that, if there were going to drink just one beer, they wanted it to be a good one.³ This quality-over-quantity mindset opened a space in the market for brewers who were committed to brewing high-quality, specialty beer.

A second factor promoting demand for specialty beer in the late 70s was the lack of variety in American beer. Through the 1970s, mass American beer tastes had been shifting toward lighter beers. Brewers were reformulating their recipes to give their beers milder flavors. The rise of the style of light beer, started by Miller in 1976, encouraged many brewers to concentrate solely on producing light lager rather than darker styles of beer. This homogenization of mass produced beer left a great deal of unsatisfied demand for darker and heavier beers.⁴ While foreign brewers initially stepped in to fill this hole in the market, microbrewers would quickly take advantage of it as well.

In light of these changes in the American demand for beer and the subsequent stylistic diversification on the part of beer producers, current literature on the recent brewing industry has dubbed the period from about 1980 through the late 1990s as the Microbrew Revolution. Indeed, this was a very exciting, even revolutionary time for the beer industry. The number of operating breweries in the United States was growing at an astounding rate during the Microbrew Revolution.⁵ Moreover, the specialty beer market was full of interesting new styles and colorful characters. The time had finally

³ Maureen Ogle, *Ambitious Brew: The Story of American Beer* (San Diego: Harcourt, Inc., 2006), 326.

⁴ Tremblay and Tremblay, 107.

⁵ Ogle, 300.

come when America could claim its own culture surrounding finely crafted beer, and anyone writing about this period in history could be justifiably excited about the enormous changes that were taking place in this small market segment. It is rather unsurprising, then, that America's three largest brewers, Anheuser-Busch, Miller and Coors, get little space in the history books compared to their overwhelmingly large shares of the aggregate American beer market during this period.

While the Big Three in American brewing may not have been at the center of this dynamic market segment, they were still very active during the Microbrew Revolution. Anheuser-Busch, for instance, nearly doubled its already substantial share of the market during this time period, selling more than half of America's beer by 1997.⁶ Not only were the Big Three still the major players in the American beer market as a whole, they also made large efforts to capitalize on the rising popularity of specialty products. Despite the plethora of strategies that the big breweries used to try to break into the microbrew market, the recent literature on the brewing industry tends to give only relatively brief descriptions of the Big Three's ventures into the specialty sector. This discussion generally ends rather abruptly by concluding that the big breweries were unsuccessful in the domestic specialty market.⁷

Given the current literature on the Big Three's involvement in the American domestic specialty market, this paper has two primary goals. The first objective is to give a more complete description of the ways in which big breweries tried to profit from changing American beer tastes during the Microbrew Revolution than exists in the current literature. The Big Three's ventures into the American specialty beer market

⁶ Tremblay and Tremblay, 72.

⁷ Ibid., 130; Ogle, 330.

fall into three primary categories: forming partnerships with large foreign brewers, launching independent specialty brands and investing in existing American microbreweries. For each of these categories we will look at each brewery's specific efforts to adapt to the changing demand for beer in the United States. From this analysis, we will assess the success of each attempt in the specialty market. Second, we will revisit the popular conclusion that the Big Three were generally unsuccessful in winning over the taste buds of American specialty beer drinkers. It is undeniable that many of the specialty ventures that Anheuser-Busch, Miller and Coors undertook were entirely unable to compete with microbreweries and imports. To judge the Big Three's accomplishments generally in the American specialty beer market from these failures however, fails to recognize the wide degrees of success that individual business ventures experienced. Contrary to the popular conclusion that the Big Three were uncompetitive in the new specialty beer market, many of the big breweries' specialty ventures during the Microbrew Revolution successfully won the approval and dollars of the emerging new breed of American specialty beer drinkers.

Historical Overview and Context

1945 to 1980: The Rise of Modern Big Beer

The years immediately after World War II marked a change in the American beer industry that would characterize its development for the next several decades. In the 1930s and early 1940s, American beer drinkers predominantly purchased beers from regional brewers. Producing a consistent product nationally was virtually impossible due to inadequate shipping mechanisms and variations in water quality across the nation. Though it had been possible to get beer from far flung locales since the late

nineteenth century, problems with preserving the quality of shipped beer made it difficult for out-of-area brewers to compete with fresh, local brew. In the mid-1940s, advances in manufacturing and distribution technology enabled brewers to expand their operations beyond their old geographic boundaries. Successful regional brands of the 1950s began to open new factories across the country, challenging the incumbent breweries for local markets. In this new national marketplace, many smaller brewers either merged with the rising market leaders or were forced to shut down entirely. By 1960, though there were fewer individual breweries than there had been in the United States since the Civil War (with the exception of Prohibition), these breweries were producing record amounts of beer for American consumers.⁸

Though the rate of mergers and closures in the American brewing industry slowed slightly through the 1960s, it picked up again in the 1970s. As with the consolidation of the 1940s and 1950s, annual industry output continued to grow even as the number of firms declined. In the early 1960s, 140 American breweries produced 88 million barrels of beer annually. By 1980 the number of American breweries had dropped below 50, but annual industry output had skyrocketed to 176 million barrels. With the top five of these firms controlling 75 percent of the market, American brewing had clearly become an oligopoly.⁹

This long period of consolidation was when today's leading brewers took their places of dominance in the industry. Anheuser-Busch led the domestic beer market in 1980 with a 28.42 percent market share. Miller followed in second with 21.13 percent, with Pabst in third at 8.55 percent. Coors, which would soon become America's third

⁸ Stanley Barron, *Brewed In America* (Boston: Little, Brown and Company, 1962), 337-38.

⁹ Bill Yenne, *The American Brewery* (St. Paul: MBI Publishing Company, 2003), 104-105.

largest brewing company, was in fifth place behind Schlitz with 7.81 percent of the market.¹⁰

As we can see from this pattern of consolidation, the history of the American brewing industry in the twentieth century has principally been a history of large companies. Most of the smaller breweries were either pushed out of the market or bought up by industry leaders. Moreover, we can see a pattern in the style of beer that has been popular with the American market, namely American style light lager. In the 1980s, however, a small but influential niche market would sprout in an entirely different direction from the rest of the industry.

1980-1998: The Microbrew Revolution

Even before 1980, some American brewers had attempted to sell high quality, high flavor beers. As early as 1965, master brewer Fritz Maytag bought the floundering Anchor Brewing Company in San Francisco, California and began producing batches of all-barley beer. At this time, most American beer was made with corn or rice in addition to barley, which lowered both the flavor and the cost of the final product. Maytag's heavier brews immediately won repute among his California customers, and Anchor has since grown into a famously successful specialty brewery.¹¹ Though Anchor's successful conversion into a specialty brewery may have indicated that some Americans were developing a taste for heavier, flavorful beers, it did not constitute a revolution in brewing. The Anchor of 1965 was an established brewery that simply began to brew new recipes, not a small startup like later microbreweries. More importantly, Anchor was an exception in an industry where breweries were succeeding

¹⁰ Tremblay and Tremblay, 71.

¹¹ Yenne, 118-19.

by dropping their heavier brands of beer, not adding new ones. While Anchor represented a prophetic deviation from the standard flavors of American beer, it would take over a decade before the market would allow this type of experimentation on a large scale.

Scholars generally recognize the New Albion Brewery of Sonoma, California as the first microbrewery of the revolution. In contrast to Anchor, which had been brewing light lager with adjunct grains before switching to all barley recipes, New Albion started with the express purpose of brewing high quality specialty beer. The company was small, and it brewed with the philosophy that beer could be an art form similar to food or wine. In this sense, it was the prototypical microbrewery. New Albion opened its doors in 1976, and although it would fail once competition in the microbrew market built up, it is acknowledged as the spark for the revolution in the years to come. Later, the founders of New Albion would advise other pioneer microbrewers on the tricks and pitfalls of this new segment of the brewing industry.¹²

In 1980, a sudden rush of new microbreweries marked the real start of the Microbrew Revolution. California experienced the first wave of microbrews, most notable of which were River City Brewing Company in Sacramento and Sierra Nevada Brewing Company in Chico. The success of these breweries encouraged more hopeful beer makers to enter the market. The revolution then spread northward along the Pacific coastline. Later in 1980 Cartwright Brewing Company opened in Portland, Oregon. In 1981, Redhook Ale Brewery started in Seattle, Washington. The Widmer Brothers Brewing Company opened its doors in Portland, Oregon in 1984. The popularity of these new, flavorful beers grew phenomenally through the 1980s and

¹² Ibid.

1990s. By 1993 there were 461 microbreweries in the United States, more than nine times the total number of U.S. breweries in 1980. By 1998, there were 1,631. After 1998, the number began to drop. Though microbrews retained their popularity, the market had finally reached its point of saturation. Microbreweries started closing, but those that remained expanded to satisfy the demand for artistically crafted beer.¹³ Still, the period of seemingly unstoppable growth in the microbrew market was over; the revolution had ended.

While the Microbrew Revolution represents an important shift in the beer industry in the 1980s and 1990s, it did not do much to disturb the giants that had been consolidating their market shares in earlier decades. The domestic market share (by volume) that microbreweries as a whole enjoyed grew quickly until 1995, at which point it leveled off at a little over three percent.¹⁴ Despite the explosion of new brands available to the American beer drinker, the vast majority of consumers were sticking with beer from the big breweries. Although several major American breweries would play a part in the beer industry in the years of the microbrew revolution, three would rise to the top as the clearly dominant players in the market. These companies are Anheuser-Busch, Miller and Coors.

The Big Three: Today's Major American Breweries

Anheuser-Busch Incorporated (St. Louis, Missouri)

In 1860, the Bavarian Brewing Company of St. Louis, Missouri was failing. Seeing this brewery's troubles as an opportunity to diversify his economic holdings, Eberhard Anheuser, a successful soap and candle manufacturer, decided to buy the

¹³ Tremblay and Tremblay, 117-118.

¹⁴ Ibid., 104.

company. Though the business started to turn around under its new ownership, Anheuser felt that his many business ventures spread him too thin to focus adequate attention on his new brewery. To remedy this problem, he hired his son in law, Adolphus Busch, to manage the brewery's operation in 1864.¹⁵

Under Busch, an enthusiastic businessman who preferred the taste of wine to that of beer,¹⁶ the brewery grew enormously. By the early 1870s Anheuser-Busch was shipping their beer outside of St. Louis, and through the 1880s and 1890s Anheuser-Busch expanded their distribution to cities across the nation. Anheuser-Busch was always on the cutting edge of new brewing techniques and technology; they were one of the first breweries to use pasteurization and mechanical refrigeration to help preserve their beer while transporting it great distances. They also effectively employed advertising to a greater extent than most other brewers at the time. In the later decades of the nineteenth century, Anheuser-Busch was becoming one of the country's first national brewing companies.¹⁷

Though Prohibition forced many breweries to close their doors, Anheuser-Busch stayed open by expanding into a wide array of new products. Many of the products that Anheuser-Busch produced, such as near-beer, baking yeast, malt syrup and corn sugar products, simply utilized their old beer making equipment. Additionally, the brewery expanded and adapted its automobile maintenance facilities and began making bodies for trucks and busses on a large scale. Although Prohibition took its toll on Anheuser-

¹⁵ Ronald Plavchan, *A History of Anheuser-Busch 1852-1933* (New York: Arno Press, 1976), 21.

¹⁶ Dan Baum, *Citizen Coors: An American Dynasty* (New York: William Morrow, 2000), 10.

¹⁷ Plavchan, 68-72, 90.

Busch by banning its most profitable product, the brewery managed to stay relatively strong throughout the dry years.¹⁸

After Prohibition, Anheuser-Busch quickly established itself as the nation's largest beer producer. By the late 1940s, however, other breweries had also grown to national proportions, and Schlitz had surpassed Anheuser-Busch as the nation's leading brewer. In response, Anheuser-Busch began aggressively building new breweries around the country. Schlitz quickly shot back with new construction of its own. The subsequent rivalry between two of America's largest brewers hurt many of the nation's smaller breweries, and contributed to the first major consolidation of the American beer industry through the 1950s. During this period Anheuser-Busch also began signing exclusive contracts with distributors and waging price wars to push smaller breweries out of regional markets. When the dust settled, Anheuser-Busch was not only the biggest brewer in the United States, but had significantly increased its share of the national market.¹⁹

In the 1970s, immediately before the Microbrew Revolution, Anheuser-Busch faced a new challenge. Miller, which had recently come under the ownership of cigarette giant Philip Morris, had just declared its intention to become America's largest brewer. The ensuing barrage of aggressive advertising and widening distribution by both Miller and Anheuser-Busch threw the American brewing industry into a second period of consolidation. As these two firms expanded into new markets in their contest for customers, many regional and local firms were forced to close. Both firms set growth as their primary long-term objective, with Anheuser-Busch aiming to sell half of

¹⁸ Ibid, 154-195.

¹⁹ Peter Hernon and Terry Ganey, *Under the Influence: The Unauthorized Story of the Anheuser-Busch Dynasty* (New York: Simon and Schuster, 1991), 254-257.

America's beer by the year 2000.²⁰ By the time the microbrew revolution began in 1980, the war with Miller was winding down, and Anheuser-Busch seemed to have successfully defended its position as America's largest brewing company. Throughout its history, Anheuser-Busch has fought several vicious battles to win its position as the largest American brewing company. It is with this tried and true strategy of aggressive expansion and market dominance that Anheuser-Busch approached the new challenges of the Microbrew Revolution period.

Miller Brewing Company (Milwaukee, Wisconsin)

The Miller Brewing Company began in 1855, when Frederick Miller purchased the declining Plank Road Brewery in Milwaukee, Wisconsin. Miller was a well traveled German immigrant who, after learning to brew in France, was forced to the United States in 1854 by political strife in his home country. Despite his French dress and manner, Miller quickly earned local fame among Milwaukee's German community by selling quality beer at reasonable prices. Though the Miller family suffered a great deal of tragedy and personal hardship in America, the brewery thrived.²¹ In the 33 years that Frederick Miller managed the business, annual production grew from 300 barrels to 80,000 barrels. By the time national Prohibition began, the brewery was producing about half a million barrels of beer each year.²²

During Prohibition, Miller got by producing malt syrup, near beer and soft drinks. When Prohibition finally ended in 1933, Miller was one of the only brewing companies still operating in Milwaukee. In the following years Miller expanded on a

²⁰ Ibid., 317-322.

²¹ Miller Brewing Company, *Miller History* (Milwaukee: Miller Brewing Company, 1991).

²² Robert F. Hartley, *Marketing Success Historical to Present Day: What We Can Learn* (New York: John Wiley and Sons, 1990), 124.

national scale, making effective use of advertising in national media and spearheading the use of sports as a tool for marketing beer. In 1949 Miller's beer sales broke the one million barrel mark, and by 1952 Americans could buy Miller in any of the 48 states plus Hawaii.²³ Miller continued its steady growth as other breweries fell to industry consolidation in the 1950s, and was the country's ninth largest beer producer by 1960.²⁴

In 1966, the granddaughter of Frederick Miller sold her 53 percent interest in the brewing company to the W. R. Grace Company because she decided that owning the brewery conflicted with her religious beliefs. Three years later, W. R. Grace sold its Miller shares to Philip Morris, which outbid PepsiCo for ownership of the brewery. Phillip Morris spent the next year buying up the remaining 47 percent of Miller shares, making the tobacco giant the sole owner of the nation's seventh-largest brewing company.²⁵

Under new ownership, Miller's business strategies changed drastically. Before Philip Morris, Miller had produced only one brand of beer, Miller High Life, used only moderate advertising, and was not aggressively pursuing growth in terms of national market share. Philip Morris changed all this, applying its cigarette marketing strategies to the beer industry. Phillip Morris immediately increased Miller's production capacity, and new styles of Miller beer began appearing on American shelves and taps. Most notable of these was Miller Lite, which was the first successful light beer in the history of the industry and the forerunner of a new wave of low calorie beers. The new Miller also led the industry in advertising spending per barrel, forcing many other brewers

²³ Miller Brewing Company, *There is History in Everything We Do*, <http://www.millerbrewing.com/aboutMiller/aboutHistory.asp> (Accessed March 1, 2007).

²⁴ Tremblay and Tremblay, 70.

²⁵ Hartley, 125.

either to increase their spending on advertising as well or drop out of the market. This flurry of expansion sparked a major rivalry between Miller and Anheuser-Busch, and contributed to the second major consolidation of the American beer industry.²⁶

By 1980, Miller had grappled its way up to the number two position in American brewing.²⁷ Though the company had grown miraculously over the previous decade, it would be unable to maintain this level of expansion into the dawning new era of American brewing. In contrast to Miller's successes with aggressive advertising campaigns and innovative new products in the 70s, most of Miller's ventures during the Microbrew Revolution were rather disappointing. While it would remain Anheuser-Busch's chief rival over the coming decades, Miller's actual market share would remain stagnant through most of this period. Still, having succeeded in the past with rapid and aggressive expansion, Miller would apply this same general strategy to the new challenges of the Microbrew Revolution.

Adolph Coors Company (Golden, Colorado)

Though the Coors brewery started up much like many of the other big American breweries of the twentieth century, Coors has historically been distinguished by its traditionalist and quality conscious methods of running its business and brewing its beer. Adolph Coors, the brewery's founder, immigrated to the United States in 1868 as a stowaway with no money and no immediate prospects for a job.²⁸ In spite of this humble start, Coors worked his way over to Golden, Colorado, and, with the help of a fellow German immigrant named Jacob Schueler, opened the Schueler and Coors

²⁶ Ibid., 131.

²⁷ Tremblay and Tremblay, 71.

²⁸ Coors Brewing Company, *Company History*, http://www.coors.com/about_history.asp (Accessed March 1, 2007).

Brewery in 1873. Coors' brews immediately thrived against the local competition. Seven years after opening, Coors had saved enough money to buy Schueler's share of the business, renaming the brewery the Coors Golden Brewery. The brewery continued to grow and profit until 1916, when the state of Colorado banned alcohol.²⁹

Though the dry years were hard on all breweries, Coors, like several others, managed to scrape by venturing into other products. Like most former breweries, Coors produced near-beer and malt products, but it also found success in the laboratory ceramics market. After the outbreak of World War I, American scientists who had previously relied on imported laboratory ceramic products from Germany needed a domestic producer to fill their demand. Coors stepped in to fill the void, and the decision to expand into this new industry helped Coors survive through the Prohibition years. Even after Prohibition ended, Coors continued to do well in this small but profitable business.³⁰

From the end of Prohibition to the 1970s, the Coors Brewing Company won over the dollars of customers with a business strategy that ran against the common trends in the American beer industry. In an industry where success was increasingly dependent on advertising, Coors relied almost exclusively on word of mouth to gain new customers. Their uncharacteristically rigorous quality control and long aging periods made Coors one of the more expensive products in the regional beer market, but their consumers in the region were perennially willing to pay the extra charge for Coors beer. Finally whereas large successful breweries such as Anheuser-Busch and Miller were aggressively opening new breweries and/or experimenting with new products at

²⁹ Baum, 3-8.

³⁰ Ibid., 11-12.

this time, Coors continued to brew its single brand, Coors Banquet, out of its single Colorado brewery. In an industry where marketing and expansion were the ways to get ahead, Coors managed to prosper using the same old strategies that had carried the company since 1873.³¹

Eventually, however, times changed enough that Coors had to change with them. In the late 1970s, Coors' hard-line stance against unions and its poor record in hiring women and minority groups sparked a series of boycotts that cut into the company's sales. Additionally, the escalating advertising battles between Miller and Anheuser-Busch made it continuously harder for a brewery to survive without a marketing department. Finally, consumers were starting to demand more variety in their beer selection, and Coors Banquet alone was no longer enough to satisfy Coors' customers. Realizing that their old ways were failing, Coors began to reform. Though Coors' executives would obstinately resist changing the company's policies regarding minorities and unions until the mid 1980s, Coors established an advertising department in 1977 and launched its own brand of light beer in 1979. It also began to distribute nationally for the first time.³² By the time the Microbrew Revolution began in 1980, Coors was in a process of transformation and modernization, both physically and strategically. As it struggled to find a balance between practical business strategies and its old-fashioned traditions, Coors would now also have to satisfy an entirely new class of American beer drinker.

The Big Three's Partnerships with Foreign Breweries

³¹ Tremblay and Tremblay, 79.

³² Tremblay and Tremblay, 80.

Although the 1980s and 90s are generally known in beer literature as the decades that microbreweries enchanted American beer drinkers, the term “Microbrew Revolution” is not entirely adequate to describe the broader shifts that were occurring in America’s taste in beer. Rather than turning to microbreweries for exciting, new flavors in their beers, many Americans made use of a larger and more established source of brewing innovation to satisfy their adventurous palates: imports. During the Microbrew Revolution, American consumption of imported beers grew exponentially. In fact, not only did American consumption of imported beer start significantly growing years before microbrews became popular, but by the end of the Microbrew Revolution Americans were drinking about three times as much imported beer as domestic specialty brews! Whereas domestic specialty beer only controlled about three percent of the market by the turn of the twenty-first century, foreign companies were satisfying around ten percent of America’s demand for suds.³³ Indeed, it may have been more appropriate for history to have dubbed these decades the Foreign Brew Revolution of the American beer industry.

Still, while the small-time brewer with a single fermenter seems to have little in common with a world-famous giant such as Guinness of Ireland, both of their rises in popularity were the products of the same shift in American beer tastes. Imported beers and microbrews alike were generally darker, maltier, bitterer and stronger than the typical products of American big breweries.³⁴ Moreover, foreign brewers often shared standards with microbrewers about appropriate ingredients for quality beer. Many large German brewers and American microbrewers alike, for instance, brew in accordance

³³ Tremblay and Tremblay, 104.

³⁴ “Which Beer is Right for You?” *Consumer Reports* 66, no. 8 (2001): 10-16.

with Reinheitsgebot, a beer purity law from 1516 decreeing that brewers could only use water, hops, barley, and yeast in the brewing process. Finally, the higher price of beers from both categories of brewers helped to make imports and microbrews alike higher status products in the eye of appearance conscious American beer enthusiasts.³⁵

Similarities such as these put foreign breweries in direct competition with microbrewers as both fought to show Americans the next big taste in beer.

The significance of this competition was not lost on the executives at Anheuser-Busch, Miller or Coors. As the Microbrew Revolution progressed, the Big Three of American brewing realized that they, like the American beer drinker, did not have to limit themselves to domestic solutions to the problems of the American beer market. Rather than viewing foreign brewers as a threat to their position in the American beer market, Anheuser-Busch, Miller and Coors each made partnerships with some of the very foreign brewers that were encroaching upon their territory.

The partnerships between these United States brewers and foreign companies happened largely in two phases. Though each brewery started participating in these phases at different times, the first phase occurred roughly from the early 80s through the early 90s. In this first phase, rather than actively helping foreign companies to get their beer into the United States, American brewers instead used foreign partnerships to market their own beer abroad. With the aggregate U.S. beer industry flagging and increasingly large pieces of the market going to small and foreign producers, the large U.S. brewers sought to maintain growth by expanding into other markets around the world. Though enlisting foreign firms to export beer did not directly help U.S. firms

³⁵ Tremblay and Tremblay, 107.

boost their sales at home, it did allow them to grow despite their drop in popularity among American drinkers.

The second phase of partnerships between U.S. and foreign breweries began in the early 90s. From the early 90s onward, U.S. brewers lent foreign brewers their assistance in manufacturing, marketing and distributing foreign brands to U.S. beer drinkers. By engaging in joint ventures with the very foreign competition that had been chipping away at their share of the domestic beer market, U.S. brewers were finally able to profit from the popularity of imported beer in their home country. Though large U.S. brewers had to a limited extent already pursued this sort of business arrangement with foreign brewers since the early 80s, big breweries' involvement in the domestic import market grew immensely during this second phase. At the same time, America's Big Three continued to tap the global marketplace for new places to sell beer.

While Anheuser-Busch, Miller and Coors each followed this same general pattern in their dealings with foreign brewers, each has its own story to tell. Anheuser-Busch characteristically led the way; Miller suffered from successive failures and short-lived partnerships; and Coors, while typically late to act, did rather well once they caught up with the competition. In the following sections, we will take a look at how each of the Big Three fared in their dealings with foreign brewers.

Anheuser-Busch's Foreign Partnerships

Being the nation's largest brewer, Anheuser-Busch was the most active of the Big Three in enlisting the help of foreign partners. Not only did the company's size give Anheuser-Busch the resources to invest in and maintain more partnerships than their rivals, but their winning distribution network made them particularly appealing to

potential partners. Overall, Anheuser-Busch did well in its dealings with foreign brewers. For the most part, the American company used foreign breweries to find new customers outside of the domestic market. In a few notable exceptions, particularly the partnership with Grupo Modelo, Anheuser-Busch was also able to find foreign brands that could help it capture revenue from the domestic specialty market. Though Anheuser-Busch is currently active in many more countries than the ones listed here, we will be looking at the largest and most influential partnerships from the Microbrew Revolution period.

Labatt of Canada

One of Anheuser-Busch's earliest international partners in the era of the Microbrew Revolution was the Labatt Brewery of Canada. By the beginning of the 1980s, Labatt was already one of the beer giants of Canada. Having started in 1853, Labatt was similarly well established and nationally successful in Canada as Anheuser-Busch or Miller was in the United States.³⁶ In 1980, Anheuser-Busch successfully enlisted Labatt as a business partner to brew and distribute Budweiser and Michelob in Canada. Though Anheuser-Busch had already been distributing their beer to Canada without Labatt's help in previous years, such shipments had been a tiny percent of their total sales. In 1979, Anheuser-Busch sold more than 99 percent of their beer within the borders of the United States. Indeed, this concentration on the home market left a plethora of foreign markets waiting to be entered. Anheuser-Busch chose Canada for its first major step because it already enjoyed a relatively high degree of name recognition

³⁶ Labatt Brewing Company, *History*, http://labatt.com/english/lbc_company/lbc_history.htm (Accessed February 27, 2007).

there compared to other beer drinking nations such as Britain or France.³⁷ The partnership was immediately a success. The year after the business deal, Budweiser had already become one of Canada's ten top selling beer brands, with Labatt reporting excellent consumer acceptance of this now widely available brew from the States.³⁸

This business relationship continued to grow and benefit its two member companies greatly throughout the 80s. As Anheuser-Busch was enjoying growth abroad to counteract faltering domestic demand for its products, Labatt was likewise profiting from its share of the sales from Anheuser-Busch's widely popular brands such as Budweiser. In 1990 Labatt established Labatt International, a division that was dedicated in part to exporting Labatt brands to other countries. High on Labatt International's list of markets to exploit was the specialty beer market in the United States.³⁹ In order to build their presence in this novelty-loving market, Labatt introduced a new, stronger style of light lager: ice beer.

The idea behind ice beer was not an entirely new one. The technique of icing beer was borrowed from the traditional German style Eisbock: a strong, dark, malty lager. Canadian ice beer, in contrast to its German ancestor, is more similar to an American style light lager, and retains the light and mild flavored characteristics of this style. Though Eisbock and modern ice beer differ greatly in final product, they share a unique step in their brewing process that increases their alcohol content without strengthening the flavor of the beer. With both modern and traditional iced beer, the beer is lowered to freezing temperatures after fermentation is complete. As the beer

³⁷ "Bud's Canadian Tap," *Business Week*, 30 June 1980, 52.

³⁸ Anheuser-Busch Incorporated, *Annual Report 1981* (St. Louis: Anheuser-Busch Incorporated, 1981), 3.

³⁹ Patrick Allossery, "Brewers: Focus on specialty beer," *Strategy*, 8 February 1993, 1, 24.

cools ice crystals form, which the brewer then scoops out of the mixture. Since alcohol freezes at a lower temperature than water, the alcohol remains in liquid form, and stays in the beer as the water crystals are removed. After the beer returns to normal temperatures, it has a greater concentration of alcohol without the accompanying maltiness that one normally finds in higher alcohol beers.⁴⁰ In the early nineties, Labatt's ice beers earned the dollars of many American beer drinkers looking for a creative, new specialty import.

Though by now many U.S. breweries, including Anheuser-Busch, were partnering up with foreign brewers to bring imports into the United States, Anheuser-Busch did not take a direct role in bringing Labatt across the border. Still, in order to maintain a friendly business relationship with Labatt, Anheuser-Busch did not actively try to compete with Labatt for the ice beer niche in the specialty beer market. Anheuser-Busch did come out with their own ice beer in 1993, but it intentionally had a much sweeter flavor than Labatt Ice and was marketed to compete with domestic light beers. While imported ice beers were popular with the specialty beer crowd, domestic ice beers were generally regarded as higher alcohol versions of the same old, mass-produced American lagers. Subsequent studies by Anheuser-Busch showed that the "white, 'adult contemporary' market" that was Labatt Ice's target crowd shied away from AB's domestic ice brew, as intended.⁴¹

While Anheuser-Busch's avoidance of the specialty ice beer market did not directly increase their revenues, it did keep them from directly competing with their

⁴⁰ Gregg Smith and Carrie Getty, *The Beer Drinker's Bible: Lore, Trivia and History: Chapter and Verse* (Boulder: Sirius Books, 1997), 35.

⁴¹ Gerry Khermouch, "They're Both 'Ice' Beers But That's All They Share; A-B and Miller entries have sharply different strategies," *Brandweek*, 6 December, 1993, 21.

Canadian partners. Since Labatt had done so much to help their beer giant neighbor to the south with selling Budweiser to Canadians, it would have been unduly hostile of Anheuser-Busch to try to push Labatt out of the United States ice beer market in the 1990s. Labatt retained its rights, however, to import Budweiser to Canada. Though Anheuser-Busch did not actively help Labatt export their beer to the United States, the two companies continued to enjoy a mutually profitable relationship that gave Anheuser-Busch an opportunity to expand its flagship brands outside of the increasingly difficult United States beer market.

United Breweries and Guinness of Europe

After testing the waters of the international beer market in Canada, Anheuser-Busch decided to explore the possibility expanding its business dealings in Europe. Anheuser-Busch's two main European partners were United Breweries of Denmark and Guinness of Ireland, each serving a different but extremely important purpose for the American firm. Guinness, like Labatt, helped Anheuser-Busch find fresh European markets in which to promote the Budweiser brand. United Breweries, on the other hand, allowed Anheuser-Busch to import its flagship lager, Carlsberg, into the United States for consumption by the growing number of specialty-loving Americans.

Anheuser-Busch's deal with United Breweries was the first major attempt by a large American brewer to import beer into the United States. The partnership started in 1985, years before the rush of Big Three-endorsed imports in the early 90s. Though Carlsberg was the best-selling lager in Denmark at the time of the partnership, price wars among Danish brewers in the early 80s had hurt United Breweries' profits in their home country, and the opportunity to expand into an import-loving American market

with the help of Anheuser-Busch was a welcome solution to the company's domestic woes. Particularly fierce brand loyalty among Danish drinkers also hindered the success of Budweiser in the country, making the primary focus of this partnership the import of Carlsberg lager to the United States.⁴²

The partnership was a great boon for both brewers. Over the next five years Carlsberg's popularity in America grew immensely, and in 1990 it was the fastest growing imported lager in the United States despite a slight decline in the overall demand for imported light lager in that year.⁴³ Enjoying the only major import contract with a large American brewer in this period, Carlsberg was in special position to grow as a dominant force in the U.S. import market. Even into the early 1990s, Anheuser-Busch was very pleased with the success of the Carlsberg brand in the U.S. specialty market.⁴⁴

The affair between the American and Danish companies, however, would not last indefinitely. 1993 brought a myriad of new import agreements between American and foreign brewers, undermining the uniqueness of Carlsberg's privileged position in the import market. Moreover, Anheuser-Busch began to discover more appealing foreign partners, such as the Mexican Grupo Modelo, to assist their conquest of the import beer market in the United States. In 1997 Anheuser-Busch dropped the Carlsberg and Carlsberg-Light brands entirely to focus its resources on more profitable ventures. While Carlsberg had served its purpose as Anheuser-Busch's competitive

⁴² Valerie Navarro. "Miller Lite set to take on U.K. beer market While A-B gets ready to bring Bud to Denmark." *Advertising Age*, 3 February 1986, 40.

⁴³ Anheuser-Busch Import Posts Impressive Gains, *PR Newswire*, 28 August 1990.

⁴⁴ Anheuser-Busch Incorporated, *Annual Report 1994* (St.Louis: Anheuser-Busch Incorporated, 1994).

specialty lager throughout the late 1980s, other foreign lagers finally grew large enough to overshadow the Danish beer's success.

Anheuser-Busch's partnerships with United Brewers and Guinness were about as different as the two foreign beers are from one another. Whereas the partnership with United Brewers aimed to get imported specialty beer into the United States, Anheuser-Busch's arrangement with Guinness sought to bring Budweiser to Ireland. Guinness began brewing, marketing and distributing Budweiser in Ireland in 1986, a time in which the Irish beer market was much more receptive to expansion than the American market.⁴⁵ After this, the story of the partnership between these two brewers becomes rather uninteresting with its repetitive success year after year in the Irish market. With the aid of Guinness, Budweiser experienced consistent, impressive growth, with Irish sales increasing around 50 percent annually in the early 90s.⁴⁶ In 1993 Budweiser became Ireland's second most popular lager,⁴⁷ and Ireland has remained an important market for Anheuser-Busch ever since.

Suntory and Kirin of Japan

Among the countries into which Anheuser-Busch decided to move was Japan. By the early 1980s, Japan already had a developed, vibrant domestic beer industry. It was dominated by four major companies: Asahi, Sapporo, Kirin, and Suntory. Kirin and Sapporo were the market leaders among these four, and in 1980 Kirin was large enough to call itself the world's second biggest brewery behind Anheuser-Busch.⁴⁸ The smallest and newest of Japan's big four was the Suntory Brewing Company, which was

⁴⁵ Anheuser-Busch Incorporated, *Annual Report* 1992 (St.Louis: Anheuser-Busch Incorporated, 1992).

⁴⁶ Anheuser-Busch Incorporated, *Annual Report* 1993 (St.Louis: Anheuser-Busch Incorporated, 1993).

⁴⁷ Anheuser-Busch Incorporated, *Annual Report* 1994 (St.Louis: Anheuser-Busch Incorporated, 1994).

⁴⁸ "U.S. No. 1 Beer Drinker." *The New York Times*, Saturday, 5 December 1981, Late City Final Edition, sec. 2, p. 34, col. 1.

interestingly enough the company that Anheuser-Busch first approached to help bring Budweiser to Japan.

Despite being new to the beer industry, Suntory's dominance of the wine and spirits markets in Japan convinced Anheuser-Busch of their acumen for selling alcoholic beverages. Moreover, Anheuser-Busch had already employed Suntory on a small scale for importing Budweiser to Japan since the late 1970s. The cost of shipping, however, kept the price of Budweiser too high to gain any significant market share.⁴⁹ In 1981, Anheuser-Busch finally plunged into a full blown licensing agreement with Suntory, whereby the Japanese brewer would actually brew and market Budweiser for sale in Japan. Initially, Anheuser-Busch was pleased with the growth of its Budweiser brand under the supervision of its new partner. Almost immediately Budweiser patently became Japan's favorite foreign beer, experiencing phenomenal growth despite the fact that the aggregate demand for beer in Japan was dropping.⁵⁰

Though Suntory greatly helped Anheuser-Busch greatly to gain new Japanese customers throughout the 1980s, the efforts of this fast-growing company were not enough to satisfy their American partners. Times were still tough in the American beer industry for large breweries, and Anheuser-Busch demanded more than simply presence in other countries; they required sizeable shares of foreign beer markets. By the early 1990s Budweiser, despite being Japan's number-one foreign beer, still held only a little over one percent of the total Japanese market. At the same time, Anheuser-Busch's

⁴⁹ Anheuser Tries Light Beer Again, *Business Week*, 29 June 1981, 136.

⁵⁰ Hiroaki Kanazawa, "King of Beers losing its fizz in Japan Dud suds changing tastes and faulty marketing mean curtains for Anheuser-Busch in Japan," *The Nikkei Weekly*, 8 November 1999, 2.

share of the global beer market was an impressive ten percent,⁵¹ testifying to the company's potential popularity in foreign markets. The American executives decided that Suntory was holding them back in Japan and that they could be doing better with another company. In 1993, Anheuser-Busch let their licensing contract with Suntory expire and partnered up with the long-time heavyweight champion of Japanese beer: Kirin.

Whereas Suntory was a smallish Japanese brewer with high growth potential, Kirin offered Anheuser-Busch a gigantic marketing and distribution system for Budweiser to flourish in Southeast Asia. Not only did Kirin offer Anheuser-Busch unmatched access to a lucrative foreign beer market, but also a chance to recapture some of the U.S. beer market that had been lost to specialty brews. Since 1988, Kirin had been quickly gaining popularity with specialty beer drinkers with its imported dry beer, a Japanese beer that was quickly becoming a trendy and profitable style in the United States. Though Suntory eventually began shipping their own dry beer to the United States, its brand was not as successful as Kirin's at winning over American drinkers.⁵² As the big brewers began to realize the importance of actively importing beer in addition to conquering foreign markets, Anheuser-Busch quickly recognized that Kirin would be their best bet at winning customers both at home and abroad.

The taste of dry beer is similar to that of ice beer, both being light beers with a higher alcohol content and less sweet character than American-style light lager. The method of achieving this effect in dry beer, however, is quite different than that of ice

⁵¹ Akihiro Tamiya, "Kirin alliance could help Bud capture 5% of Japan beer market," *The Nikkei Weekly*, 23 November 1992, 9.

⁵² Ira Teinowitz and David Kilburn, "Japanese Dry Beer Heads for U.S." *Advertising Age*, 15 August, 1988, 57.

beer. In the process of fermentation, yeast converts the sugars in the unfermented beer into alcohol. After the yeast is done fermenting the beer, it leaves a certain level of residual sugar in the liquid. The amount of residual sugar in the beer determines its sweetness. In dry beer, the yeast used for fermentation converts a particularly high percentage of these sugars into alcohol, leaving fewer residual sugars after fermentation and thus yielding a less sweet beer. Similarly to ice beer, this strong, dry Japanese innovation gained great popularity among American specialty beer drinkers in the late 80s and early 90s.

Anheuser-Busch's initial partnership with Kirin was in the form of a joint venture called Budweiser Japan. This new company, 90 percent of which was owned by Anheuser-Busch, ten percent by Kirin, brewed and marketed Budweiser in Japan for the Japanese market. When the project was announced in 1992, market analysts had high hopes, predicting that it would boost Anheuser-Busch's share of the total Japanese beer market to over five percent.⁵³ Instead, the new strategy had the opposite effect. Due to what analysts would later say was overconfidence in the Budweiser brand and lackluster advertising, Anheuser-Busch's hold on the Japanese had dropped below one percent after six years of partnership with Kirin.⁵⁴ After a second failure to conquer the Japanese beer market, Anheuser-Busch decided that it would back off. In 1999 Budweiser Japan dissolved, decreasing the direct involvement that Anheuser-Busch had in the Japanese beer market. Kirin continued to produce Budweiser under license, though the brand never took off as intended. Even with the assistance of such a large

⁵³ Tamiya, 9.

⁵⁴ Kanazawa, 2.

and successful brewer as Kirin, Anheuser-Busch was never able to find an adequate refuge in Japan from the difficult United States beer market.

While Kirin did not particularly help Anheuser-Busch abroad, they were certainly able to help the American company on their own ground. Part of Kirin's joint venture in Anheuser-Busch was access to the largest marketing and distribution network in the United States.⁵⁵ With this kind of access to specialty drinkers across the nation, Kirin's dry-tasting brews did quite well with Americans looking for new or foreign flavor innovations. Initially Kirin had simply imported the beers with the help of Anheuser-Busch, but in 1997 the American company began brewing Kirin beer under contract for sale in the United States. This business agreement marked the first time that Anheuser-Busch brewed beer under contract for a foreign brewer, and uniquely invested the American company in the sale and distribution of the Japanese beer.⁵⁶ Since then Kirin has continued to grow as a specialty beer option for American drinkers, and as of 2005 Kirin was available in 45 states across the nation.⁵⁷ By joining with Kirin in importing beer into the United States, and later by brewing and selling Kirin beer under contract, Anheuser-Busch used Kirin's product as an important tool for reclaiming some of the American beer drinkers who were drifting away from Budweiser or Michelob and into the specialty sector. Though the Japanese never embraced Budweiser as Anheuser-Busch had hoped, Kirin's popularity in the United States ultimately made Anheuser-Busch's partnership with the Japanese brewery an asset in dealing with the changes in the tastes of American beer drinkers.

Grupo Modelo in Mexico

⁵⁵ Tamiya, 9.

⁵⁶ Anheuser-Busch Incorporated, *Annual Report 1998* (St.Louis: Anheuser-Busch Incorporated, 1998).

⁵⁷ Anheuser-Busch Incorporated, *10-K* (St.Louis: Anheuser-Busch Incorporated, 2006): 3.

Anheuser-Busch's largest and most successful partnership with a foreign brewer was unquestionably with Grupo Modelo of Mexico. The partnership between these two companies differed from most of Anheuser-Busch's previous partnerships in several ways. For instance, the partnership with Modelo came later than most of Anheuser-Busch's foreign ventures. Unlike earlier partners such as United Breweries and Kirin, the Anheuser-Busch and Modelo had nothing to do with each other until as late as 1989. Additionally, though Modelo did help Anheuser-Busch distribute Budweiser in Mexico, the partnership focused mainly on selling Modelo brands in the United States. Finally, Modelo had already begun to benefit from a unique, wild popularity of their flagship brand in the United States. Particularly this last condition made Grupo Modelo an excellent partner for helping Anheuser-Busch profit from demand for the specialty beer in the United States.

During the mid to late 80s, Modelo's biggest brand, Corona, quickly jumped from being just another premium-priced lager in Mexico to being immensely popular among upper class U.S. drinkers. In 1983, Corona only sold .9 percent of all imported beer in the United States. Only two years later, it was the fifth most popular foreign beer in the U.S. with 4.7 percent of the import market.⁵⁸ At the height of the Corona craze in 1987, Corona was the number two foreign brand behind Heineken with an 18 percent share of the import market.⁵⁹ Though Corona is a light lager that tastes much like most mass-produced beer from the United States, aggressive advertising helped Corona to compete with darker and more flavorful domestic and imported specialty

⁵⁸ Tremblay and Tremblay, 110-111.

⁵⁹ "Mexico's Corona Extra Hops on the U.S. Beer Bandwagon," *Journal of Commerce*, 19 May 1988, 4A.

products.⁶⁰ Even taking into account the advertising campaign, many market experts were at a loss as to why Corona, with its unremarkable taste, was so competitive with specialty beer drinkers in the United States.

Inexplicable though it may have been, Modelo's success nonetheless caught the attention of Anheuser-Busch. Since 1989, Modelo had allowed Anheuser-Busch to use its massive Mexican distribution network to sell beer south of the border. This had been a mutually beneficial relationship, and created a large degree of good will between the companies.⁶¹ So when NAFTA enabled closer business relations between companies in the United States and Mexico in 1993, the United States brewer quickly strengthened its financial ties with the masterminds behind Corona, purchasing a 17.7 percent interest in the Mexican company and distributing imported Corona using their own massive distribution network.⁶²

With the assistance of Anheuser-Busch, Corona's success only built from its former peak in the Corona craze of the late 80s. Though the early 90s had brought a slight drop in Corona's popularity as an import beer,⁶³ the Anheuser-Busch deal pushed Corona's fame to levels that it had never before attained. As Corona's share of the import market in the United States grew by leaps and bounds, so did the U.S. brewer's investment in Corona. By 1997, Anheuser-Busch had raised its ownership of Grupo Modelo to 50.2 percent, and was extremely satisfied with the dividend income that it was receiving from its Mexican partner.⁶⁴ The next year, Corona unseated Heineken as America's favorite foreign beer and became the tenth best selling beer in the nation,

⁶⁰ Ibid.

⁶¹ Anheuser-Busch Incorporated, *Annual Report 1989* (St.Louis: Anheuser-Busch Incorporated, 1989).

⁶² Anheuser-Busch Incorporated, *10-K* (St.Louis: Anheuser-Busch Incorporated, 1994): 1.

⁶³ Tremblay and Tremblay, 110.

⁶⁴ Anheuser-Busch Incorporated, *Annual Report 1998* (St.Louis: Anheuser-Busch Incorporated, 1998).

foreign or domestic. All the while, Corona had maintained its status as a specialty beer and enjoyed enduring popularity with the same crowd that bought microbrews and heavier imported beers.⁶⁵

More than any other partnership between a domestic and foreign firm, Anheuser-Busch's investment in and distribution of Corona helped the U.S. giant to profit in the specialty beer market during the 1990s. Unfortunately, the relative inexplicability of Corona's popularity in the specialty market makes it difficult to determine why this partnership was so profitable. Although advertising and availability certainly played a role, the fact remains that Corona does not compare in style or quality to most of the other beers that were popular with specialty drinkers during the Microbrew Revolution. Nonetheless, we can clearly see that Corona was an indispensable part of Anheuser-Busch's strategy to profit from Americans' love of specialty beer. To this day, Corona remains the most successful import story in the United States beer industry.

Miller's Foreign Partnerships

By comparison to Anheuser-Busch's many partnerships with international breweries, both Miller's and Coors' international partnerships were rather limited. Miller's partnerships with international firms largely mimicked those of Anheuser-Busch in structure and location, but were often on a smaller scale and were on the whole not as successful as the foreign ventures of their larger rival. Like Anheuser-Busch, Miller used foreign partnerships both to find competitive new brands to introduce to specialty drinkers in the U.S. and to find growth opportunities outside of

⁶⁵ Rick Wills, "Mexican Lager Corona Makes Headway Against Domestic Brews in U.S." *Milwaukee Journal Sentinel*, 29 December 1999.

the domestic market. This section will look at some of Miller's largest and most emblematic foreign partnerships. Though these ventures do not encompass all of Miller's foreign dealings, they are representative of how Miller fared in both the domestic import and foreign lager markets.

Lowenbrau in Germany

Miller's 1974 contract with Lowenbrau was one of the first major partnerships between an American and a foreign brewery, and Lowenbrau could hardly have been a more prestigious partner for Miller. The Lowenbrau brewery had a very long history of quality brewing in Germany, tracing its roots back to a fourteenth century inn that brewed beer for its guests. It had been around to see the 1516 birth of the Reinheitsgebot beer purity law, and had since then used only barley, hops, water and yeast to make its beers. Adherence to traditional brewing methods had kept it going throughout the centuries. By the early 70s Lowenbrau was one of Germany's leading breweries and was profitably exporting to the United States.⁶⁶

Though Lowenbrau would eventually become one of Miller's weapons in the fight for the 1980s specialty market, the 1974 partnership had different aims. At this time, Miller was still in the heat of its war with Anheuser-Busch for the title of the top United States brewery. Anheuser-Busch had been dominating the super-premium⁶⁷ market segment with its Michelob line, and Miller had no brands that could compete in this part of the market. By signing a contract that would allow them to market and

⁶⁶ Lowenbrau Brewing Company, *Lowenbrau: Yesterday and Today*, http://www.lowenbraubeer.com/b_history.html (Accessed 24 May 2007).

⁶⁷ "Super-Premium" refers to beers that are more expensive than "Premium" beers (e.g., Budweiser, Coors), but are not as high in quality or prestige as specialty beers such as microbrews. There are also "Popular" beers, which are typically a brewery's cheapest offering (e.g., Busch, Miller High Life).

distribute both imported and contract-brewed Lowenbrau to Americans, Miller hoped to impinge on the Michelob-dominated super-premium section of the domestic market.

Though Lowenbrau had already imported beer to the American market for years, the Lowenbrau that Miller pitted against Michelob differed from the German original in two important ways. First, while many American Lowenbrau drinkers had already grown accustomed to the imported recipe of the beer, Miller formulated an American version for the beer that deviated significantly from the original German brew. Second, in order to cut the cost of distributing Lowenbrau by about half, Miller brewed this American version of Lowenbrau in the United States rather than shipping it from the original brewery in Germany. In addition to lowering costs, Miller hoped that this new, U.S.-brewed formulation would appeal to a wider American population. The new formulation was lighter than the German lager, and like most American lagers made use of ingredients that did not follow Germany's revered Reinheitsgebot purity code.⁶⁸ Though Miller continued to import German-recipe Lowenbrau immediately after the partnership, they had phased it out by the time specialty beers began to grow more popular in the early 80s.

The American brewed Lowenbrau, however, ran into difficulties. In an attempt to capitalize on the esteemed image that the imported Lowenbrau had cultivated over the years, Miller's marketing of the new Lowenbrau preserved a similar label to that of the import, and implied that it was still brewed according to the original German formula. Miller's advertising campaign for Lowenbrau almost immediately drew legal action from Anheuser-Busch, who claimed that Miller was trying to fool the public into paying import prices for a domestic beer brewed using a domestically developed

⁶⁸ Marketing Observer, *Business Week*, 17 May 1976, 66

recipe.⁶⁹ The media attention that Miller received over this dispute helped to associate the Lowenbrau brand with product misrepresentation in the eyes of American consumers, an inauspicious start to Miller's ventures with foreign brewers.

As more imported and domestic specialty brews seeped into the American market in the early 80s, Lowenbrau's market position consistently declined. In the super-premium market Michelob continued to dominate despite Miller's best advertising efforts. In the specialty market, Lowenbrau's status as a U.S.-brewed, figuratively watered down version of a fine German lager hurt its chances against microbrews and authentic foreign beers. Although Miller optimistically stayed their course on the Lowenbrau line throughout the 1980s, total sales of the lager had dropped by a third from the partnership's inception to 1989.⁷⁰ Caught between two market segments and underperforming in both, Miller's version of Lowenbrau clearly needed to change if it was going to be successful in the United States.

In the early and mid 90s, Miller and Lowenbrau entertained several strategies to boost sales of Lowenbrau in America. At the beginning of this period, Lowenbrau tried to convince Miller to resume shipments of the heavier German recipe lager to the United States to compete with heavier beers in the specialty market. Miller, however was not on board with the idea, and continued exclusively selling American recipe Lowenbrau.⁷¹ Predictably, Lowenbrau's sales remained stagnant. In 1996 Miller tried again to enliven the Lowenbrau line by introducing a series of new Lowenbrau brands inspired by German recipes. This new line included a Premium Pils, a Marzen, an

⁶⁹ Larry Kramer, "Brewer Sues U.S. Maker of Lowenbrau." *The Washington Post*, 11 November 1977, Final Edition, p. F1.

⁷⁰ "Lowenbrau Weighs Direct Exports to the U.S.," *Journal of Commerce*, 26 April 1989, 4A.

⁷¹ *Ibid.*

Oktoberfest and a Schwarzes Lager. These new brands, still brewed in the United States with foreign-inspired recipes, were supposed to be robust and complex enough to stand up to domestic and imported specialty beers.⁷² Though this expansion represented a major effort on the part of Miller to improve its standing in the specialty beer market, the new Lowenbrau brands still failed to impress American beer drinkers.

After this final failure, Miller began to transfer control of Lowenbrau in the United States to the Labatt Brewing Company of Canada. Labatt took control of marketing Lowenbrau in 1997, and finally began brewing Lowenbrau itself when Miller's contract expired in 1999. Lowenbrau represented the largest, earliest, and most important foreign partnership that Miller formed to take advantage of changing American beer tastes throughout the 1980s and 1990s, and its success was lukewarm even at its best. Though Lowenbrau did stay consistently promising enough for Miller to stick with it for over two decades, it never challenged Anheuser-Busch or specialty brewers as it was supposed to.

Molson Breweries in Canada

After Anheuser-Busch partnered up with the Labatt brewing company in 1980, Canada was down to one major brewer that was unaffiliated with a United States company: Molson Breweries. Over the course of the Microbrew Revolution, Miller and Coors would fight for the allegiance of Molson both to gain access to the Canadian market and assistance with the domestic specialty sector. Though Coors would win both the first battle, a licensing deal in 1985, and the final battle, a full acquisition of Molson in 2005, Miller would achieve a significant partnership with the Canadian

⁷² James Arndorfer, "Labatt to up Ad Spending Behind Lowenbrau in U.S.: Brewer Demanded More Support After Dropping Miller," *Advertising Age*, 25 August 1997, 28.

brewer from 1993 through 2000. As with Lowenbrau, however, Miller's partnership with Molson would fail to yield the desired results.

By the late 80s Canadian brewers were already independently pushing south to get their beer into the United States. The domestic Canadian beer market was in a period of stagnation, and the growing demand for imported beer in the U.S. was a tempting solution to Canadian brewers' domestic market troubles. While Labatt was slightly ahead in beer sales in Canada, Molson was the Canadian leader in beer sales to the United States, thereby making them the leader in potentially the highest growth market open to Canadian brewers.⁷³ Molson's sales in the United States grew despite fierce competition from Labatt through the late 80s and early 90s. In 1993, Molson was just ahead of Corona as America's second favorite imported beer. Although Molson's success in the import market sector had been excellent, they still wished to expand their share of the overall U.S. beer market. To assist them in this, they formed a close partnership with the United States' number two beer producer: Miller.⁷⁴

Miller was in desperate need of a boost by 1993. Its market share was not growing and its chief rival, which it had once threatened for the spot of America's largest brewer, was now selling two beers for every one Miller sold.⁷⁵ In a move similar to Anheuser-Busch's purchase of Corona shares in the same year, Miller decided to try to cash in on the growing import beer market by buying a piece of the successful importer Molson. The deal involved Miller buying 20 percent of Molson Breweries and acquiring the rights to import and distribute the beer in the United States.

⁷³ Patricia Winters, "Labatt Push Set for U.S.; Brewer Targets Molson," *Advertising Age*, 17 August 1987, 2.

⁷⁴ Michael Janofsky, "Molson, No. 1 in Canada, Sells Stake to Miller," *New York Times*, 15 January 1993, Late Edition, sec. D, p. 2, col. 1.

⁷⁵ *Ibid.*

Since Molson was already a successful importer to the United States, Miller expected the purchase to significantly improve their position in the U.S. import market.

Additionally, with the ice beer craze growing in the U.S., Miller thought Molson's ice beer, which had already proved its popularity in Canada, had particularly high growth potential in the United States specialty market.⁷⁶ Between Molson's tried and true success and Miller's excellent distribution network, each of these breweries had every reason to expect a long and profitable working relationship.

In spite of these promising conditions, Molson and Miller realized that their expectations were severely mistaken. While Corona, which in 1993 held a similarly sized import market share to Molson's, quickly became the U.S.'s best selling foreign beer, Molson just as quickly dropped off the radar of many U.S. import drinkers. After only four years of partnership, Miller sold all of its shares of Molson Breweries and significantly decreased its involvement in importing and distributing the beer in the United States. As Molson continued to decline in the U.S., so did Miller continue its disassociation with the brand.⁷⁷ In 2000 Miller finally severed all its connections with Molson, finally ending a partnership that had left both companies disappointed and worse for wear in the U.S. specialty market.

Molson would later attribute the failure of their brands in the U.S. market to incompetent management at Miller.⁷⁸ Indeed, based on the limited success of both Miller's own brands and those of their business partners throughout the 80s and 90s,

⁷⁶ Ira Teinowitz, "Molson, Miller Heat Up Ice Beer Battle," *Advertising Age*, 20 September 1993, 47.

⁷⁷ James Arndorfer, "As Molson Slides, Miller Puts McKenzie Ads on Ice," *Advertising Age*, 22 February 1999, 30.

⁷⁸ Hillary Chura, "Brand in Demand: Heineken Sips Success; Brewing Battles: Molson Freezes Our its Former Star Brand to Focus on Smaller Beers; Heineken Goes Low-Brow and Watches its Sales Ferment," *Advertising Age*, 22 October 2001, 12.

this does not seem like an unreasonable accusation. Circumstances were certainly ripe for Molson to become another Corona. It was an established and successful imported brand before its partnership with a U.S. firm, its ice beer was part of a consumer craze, and Molson had just gained access to an extensive distribution network to help it find a myriad of new customers. It appears as though the main problem for Molson was that it picked the wrong U.S. partner. For Miller, Molson was not a particularly effective ally in the domestic specialty market. This was not, it appears, as much of a problem with their foreign partner as a problem with the endemic stagnation that touched almost all of Miller's brands during this period.

Miller's Other Partnerships

Though Miller's two major foreign partnerships in the era of the Microbrew Revolution were Lowenbrau and Molson, there are several other, smaller partnerships worth mentioning. In step with Anheuser-Busch, Miller also dealt with breweries from Mexico and Japan. These ventures, both smaller than their Anheuser-Busch counterparts, also found only limited success both at home and abroad. The particular breweries from these two countries that Miller partnered with were Sapporo and Asahi of Japan, and Fomento Economico Mexicano (FEMSA).

Miller's relationship with Sapporo started in 1983, motivated by the same conditions that partnered Anheuser-Busch with Suntory: Japanese interest in foreign beers and the faltering domestic market. The agreement gave Sapporo control of the marketing and sale of Miller products in Japan. Though Miller's beer was not a sensation in this new market, it sold reasonably well for an entering import. Miller's brands never got as big as Budweiser in Japan, but Miller was nonetheless content to

accept a smaller piece of the Japanese market than their larger rival. While this partnership helped Miller escape the difficult market at home, Miller never really became a powerful player in the Japanese import market. The partnership suddenly ended when Sapporo wanted to import other foreign brands to satisfy the growing demand for imported beers in Japan. Miller's contract did not allow Sapporo to import other brands that might compete with Miller, and in 1994 the brewers ended their alliance.⁷⁹

Miller then signed a contract with Asahi in 1995, whose main contact with U.S. breweries had been a licensing deal to brew Coors in Japan back in the mid 80s. The goal of this initial agreement with Asahi was mainly to find a replacement distributor for Miller beer in Japan, but it later expanded to involve Miller in selling Asahi beer to Americans. The 1998 joint venture to promote Asahi in America, Asahi Beer U.S.A. Inc., did help Miller profit from specialty beer in the United States, but once again only on a small scale. Miller only owned 2.5 percent of the venture, making their potential profits from Asahi sales relatively small.⁸⁰ Also undermining the profitability of the venture was that the American dry beer fad had pretty much wound down by 1998, diminishing the growth potential for Asahi's flagship brand, Super Dry.

Miller's dealings with Japanese brewers were beneficial to the American brewery but only on a small scale. The problem was then not so much the partnerships themselves as their scale and timing. If Miller had committed more resources to their sales in Japan, they may have been able to find a more powerful position in the

⁷⁹ William Dawkins, "Sapporo to End 11-year Link with U.S. Brewer," *Financial Times* (London, England), 22 October 1994, 11.

⁸⁰ Tom Daykin, "Miller Brewing Co. Forms Joint Venture with Japan's Asahi," *Milwaukee Journal Sentinel*, 31 March 1998.

country's booming import market. Likewise, if Miller had been faster to act in forming their joint venture with Asahi, they may have been able to cash in on the dry beer craze in the U.S. specialty market. As it played out, however, Miller's Japanese partnerships added little to the company's profits through the 80s and 90s.

Miller's investments in Mexico were similarly small scale, though overall less successful than their investments in Japan. In 1992 Miller purchased a 7.2 percent interest in FEMSA, Mexico's second biggest brewing company next to Modelo. Though the relatively small size of this investment limited the profit potential of the partnership, Miller's caution turned out to be a wise plan. Miller's movement into Mexico was one of the several motivations for Anheuser-Busch to invest in Grupo Modelo,⁸¹ which would of course turn out to be the most successful international brewing partnership of the decade. As Corona's popularity in the U.S. boomed, FEMSA's flagship brand, Dos Equis, lost significant ground in the U.S. specialty market.⁸² Even in its home country of Mexico, FEMSA lost ground to Modelo after the partnership with Miller. Though it would soon regain a hold of its consumer base in its home country, FEMSA would not experience significant growth in the U.S. market until early in the twenty-first century.⁸³ In the period of the late Microbrew Revolution, Miller's small partnership with FEMSA was disappointing. Overshadowed in both the American and Mexican markets by Modelo, FEMSA failed to provide Miller with a useful tool for winning the dollars of specialty drinkers at home or finding new drinkers for Miller's products abroad.

⁸¹ Damian Fraser, "Mexico Provides an Attractive Brew – The Rational of Modelo's Joint Venture with Anheuser-Busch," *Financial Times* (London, England), 26 March 1993, 27.

⁸² Tremblay and Tremblay, 110.

⁸³ "FEMSA Beer Ready for Growing Thirst on Mexican Markets," *Corporate Mexico: El Universal*, 24 May 2000.

Coors' Foreign Partnerships

Coors started forming alliances with foreign breweries later than their larger rivals. This is understandable, however given their market position through the 80s and their historical reluctance to move with industry trends. While Miller and Anheuser-Busch were indisputably America's two biggest brewers for the duration of the Microbrew Revolution, Coors did not find its way into Big Three until 1990 when it overtook Stroh Brewing Company in market share.⁸⁴ Even then, with Stroh close behind, making costly ventures into foreign markets or committing major capital to imports were risky projects. Coors' greatest domestic successes with foreign firms would not come until the late 90s or even the early 2000s. Even before then, however, Coors' international partnerships helped them find new customers outside of the troublesome domestic market.

Molson Breweries in Canada

Coors' partnership with Molson represented Coors' debut into the international beer market. For its 112 years of existence before the partnership Coors had been primarily focused on providing beer to Colorado and the surrounding states. Even by the mid-80s, Coors was still expanding into new markets within its home country. Still, the decline in domestic demand for American light lager threatened Coors just as much as its national competitors. In step with its larger rivals, Coors decided that Canada would be a good place to start looking for new customer bases.

⁸⁴ Tremblay and Tremblay, 70-71.

Coors' partnership with Molson began in 1985 with a licensing contract that allowed Molson Breweries to produce Coors beer for Canadians.⁸⁵ By this time Anheuser-Busch had already had five years of working with Labatt to win Canadians over to United States beers. Nevertheless, Coors felt that, with the help of Molson, they could still elbow their way into the Canadian import market. It turned out that their prediction was correct. Under the supervision of Molson, Coors' popularity among Canadian beer drinkers exploded. By 1992, Coors Light had not only become the best-selling light beer in Canada, but was in fact Canada's favorite foreign beer.⁸⁶ Naturally, when Miller bought a minority share in Molson in 1993, Coors did not appreciate their rival's encroachment on their success in the north.

Miller's partnership with Molson put Coors in a difficult position. Since Miller owned piece of a company that made its money in part by brewing Coors beer, Miller would indirectly earn revenue from every can of Coors sold in Canada. To make matters worse, the licensing contract between Coors and Molson still had years before it would expire. This meant that Coors would have to allow Miller to continue profiting from the sale of Coors in Canada. Immediately after Miller invested in Molson, Coors took legal action to try to either invalidate their contract with Molson or force Miller to surrender their shares in the Canadian brewing company.⁸⁷

The companies did not resolve their dispute until 1997, at which point Molson paid \$71.5 million in a settlement and terminated the previous licensing contract with

⁸⁵ "Coors and Coors Light now being brewed in Canada by Molson Breweries of Canada Ltd.," *Business Wire*, 13 November 1985.

⁸⁶ Coors Brewing Company, *Annual Report 1993* (Golden: Coors Brewing Company, 1993).

⁸⁷ Coors Brewing Company, *Annual Report 1997* (Golden: Coors Brewing Company, 1997).

Coors.⁸⁸ In the same year, prompted primarily by Molson's poor performance in the American import market, Miller sold its 20 percent share of Molson while still retaining a stake in the company's export operations to the United States. With Miller out of the picture in Canada, however, Coors offered Molson a minority share in Coors Canada, a venture committed to the marketing and distribution of Coors in Canada. Molson accepted, and in 1998 the companies resumed amicable business relations.⁸⁹ As could be expected from the first phase of their partnership, Molson continued to help make Coors a leading beer in the Canadian market. In 2001 Coors began to help Molson gain ground in the U.S. specialty market with marketing and distribution assistance, and in 2004 the companies finally merged entirely to become the Molson Coors Brewing Company.⁹⁰

Over the course of the Microbrew Revolution, Molson was a great help to Coors in finding a new set of customers as drinkers from the United States were turning towards specialty products rather than Coors' flagship brands. Though Coors' first venture outside of the United States came later than those of its rivals', this first international partner turned out to be Coors' best. Because of Miller's interference, Coors was unfortunately unable to use Molson in the United States specialty market in the early 90s, when such a strategy was coming into vogue. Nonetheless, Molson was a great help to Coors in finding new customers abroad in the early days of and after the Microbrew Revolution.

Asahi Brewing Company in Japan

⁸⁸ Coors Brewing Company, *Annual Report 1998* (Golden: Coors Brewing Company, 1998).

⁸⁹ Coors Brewing Company, *10-K* (Golden: Coors Brewing Company, 1998).

⁹⁰ Coors Brewing Company, *10-K* (Golden: Coors Brewing Company, 2005).

A year after beginning their partnership with Molson, Coors began a similar arrangement with the Asahi Brewing Company of Japan. The licensing agreement, starting in 1986, stipulated that the Japanese firm would brew and distribute Coors products in Japan.⁹¹ As with their move into Canada, Coors came late into the Japanese beer market, this time having been preempted by both Miller and Anheuser-Busch. Also similarly to their move in Canada, Coors' partnership with Asahi turned out to be rather profitable. Though Anheuser-Busch was still the biggest winner in the Japanese import market, Coors still did well, placing as Japan's third favorite foreign beer by 1996. Despite the partnership's success, this was also the year that Asahi and Coors ended their dealings, citing differing business objectives as the cause.⁹² To draw another parallel between Coors' dealings in Canada and Japan, Coors' termination of their agreement with Asahi coincided with Miller taking up a partnership with the Japanese brewer.

Though Coors' partnership with Asahi never developed into a tool to help Coors compete with specialty beers at home, it did offer Coors a profitable market to enjoy as aggregate beer demand faltered in the American market. Even though the partnership ended before the Microbrew Revolution did, the time that the two breweries worked together helped build Coors a solid customer base in Japan, giving Coors good prospects for profiting in the Japanese market even after they decided to develop their own, independent brewing and distribution networks in the area. Though Coors suffered from the disadvantage of a late start in the Japanese market, Asahi helped Coors to still do well in its search for new customers across the Pacific.

⁹¹ "Asahi to Brew Coors Beer in Japan," *Washington Post*, 22 October 1986, sec. G, p. 1.

⁹² Coors Brewing Company, *Annual Report 1997*.

The Big Three's Independent Specialty Brands

As we have seen in the previous section, the United States' three largest breweries relied heavily on the help of foreign beer companies to see help them keep up with changing American beer tastes of the Microbrew Revolution. In many ways, importing foreign beers was the fastest and easiest way to sate Americans' demand for new beers. Foreign beers were often remarkably different from those in the United States, providing customers with instant variety. Big foreign brewers also already possessed tried and true recipes that had proven profitable in their home countries, saving U.S. brewers the cost and energy of developing and testing new beers. Importers also already had plants abroad to produce their beer, often allowing U.S. brewers to forgo investing in additional production equipment. Finally, not only could foreign brewers offer new beers for the American consumers, but they could also offer new customers for the American brewers. With all these advantages to doing business with foreign companies, it is little wonder that international agreements between brewers were common during the Microbrew Revolution.

While foreigners figured greatly into solving Americans' beer problems in the 80s and 90s, Anheuser-Busch, Miller and Coors all still wanted specialty brands that they could call their own. Working with foreign companies meant sharing profits, paying hefty shipping costs and running the risk of contradictory business objectives. In order to mitigate these downsides of foreign business dealings, America's Big Three launched their own brands to compete in the U.S. specialty market. Though individual strategies for establishing these new brands ranged from simply altering an old label to

founding an entirely new brewing company, each of the Big Three made independent efforts to impress the growing number of America's specialty beer drinkers.

Anheuser-Busch's Independent Specialty Brands

Particularly from the 1990s to today, Anheuser-Busch has offered a litany of new brands to American specialty drinkers. Though many of these have flopped, a few have caught on and become great money makers for Anheuser-Busch. With so many new brands from Anheuser-Busch to discuss, from their mid-90s historical ales to their 2006 vintage Brewmaster's Private Reserve, we will limit ourselves to the expansion of their Michelob line and their Elk Mountain phantom microbrewery. These brands were some of Anheuser-Busch's earliest attempts to independently produce specialty beer and provide examples of the breweries successes and failures in this niche market. These beers saw their beginnings in the years when the rate at which new microbreweries were opening was at its peak, giving us an opportunity to see how Anheuser-Busch stood up to the most competitive period that the Microbrew Revolution had to offer.

Michelob Specialty Brands

Though specialty styles of Michelob such as Michelob Amber Bock and Honey Lager did not hit the market until the mid-90s, Anheuser-Busch's Michelob had already been playing for the American beer snob market for almost a century. Michelob brand light lager made its market debut in 1896 as a "draft beer for connoisseurs," and remained alone in the American super-premium market until the 1950s.⁹³ For the first 65 years of its existence Michelob was an all-malt lager, but in 1961 Anheuser-Busch

⁹³ Tremblay and Tremblay, 137.

added rice to the recipe.⁹⁴ This alteration made the beer lighter, less flavorful and more similar to the other light lagers that were flooding the market at the time. Anheuser-Busch continued producing this same recipe through the 1980s and the early 90s. By the 90s Michelob sales were drooping; customers no longer regarded it as the prestigious product that it was supposed to be.⁹⁵ That honor had moved on to imports and microbrews, most of which had found success with exciting new styles and excluding adjuncts such as rice from their beer. Throughout the early Microbrew Revolution Anheuser-Busch had expanded the Michelob line to include styles such as a dry beer and a dark lager,⁹⁶ but these rather unadventurous expansions failed to impress American specialty drinkers. In 1995 the executives at Anheuser-Busch decided to revamp their Michelob line to make it fit the tastes of the new breed of beer connoisseurs, borrowing pages from the recipe books of the America's successful microbrewers.

The 1995 additions to the Michelob family were Michelob Amber Bock and Michelob Hefe-Weizen.⁹⁷ In contrast to the earlier additions to the Michelob line, whose names simply described what the beer looked like (e.g., classic dark, golden draft), the names of these new offerings invoked traditional German beer styles that a well versed specialty beer drinker would immediately recognize. Hefeweizen had already caught on as a popular beer in the specialty market with the success of brewers such as Widmer and Pyramid Brewing Companies. Though bock was not as widespread a style in the specialty market, Anheuser-Busch hoped to lure discerning

⁹⁴ Ibid., 144.

⁹⁵ Anheuser-Busch Incorporated, *Annual Report 1997* (St. Louis: Anheuser-Busch Incorporated, 1997).

⁹⁶ Anheuser-Busch Incorporated, *10-K* (St. Louis: Anheuser-Busch Incorporated, 1995).

⁹⁷ Anheuser-Busch Incorporated, *10-K* (St. Louis: Anheuser-Busch Incorporated, 1996).

customers with promises of a “roasted, malty” taste and the use of imported, European hop varieties.⁹⁸ These new versions of Michelob helped Anheuser-Busch test the waters of the domestic specialty market, acting as the vanguard for more Michelob brands to come.

While Michelob Hefeweizen did well in certain regional markets, the Amber Bock was an instant national success for Anheuser-Busch. Supported by revenues from these specialty products, the Michelob line enjoyed strong growth in 1996 after suffering from several years of decline.⁹⁹ The success of these initial Michelob expansions prompted an explosion of new Michelob specialty brews. In 1997 Anheuser-Busch introduced Michelob Honey Lager and Pale Ale, along with seasonal brews such as a Maple Brown Ale for the fall and a Winterfest Spiced Ale. In the Pacific Northwest, Anheuser-Busch even introduced a Michelob Porter.¹⁰⁰ Although the quality and image of these mass produced specialty beers did not live up to the standards of most microbrews, the competitive prices and wide availability of these styles won over many specialty drinkers. By 1998 Anheuser-Busch found itself in the top 12 domestic specialty breweries in the United States, owing most of its specialty sales to its Michelob specialty lines.¹⁰¹ Since then Michelob’s specialty line has continued to grow, led by the Amber Bock.

Despite the claims of many market analysts that big brewers have to failed crack the domestic specialty market, Anheuser-Busch’s Michelob specialty beers stand as an example showing otherwise. The demand for variety in the specialty market has

⁹⁸ “A-B Puts Bock in Spotlight,” *St. Louis Post-Dispatch*, 12 September 1995, sec. C, p. 6.

⁹⁹ Anheuser-Busch Incorporated, *Annual Report 1997*.

¹⁰⁰ Anheuser-Busch Incorporated, *Annual Report 1998*.

¹⁰¹ Al Stamborski, “A-B Makes a Big Move in a Small Market,” *St. Louis Post-Dispatch*, 22 March 1998, sec. E, p. 1.

prevented the large companies from dominating as much as they do in the domestic light lager market, but it is nonetheless hard to call Michelob specialty beers anything but a stunning success. Unfortunately for Anheuser-Busch, however, Michelob was not the company's only independent effort at selling domestic specialty beer. Just as much as Michelob was an accomplishment in the domestic specialty market, Anheuser-Busch's Elk Mountain phantom microbrewery was a complete failure.

The Elk Mountain Phantom Microbrewery

Anheuser-Busch's marketing strategy with Elk Mountain was the polar opposite of their advertising of Michelob specialty beers. Whereas the brewing giant proudly took credit for its Michelob brands, they tried to distance their name from Elk Mountain as much as they could. For many microbrew drinkers, seeing "Anheuser-Busch" printed on a beer label was enough to turn away in disgust in favor of a smaller company with a more artisan image. Anheuser-Busch thought that if they could produce a beer that looked like a microbrew on store shelves without putting their name on the package, they might be able to earn the dollars of unwitting American beer snobs. Because of the sneaky advertising associated with these beers, breweries such as Elk Mountain are known as phantom or stealth microbreweries. Though trying to fool consumers into thinking that they were drinking a microbrew seemed like a good idea (and would eventually be proven profitable by Coors), Anheuser-Busch's phantom micro failed to impress the American specialty market.

Anheuser-Busch introduced Elk Mountain into regional markets in 1994, downplaying the fact that the beer was brewed by the world's biggest brewery.¹⁰²

¹⁰² Richard Melcher, "From the Microbrewers who Brought You Bud, Coors...", *Business Week*, 24 April 1995, 66.

Though the new “microbrewery’s” name, borrowed from Anheuser-Busch’s Elk Mountain hop farm in northern Idaho, subtly hinted at the true producers of the beer, Elk Mountain for the most part looked like just another microbrewery. The styles that Elk Mountain produced were also about as different from Anheuser-Busch as you could get. Never had Anheuser-Busch produced an ale before Elk Mountain Amber Ale, and Elk Mountain Red Lager was the first red beer that the company had produced since 1906. Moreover, Anheuser-Busch abstained from their usual additions of adjunct grains in their Elk Mountain line, making Elk Mountain one of the few all-barley beers that the brewery had produced since Michelob started incorporating rice in 1961. After Elk Mountain had preformed satisfactorily in its test markets, Anheuser-Busch decided to release the beer nationally beginning at the end of 1994.¹⁰³

Elk Mountain’s success did not hold up once it entered the national marketplace. Though Anheuser-Busch was disappointed in their new brand’s failure, they knew from the outset that launching a phantom microbrewery would be a risky maneuver. Preliminary research had suggested that many customers would react extremely negatively upon finding out that their microbrew had in fact come from a major brewing company.¹⁰⁴ Having such a potentially damaging secret in a market as competitive as the domestic specialty market was a huge liability for Elk Mountain, and it quickly caught up with them once word got out that Anheuser-Busch was the actual brewer. Having been quickly rejected by American specialty drinkers, Anheuser-Busch began to phase out Elk Mountain in 1996.¹⁰⁵ Though they optimistically continued distributing

¹⁰³ “Elk Mountain Amber Ale and Elk Mountain Red Lager to Go National Dec. 12,” *Business Wire*, 8 December 1994.

¹⁰⁴ Melcher, 66.

¹⁰⁵ Anheuser-Busch Incorporated, *10-K* (St. Louis: Anheuser-Busch Incorporated, 1997).

the beer to select markets for the next few years, Elk Mountain never made a comeback. With as little fanfare as it received when it entered the national market, Elk Mountain faded away without American drinkers taking much note.

While Elk Mountain was not the only independent effort other than Michelob that Anheuser-Busch made to get into the domestic specialty market, its story is characteristic of how most Anheuser-Busch independent specialty beers fared. Around the same time as they released Elk Mountain, Anheuser-Busch launched Red Wolf, another phantom microbrew, and a series of beers based on recipes that Anheuser-Busch had brewed in the late nineteenth century. Similarly to Elk Mountain, these beers flopped. After taking a hiatus from the phantom microbrewery market, Anheuser-Busch has recently started up again with Stone Mill Ale and Wild Hop Lager. Like Elk Mountain, Anheuser-Busch has tried to distance itself from these brands. Neither of these organic, all-barley brews have had enough time to show whether or not they will successfully sidle their way into the domestic specialty market. Given Anheuser-Busch's record at trying to pass itself off as a microbrewery, however, it would be surprising to see these new attempts do much better than the ill-fated Elk Mountain.

Miller's Independent Specialty Brand

Like Anheuser-Busch, Miller also tried to get into the domestic specialty market by using the phantom microbrewery strategy. Also like Anheuser-Busch, Miller's efforts to sell beer under a false name did not go over well with American specialty drinkers. Miller's specialty subsidiary went by the name of the Plank Road Brewery, named for the street on which Miller's very first brewery was located. Plank Road launched its first beer, Icehouse, in 1993 to try to capitalize on the national ice beer fad.

Icehouse had done quite well for itself in the ice beer market, and in 1994 Plank Road launched Red Dog in an attempt to win over specialty drinkers interested in non-ice beers.¹⁰⁶

The unleashing of Red Dog coincided with a rise in consumer preference for red beers.¹⁰⁷ Miller tried to amplify the demand for their product further by putting large amounts of advertising money behind the beer to get sales rolling. Initially, Miller's efforts to sell Red Dog under the name of Plank Road Brewery seemed to have worked perfectly. By the end of its first year on the market Red Dog had earned its place as Miller's fastest selling new beer ever, exceeding Miller's most optimistic expectations for their new brew.¹⁰⁸ In a way, the amount of advertising that went into initially selling Red Dog makes its success in the specialty market surprising. Most specialty beers had very small or nonexistent advertising budgets, making Red Dog stand out as a product of a major brewery. Despite this liability of being a big-looking beer, Plank Road's Red Dog started out selling very well against its higher-status, microbrewery competitors.¹⁰⁹

Despite an auspicious start, Red Dog was unable to maintain the impressive growth that it had enjoyed in its first year. Once the market had time to get over the initial advertising boost and discover who was really behind Red Dog beer, Miller's offering from Plank Road Brewery quickly began to slip. In a 1996 effort to keep the beer alive even without the initial image that it once carried, Miller dropped the price of the beer to the same pricing category as Miller High Life, the brewery's popular priced

¹⁰⁶ "Plank Road Brewery Opens Headquarters; Miller Brewing Enterprise 'Goes Home' to Miller Valley," *Business Wire*, 19 December 1995.

¹⁰⁷ "Florida the First to Receive Red Wolf Lager from the Specialty Brewing Group of Anheuser-Busch Inc.," *Business Wire*, 29 September 1994.

¹⁰⁸ Ira Teinowitz, "Miller's Red Dog Laps up Beer Sales," *Advertising Age*, 10 April 1995, 12E.

¹⁰⁹ Kevin Maney, "Major Brewers Trying Micro Strategy," *USA Today*, January 5, 1995, final edition, sec. B, p. 3.

beer.¹¹⁰ This meant that the market that only recently had allowed Red Dog to compete with specialty microbrews was now less interested in Red Dog than it was in Miller Genuine Draft, Miller's premium lager. Though the price dropped, Red Dog continued to flounder even as a budget beer. It surprisingly survived until 2001, though its sales dropped consistently throughout that period.¹¹¹ When South African Breweries bought Miller from Philip Morris in 2002, they dropped the brand entirely.

Miller's attempt to capitalize on specialty beer preferences through Plank Road was unarguably a failure. That Red Dog outlived Anheuser-Busch's first generation of phantom microbreweries is probably in large part because of Miller's willingness to lower Red Dog's price and try it in a different category of the beer market as a whole. But even as a popular priced beer, Red Dog failed to impress the market. A *Consumer Reports* beer review from 2001, the very end of Red Dog's run on the market, sheds some light on the beer's failure. Though Red Dog was initially supposed to compete with microbrews, Consumer Reports embarrassingly rated the beer's taste below such mass-produced lagers as Pabst Blue Ribbon, Stroh's and even Miller High Life.¹¹² Between initial over-advertising, quickly changing market segments and an inferior flavor, it is little wonder that Miller's Red Dog failed to win a piece of the domestic specialty market.

Coors' Independent Specialty Brands

On the whole, Coors was the most successful of the Big Three at launching new brands to compete in the domestic specialty market. Though their short-lived Herman

¹¹⁰ Philip Morris Companies Inc., *10K* (New York: Philip Morris Companies Inc., 1997)

¹¹¹ Philip Morris Companies Inc., *10K* (New York: Philip Morris Companies Inc., 2002)

¹¹² See note 34 above.

Joseph specialty line demonstrated that they were by no means immune to failure,¹¹³ their successes speak to the general superiority of Coors in the specialty market. We will be looking at the George Killian's and Blue Moon lines from Coors, which are both the largest and most successful ventures that Coors made into brewing specialty beers. While Coors used very different strategies to produce and market these two product lines, both helped to make Coors a considerable presence in the specialty beer market.

George Killian's Irish Red

George Killian's Irish Red is similar to Miller's Lowenbrau in that both were originally European beers that American companies sought to use in the domestic market. Inspired by Miller's recently released Lowenbrau, Coors looked to Europe for a beer that might help them break into in the emerging specialty market, a segment in which their Coors Banquet premium lager was not qualified to compete. They found their prize in a small Irish brewery owned by a brewer named George Killian Lett. Though Lett did not actually make any beer in his brewery, he made money by contracting out his recipe for red ale to other brewers. Impressed by the recipe and seeing that a red ale could provide an exciting new taste in a market used to light lagers, Coors bought the rights to brew George Killian's Irish Red Ale in the United States.¹¹⁴

Although Coors' discovery of Killian's was similar to Miller's finding of Lowenbrau, Coors' treatment of the Killian's brand was quite different. Whereas Miller dressed Lowenbrau up to make it look like an import, Coors marketed Killian's as a specialty beer made in America. Moreover, while Miller gained import rights to Lowenbrau in their deal with the European brewer, Coors simply bought the rights to

¹¹³ Baum, 223.

¹¹⁴ Ibid., 233-234.

use the recipe. Coors' deal with Lett was also a lot more one-sided than Miller's deal with Lowenbrau. Lowenbrau was a major German brewer with its own ambitious business objectives; Lett was a single man who inherited an idle brewery and a profitable red ale recipe. This one-sidedness allowed Coors to take the European brand and make it their own, absent the compromises and conflicts of dealing with an existing, major foreign brewer. Though Killian's Irish Red started as a European recipe, Coors made it into an American beer.

Coors released Killian's in select parts of the country in 1981, gradually expanding the beer's territory as it proved itself in these initial markets. Rather than embracing Killian's European roots by grouping it with increasingly popular imported beers, Coors set Killian's apart as cheaper alternative to expensive foreign beers with its "Killian's Red, instead" advertising campaign. After the first four years it was clear that this approach was working, and many customers were turning to Killian's as a domestic alternative to imported beer. Killian's was also doing well against the fledgling microbreweries. By 1986, Oregon and Washington, epicenters of the Microbrew Revolution, were two of Killian's best markets out of the 36 states in which the beer was available.¹¹⁵ Killian's Red finally became nationally available in 1988,¹¹⁶ making it the most widely available red ale produced by any American brewery.

Unlike the later Red Dog and Elk Mountain lines of red beers, Killian's test markets proved to be accurate indicators of how the beer would fare on the national market. Killian's was a reasonably priced red ale in a market of cheap light lagers and expensive specialty imports and microbrews, making it an excellent candidate for

¹¹⁵ Janet Meyers, "Coors Rolls into D.C. With Killian's Irish Ale," *Advertising Age*, 20 October 1986, 70.

¹¹⁶ Scott Hume, "Killian Caps Coors' National Goal," *Advertising Age*, 14 March 1988, 79.

people who wanted a specialty style of beer without paying high prices. Demand for Killian's grew rapidly during the early 90s, despite an overall decline in American demand for beer.¹¹⁷ Though Killian's open association with Coors did not give the brand the same prestige as imports and microbrews, the brand's growth suggests that many consumers were nevertheless turning to Killian's to quench their thirst for specialty beer. American drinkers continued to buy increasing amounts of Killian's throughout the 90s, and by 1998 Coors was calling Killian's Irish Red one of its strongest brands.¹¹⁸

Although the early 2000s brought a slight decline in the demand for Killian's,¹¹⁹ the brand continued to be a strong player in the domestic specialty market. By now, however, the perennial growth of the domestic specialty sector had ended,¹²⁰ making a decline in demand Killian's hardly surprising. In spite of this recent drop, Killian's had still held its own against higher-status foreign importers and domestic microbrewers for two decades, making Killian's Irish Red an enormously important brand for Coors' specialty portfolio. Killian's unique style and widespread availability helped it thrive as the nation was just turning to specialty beers. As a red ale, it was different enough from the mass produced lagers to gain the attention of beer drinkers looking for something more interesting. Its relatively low cost helped it to compete with the imports and microbrews that flooded the specialty market throughout the Microbrew Revolution. Indeed, in 1981, Killian's represented an auspicious start to Coors' presence in America's domestic specialty market.

¹¹⁷ Coors Brewing Company, *Annual Report 1993*.

¹¹⁸ Coors Brewing Company, *Annual Report 1998*.

¹¹⁹ Coors Brewing Company, *Annual Report 2003* (Golden: Coors Brewing Company, 2003).

¹²⁰ Tremblay and Tremblay, 104.

Blue Moon Brewing Company

Despite Killian's success by the mid 90s, Coors, like Anheuser-Busch and Miller, was still always on the lookout for a new way to make money in the domestic specialty market. So when Miller and Anheuser-Busch launched their phantom microbreweries in 1993 and 1994 respectively, Coors decided to jump on the bandwagon and launch one of their own. In 1995, Coors opened up the Blue Moon Brewing Company. The brewery introduced itself to the public's palate with four rather uncommon styles: Honey Blonde Ale, Nut Brown Ale, Harvest Pumpkin Ale, and their flagship beer, Blue Moon Belgian White Ale. Coors initially sold their Blue Moon brands to the East Coast and Colorado,¹²¹ simultaneously testing new recipe ideas at their pub called the Sandlot Brewery in Denver, Colorado. Though Coors was entirely in control of the brewery, they marketed it as its own separate entity and abstained from using the name "Coors" anywhere on the beer's packaging.

Blue Moon experienced immediate success in its test markets, prompting Coors to expand distribution. 1997 marked Blue Moon's debut in the national beer market, an arena in which the phantom microbrew surprisingly did very well.¹²² By now Anheuser-Busch and Miller's own phantom microbreweries had decisively flopped, seemingly warning Coors that the national market would not tolerate large breweries pretending to be small. It is important to note, though, that Coors' phantom microbrewery was significantly different from those of their rivals. Whereas Elk Mountain and Plank Road offered very little variety, Blue Moon made a relatively wide range of beers, thereby appealing to a broader customer base. Additionally, the styles

¹²¹ Rronikowski, Lynn. "Blue Moon Rising at Sandlot Brewery: Coors Keeping Identity under Wraps with New Brand Made for Micro Crowd," *Rocky Mountain News*, 15 September 1995, sec. A, p. 71.

¹²² Coors Brewing Company, *Annual Report 1998*.

that Elk Mountain and Plank Road produced, red lager and amber ale, were pretty standard fare for the average domestic specialty drinker. Blue Moon's styles, however, were more interesting. The orange and coriander flavors of the Belgian white style were unusual even by microbrew standards, and pumpkin ale, while not unheard of, was rare. While Blue Moon's association with Coors made it significantly less fashionable than real microbreweries, it seems as though enough customers did not know or did not care that they kept buying it anyway. Even after the turn of the twenty-first century, after other phantom microbrews had already fallen out of the now plateauing domestic specialty market, Blue Moon was flourishing.¹²³

Between Killian's and Blue Moon, Coors is a clear success story in the history of big brewers independently entering the small brewer's market. In both cases, Coors' strategy was more daring than their rivals', relying on styles that other big brewers had not yet tried. Perhaps this commitment to novelty was the key to Coors' success. While Anheuser-Busch and Miller were busy trying to outdo each other with identical styles of beer (e.g., Michelob versus Lowenbrau, Elk Mountain Red versus Red Dog, etc.), Coors was forging its own place in the specialty market by doing something different. Simultaneously, with the distribution system of a national brewer, Blue Moon and Killian's enjoyed access to more customers than most of the imports and microbreweries with which they were competing. Above the means of small brewers and relatively under the radar of its bigger rivals, Coors was able to utilize its distinctive position in the beer industry to do quite well with its independent ventures into the domestic specialty market.

The Big Three's Domestic Partnerships

¹²³ Coors Brewing Company, *10-K* (Golden: Coors Brewing Company, 2006).

When they were not producing their own specialty brands, the Big Three spent the majority of their specialty beer efforts on recruiting foreign partners to help satisfy changing American beer tastes. As we have already addressed, foreign brewers made ideal business partners because of their large size and established prestige in the opinion of American consumers. While these advantages were unique to foreign brewers at the beginning of the Microbrew Revolution, the later years of the revolution produced a new set of alluring companies with whom the Big Three could partner: the microbreweries themselves.

By the mid to late 90s, many of the original microbreweries of the early Revolution weren't so micro anymore. Sierra Nevada Brewing Company, which sold a miniscule 950 barrels in their introductory year of 1981, was now approaching the half million barrels mark. The Boston Beer Company was selling over a million.¹²⁴ Though these example companies were clearly frontrunners in the domestic specialty market, a long list of other domestic specialty breweries had also been expanding by leaps and bounds. Many of these were large enough to begin distributing across the nation, but did not yet have the distribution networks set up to do so.

The prospect of partnerships between Big Three breweries and smaller craft brewers was attractive to both parties involved. The large brewer would profit from the superior image and quality of the smaller brewer's product. The smaller brewer could in turn benefit from greatly increased distribution and periodic infusions of advertising money. In practice, Anheuser-Busch was the only member of the Big Three to benefit from these kinds of dealings. Miller's investments in microbreweries never amounted to much and Coors stayed out of the microbrewery investment game entirely.

¹²⁴ Ogle, 305, 333.

Anheuser-Busch, however, continues to expand its investments in domestic craft breweries even at present. Though the vast majority of microbreweries have always been independent and the greater part of the Big Three's specialty beer partnerships have been with foreigners, alliances between big breweries and microbrewers have still played an important part in the story of the Microbrew Revolution.

Anheuser-Busch's Domestic Specialty Partnerships

While the small brewers with whom Anheuser-Busch made alliances were already successful companies, they are now among the most well known specialty breweries in the nation. Though the benefits of a partnership with Anheuser-Busch were many, Redhook and Widmer's ultimate decisions to join up with the big brewer could not have come without some ambivalence. After having worked alone to build up customer trust in the microbrew market, signing a contract with Anheuser-Busch would make them look like sellouts. If this drop in prestige put downward pressure on demand for Redhook or Widmer, however, space on Anheuser-Busch distribution trucks more than made up for it. In both cases, both the large and small brewers benefited greatly from their domestic partnership contracts.

Redhook Ale Brewery

In 1981, Paul Shipman and Gordon Bowker established the Redhook Ale Brewery in an old transmission repair shop in Seattle, Washington. Like the myriad other microbrewers starting up in the early 80s, Shipman and Bowker hoped to capitalize on the rising popularity of imported beer by making specialty beer of their own in the States. They chose Seattle as the location for their brewery because, as they explain on their website, "The Pacific Northwest drank more draft beer than anywhere

else in the country.”¹²⁵ In initially the brewery concentrated on sweet, spicy Belgian style beers, styles that were hard to find even among the imported beers in the early 80s. These recipes, the likes of which many customers had never seen before, won instant popularity in the market. In response to rising demand, Redhook quickly expanded both their capacity and their brand selection throughout the 1980s. In 1987 they developed their current flagship brew: Redhook ESB. A deviation from their original Belgian styles, the British style ESB, or extra special bitter, helped to further accelerate Redhook’s impressive growth.¹²⁶ After a decade of brewing, Redhook was one of the clear heavyweights of the competitive Northwest microbrew arena.

By the early 90s, Redhook had aspirations to move outside of its home region of the Pacific Northwest. To do so, however, would be costly. As luck would have it, however, Redhook’s success had attracted the attention of someone who could help them with expansion on a national level. In 1994, Anheuser-Busch offered Redhook a deal: if Redhook sold the big brewer a 25 percent stake in the company, they would gain access to Anheuser-Busch’s enormous distribution network. At the same time, Redhook would maintain sole control over their production and business decisions. Though it would compromise their status as an independent specialty brewer, the offer was too good for Redhook to pass up.¹²⁷

In four short years, Anheuser-Busch helped Redhook grow beyond its wildest dreams. With Anheuser-Busch’s help, Redhook built two new breweries, including one in New Hampshire, and was now available in 41 states.¹²⁸ Even as demand for

¹²⁵ Redhook Ale Brewery, *A Redhook History*, <http://www.redhook.com/> (Accessed May 24, 2007).

¹²⁶ Ibid.

¹²⁷ Ogle, 330-331.

¹²⁸ Anheuser-Busch Incorporated, *10-K* (St. Louis: Anheuser-Busch Incorporated, 1998).

specialty beer leveled off in the late 90s and many specialty breweries were closing, Redhook continued to thrive with Anheuser-Busch. In another four years, in 2002, Redhook had more than doubled its 1994 capacity.¹²⁹

For Anheuser-Busch, the deal was an indisputable victory in the specialty market. Anheuser-Busch's stake in the company was yielding substantial profit and giving the brewing giant a significant specialty showing on tap handles and grocery store shelves across the nation. Before the alliance, Redhook had already developed a winning line of beers and had garnered a reputation in the notoriously choosy Pacific Northwest as a reputable brewing company. After negotiating the initial investment, Anheuser-Busch just had to keep doing what it was best at: getting the beer to the maximum number of customers and finding new ways to reinvest the incoming money. So happy was Anheuser-Busch with this strategy of investing in domestic specialty breweries that they decided to acquire stake in another. Again, their choice would be a Pacific Northwest brewery that had been on the forefront of the Microbrew Revolution. And again, the investment would turn out to be a success.

Widmer Brothers Brewing Company

The Widmer Brothers Brewing Company started in much the same way that Redhook did. Inspired by the wide array of flavors and styles he experienced in his European travels in the 70s, Kurt Widmer decided to try his hand at brewing European style beers for the growing number of American specialty drinkers in the United States. While Kurt and his brother, Rob, started their business in 1984, it wasn't until 1986 that they developed the recipe that would make their brewery famous: the Widmer

¹²⁹ Tremblay and Tremblay, 75.

Hefeweizen.¹³⁰ Over the next ten years Widmer quickly grew dominant in the Northwest and started expanding into other markets across the nation.

Among the plethora of microbreweries that were growing alongside Widmer from the mid-80s through the mid-90s, two primary features helped Widmer to stand out from the crowd. The first was their flagship Widmer Hefeweizen. While most breweries did and still do filter their beer, giving it a clean, transparent appearance, Widmer left their Hefeweizen unfiltered and subsequently cloudy. This cloudy appearance, which many brewers took care to avoid, was in fact a traditional characteristic of German hefeweizen, which is not supposed to be a clear beer. This attention to tradition in the face of common industry practice distinguished Widmer Hefeweizen as a more authentic German style beer, helping its prestige in the marketplace. A second distinguishing characteristic of Widmer was that, until 1996, it was only available on tap, making the extent of their growth rather remarkable. Despite limiting their availability exclusively to bars and restaurants, Widmer sold 70,000 barrels of beer in 1995 across the country, making them the nation's largest draft-only brewer. When they introduced bottled beer in 1996 they added another 140,000 barrels to their annual production, vastly increasing the availability of their already popular brews.¹³¹

Widmer's entrance into the bottled beer market made it into a prized potential investment for big breweries. In the next four months, Widmer received partnership

¹³⁰ Widmer Brother's Brewing Company, *Widmer Story*, http://www.widmer.com/widmer_story.aspx (Accessed May 24, 2007).

¹³¹ Gerry Khermouch, "Widmer Dresses up Beer Line for First Ad Push and National Rollout," *Brandweek* 37, no. 15 (1996): 16.

offers from Anheuser-Busch, Miller and major distiller Brown-Foreman.¹³² Anheuser-Busch won out, offering access to its enormous distribution system in exchange for a 30.9 percent stake in the company. As was the agreement with Redhook, Anheuser-Busch promised not to meddle in Widmer's internal business affairs.¹³³ After all, Widmer's management had already gotten it this far in the domestic specialty market. To interfere would both cost Anheuser-Busch money and risk damaging the company's tried and true business strategies. With both its independence and access to the largest beer distribution network in the country, Widmer grew by over 20 percent between 1997 and 2002.¹³⁴ Although Widmer's growth after its partnership with Anheuser-Busch failed to match Redhook's enormous expansion, it was still excellent considering Widmer's larger starting size and the lull in the domestic specialty market immediately after Widmer and Anheuser-Busch joined forces. As with their investment in Redhook, Anheuser-Busch's stake in Widmer was a great help to enlarging the big brewer's presence in the U.S. domestic specialty market.

Anheuser-Busch's Recent Partners

The success of Anheuser-Busch's partnerships with domestic specialty brewers has prompted it to enlarge its investments in the twenty-first century. By 2005 Anheuser-Busch had increased its ownership of Redhook and Widmer to 33.7 percent and 39.5 percent respectively.¹³⁵ Additionally, the big brewer has been making distribution deals with other breweries using Widmer as an intermediary. In 2002 Widmer bought a stake in the Kona Brewing Company, a Hawaiian company looking

¹³² Gerry Khermouch, "Beer Blast," *Brandweek* 37, no. 37 (1996): 1-2.

¹³³ Anheuser-Busch Incorporated, *Annual Report 1998*.

¹³⁴ Tremblay and Tremblay, 75.

¹³⁵ Anheuser-Busch Incorporated, *10-K* (St.Louis: Anheuser-Busch Incorporated, 2005).

for help selling their beer on the U.S. mainland. As part of the deal, Anheuser-Busch gave Kona room space on their delivery trucks to select markets. More recently, in 2006, Widmer bought a minority stake in the regionally dominant Goose Island Beer Company of Chicago. Once again, Anheuser-Busch has extended the benefits of its distribution network to Widmer's partner.¹³⁶

Based on both the performance of Redhook and Widmer and Anheuser-Busch's continued interest in gaining craft brewing partners, it seems as though America's largest brewer has found a very effective way to make money in the small but competitive market domestic specialty market. We can in part attribute this success to a good investment strategy by Anheuser-Busch. Anheuser-Busch chose both Redhook and Widmer because they were regionally dominant players in the specialty beer market who were ready to expand further. While smaller breweries may have had more growth potential, it would also have taken more time and risk to build their capacity to supply customers in a wider geographic area. Because they definitely had salable products and large production capacities, regionally established brewers were safer investments. Once Anheuser-Busch made their investment, they refrained from enforcing any managerial changes to the breweries. They did, however, do what they could to help their investments with non-intrusive methods of aid such as distribution and advertising assistance. Experts though they may have been at selling beer in general, Anheuser-Busch acknowledged that their specialty brewer partners were the authorities on making and selling beer for the microbrew crowd. Even with the best of intentions, to interfere would be to risk changing the qualities that made Redhook and Widmer such effective

¹³⁶ Gred Cancelada, "A-B Takes another Gander at the Microbrew Market," *St. Louis Post-Dispatch*, 8 June 2006.

specialty breweries. Certainly, Anheuser-Busch succeeded in their partnerships with domestic specialty brewers because of their cautious investment strategies and deference to the knowledge and independence of their partners.

Miller's Domestic Specialty Partnerships

Shortly after Anheuser-Busch made Redhook its first domestic specialty partner, Miller decided that it wanted to get into the game of buying microbreweries. Unlike their larger rival's investments, Miller's allies suffered perennial stagnant growth after they signed their contracts. After five years of disappointing sales, Miller and their microbrewery associates parted ways. In the case of both their microbrewery investments, the Celis Brewing Company and the Shipyard Brewing Company, Miller's strategies differed significantly from the successful investment approaches of Anheuser-Busch. Though at this point Miller's successive failures during the Microbrew Revolution may suggest a simple curse against them during this period, looking at the stories of these investments can help us specifically understand what went wrong.

Shipyard Brewing Company

Shipyard Brewing Company started out as the Federal Jack's Restaurant and Brew Pub in Kennebunk, Maine in 1992. Though the operation was small, Shipyard enjoyed immediate popularity with local beer drinkers. After two years of having difficulty meeting demand for their products, the owners of the pub decided to enlarge their capacity so that they could sell beer outside their location in Kennebunk. The company moved to Portland, Maine in 1994, where it was renamed the Shipyard Brewing Company.¹³⁷

¹³⁷ Shipyard Brewing Company, *Our Company*, <http://www.shipyard.com/sub/aindex.shtml> (Accessed May 24, 2007).

As Miller was looking for potential breweries in which to invest, Shipyard's short but successful history was alluring. Here was a company that, although young, had a relatively large consumer base in its small distribution range and was oriented towards expanding into new markets. In 1995, Miller bought a majority interest in the Shipyard Brewing Company, adding it to the recently purchased Celis Brewing Company in their microbrew portfolio. In exchange for a majority share of the Shipyard company, Miller offered the microbrewer the use of their distribution network, capital investment dollars, marketing advice and product development facilities. Shipyard's owners were extremely optimistic about the partnership. Having already borrowed from most interested investors in their immediate area, the partnership with Miller represented not only a next step for finding money to increase capacity, but the possibility of a long-term presence on the national market.¹³⁸

Though both Miller and Shipyard started out the partnership with high hopes, it quickly became clear that the Shipyard's performance under Miller was not living up to expectations. By 1997 Miller had helped the small brewery expand its sales in northeastern states, but Shipyard was having significant difficulty finding customers outside of New England. While Miller had expanded Shipyard's distribution down the Atlantic Coast and into the Midwest, customers in these regions did not seem to be interested in the Maine company's beer.¹³⁹ In the following years Miller scaled back its financial and distributive support of Shipyard, relegating it to the New England states in which it was more popular. The same company that less than five years ago was Miller's hope for a fast-growing microbrew miracle was now in fact shrinking. In 2000,

¹³⁸ "Shipyard Brewery of Portland, Maine Announces Partnership," *Business Wire*, 9 November 1995.

¹³⁹ James Arndorfer, "Miller, A-B Promoting Small Brews," *Advertising Age*, 9 February 1998, 42.

realizing that Shipyard could not provide them with a nation-wide specialty brewing partner, Miller sold off their stake in the Shipyard Brewing Company.¹⁴⁰

Celis Brewing Company

After having already enjoyed a successful brewing career in his home of Belgium, master brewer Pierre Celis decided to try his hand in the American craft beer market. In 1991, Celis opened up his American operation in Austin, Texas, calling it the Celis Brewing Company.¹⁴¹ True to his Belgian roots, Celis began his business selling Celis White Ale, a beer in the Belgian white style. Though the brewery was small, Celis' company grew quickly, expanding into new states and styles in the following years.

As with Shipyard, Celis' fast growth caught the attention of Miller as they were surveying the microbrew market for potential partners. Also as with Shipyard, Celis was interested in the extraordinary opportunities for extended distribution and capital investment that it would enjoy under Miller. In 1995 the breweries joined forces with Miller buying a majority share in the Texas brewing company from the Celis family. Despite offering its resources to the smaller brewer, Miller preserved the Celis Brewing Company's autonomy, simply giving the microbrewery additional resources with which to brew its specialty beer.¹⁴²

Though Celis had done well for himself brewing Belgian white ale in Europe, his term under Miller was significantly less successful. Even with the full weight of Miller behind him, Celis was having trouble entering new markets across the country.

¹⁴⁰ David Sharp, "Nation's Thirst for Specialty Beers has Gone Flat," *The Associated Press State & Local Wire*, 9 May 2000.

¹⁴¹ Michigan Brewing Company, *Celis Timeline*, <http://www.michiganbrewing.com/celis.htm> (Accessed May 24, 2007).

¹⁴² "Celis Brewery of Austin, Texas Announces Alliance," *PR Newswire*, 28 February 1995.

From 1995 to 1998 was a particularly competitive and unforgiving time in the microbrew industry, making it difficult for many companies to hang on to the markets in which they were already present, much less expand into new ones.¹⁴³ By 1999, when Miller had hoped Celis would be a major specialty brewery, the Texas brewery's 10 employees were producing a paltry 15,000 barrels a year. In the same year, acknowledging that their American venture was not going as planned, the Celis family gave up on the brewery, exercising a contract option that required Miller to buy their minority share of the company. The next year Miller closed the brewery.¹⁴⁴

Why Anheuser-Busch Won and Miller Lost

Miller's strategy for investing in microbreweries was clearly different from that of Anheuser-Busch. Both of the microbreweries with which Miller formed partnerships were newer and smaller than the allies of Anheuser-Busch. While Celis and Shipyard were popular and demonstrating rapid growth before the partnerships, they were both still very small businesses, and certainly neither was dominant in their region. Miller also began their investments by buying a majority interest in their microbrewery partners. This strategy contrasted with Anheuser-Busch's approach: starting with a small investment and buying more as the company succeeded. Though the small size combined with the initial fast growth of Miller's partnerships made them potentially enormously profitable, they were also significantly riskier than those of Anheuser-Busch. Redhook and Widmer had been brewing for over a decade before they signed their contracts with the big brewer. They had achieved regional dominance and accrued

¹⁴³ Tom Daykin, "Heady Times Go Flat for Craft Brewers," *Milwaukee Journal Sentinel*, 12 January 1998.

¹⁴⁴ Tom Daykin, "Miller Brewery Plans to Close Specialty Brewery in Texas," *The Milwaukee Journal Sentinel*, 4 December 2000.

a large base of loyal customers, making them rather resilient to market competition. The size and youth of Miller's partners, the very characteristics which contributed to their potential profitability, also made them more vulnerable to collapse in a particularly competitive environment. Unfortunately for Miller, the three years after they invested in Celis and Shipyard were the most competitive years that the microbrew market had ever seen. While Anheuser-Busch's large partners were able to weather the storm and expand during this period, Miller's gamble on small breweries failed to pay off.

Conclusion

Though the U.S. specialty beer market during the 80s and 90s is one of the most interesting and exciting niches in American beer history, it was still a sideshow when put in the larger context of the American beer market as a whole. By 2001 light beer was indisputably America's favorite category of beer, with a commanding 44 percent share of the overall market. In a distant second was premium priced lager with a 20.6 percent share, dominated by brands like Budweiser and Miller Genuine Draft. The imported beer category, which, as we have seen, was an integral part of the Big Three's strategy to profit during the rise of specialty beer, was in third with a 10.6 percent share of the market. Small domestic specialty brewers only had a measly 3 percent of the market. Super-premium priced beers like Michelob, which often competed with specialty beers from foreign and smaller domestic companies, had an even smaller share of 1.8 percent.¹⁴⁵ When looking at these numbers it is understandable that the vast majority of the Big Three's efforts were going toward promoting their light and premium lager brands, which were bringing in the vast majority of their revenue.

¹⁴⁵ Tremblay and Tremblay, 13.

Despite this status of specialty beers as a secondary priority for the Big Three, we have nonetheless seen that these big breweries undertook numerous significant projects to get into this small but high-growth market. Even the list of foreign partnerships, new independent brands and alliances with domestic specialty brewers mentioned in this paper, while extensive, is by no means an exhaustive account of all angles from which Anheuser-Busch, Miller and Coors attacked the U.S. specialty beer market. We have only skimmed over Anheuser-Busch's Red Wolf lager and their line of historical ales that they marketed in the mid-90s. Likewise, we have entirely ignored Coors' attempt to bring Steinlager, New Zealand's favorite beer, to the United States. Miller's ultimately unsatisfying partnership with the Leinenkugel Brewery, a declining big brewery that had switched to producing specialty beer, is also entirely absent from this narrative. Even with these missing pieces, however, we have before us a wide array of examples of the successes and failures of America's three biggest breweries in their various strategic efforts to win the dollars of specialty beer drinkers. If the Big Three were generally unsuccessful at competing in the American specialty beer market, as many current scholars suggest,¹⁴⁶ we certainly cannot conclude that their failure was for lack of trying.

But what of this conclusion that pervades contemporary literature on the Microbrew Revolution? Can we, after having looked at all these individual cases, call the Big Three failures in the American specialty industry during this time period?

There is certainly ample evidence for this negative conclusion, much of it coming from the performance of Miller during the Microbrew Revolution. In their various partnerships and the new specialty brand that they launched on their own,

¹⁴⁶ Tremblay and Tremblay, 130; Ogle 330.

Miller's track record in the specialty beer market during the 80s and 90s was unequivocally unimpressive. Even when they were able to maintain a beneficial, long-term partnership with a foreign brewer, Miller never enjoyed a significant market victory thanks to the alliance. Red Dog, their major play at producing a specialty beer independently, quickly went flat after a deceptively promising start. Miller's investments in small domestic microbreweries, likewise, were unfortunately doomed to fall to the particularly vicious competition in the specialty market between 1995 and 1998. Regardless of the remaining two in the Big Three, it is fair to say that Miller's unfortunate story in the Microbrew Revolution supports the common consensus about big breweries in this small market.

When one takes into account the stories of Anheuser-Busch and Coors, however, more solid evidence for the success of big breweries in the American specialty beer market emerges. Anheuser-Busch, largely by virtue of its size and consequently its immense amount of capital, was able to launch the most projects into the specialty beer market. Like Miller's projects, many ventures of Anheuser-Busch either flopped miserably or did not grow as planned. Elk Mountain, for instance, fell out of the market even faster than Red Dog. Their deal with Suntory of Japan, likewise, ended after years of unsatisfactory progress in both domestic and Japanese markets. In contrast to these problematic endeavors, however, Anheuser-Busch can also claim responsibility for some of the most victorious brands in the American specialty market. The Corona phenomenon, Michelob Amber Bock and the quick transformation of Redhook into a national brewery were all excellently profitable for America's biggest brewery. With the vast multiplicity of partnerships and new brands the Anheuser-Busch tried in the

specialty market during the microbrew revolution, it is little surprise that some of them turned out to do very well.

Similarly, Coors enjoyed great success with several of their specialty products. In many cases, it was their willingness to introduce new styles to the market on a large scale that caught the attention of specialty-seeking beer drinkers. Killian's, being not only one of the darkest beers on the mass market in 1981 but also one of the only ales, was a significant gamble on the part of Coors. Similarly, launching Blue Moon with a Belgian white as its flagship beer and a pumpkin ale for a seasonal was a rather unorthodox strategy. Nevertheless, while these brands may have lacked the fashionable image of true microbrews, the continuous growth of both of these brands indicates that, when they had a thirst for specialty beer, large numbers of Americans turned to these brews to fill their glasses. Though Coors has indeed suffered some setbacks in the specialty market, such as the competition with Miller over Molson and the briefly mentioned Herman Joseph line, they have also seen some of their specialty recipes win significant national fame and popularity.

So, given the many successes of big brewers in the specialty beer market during the Microbrew Revolution, how can current scholarship say that the Big Three generally failed in competition with small brewers? Perhaps the Big Three's overall performance in the specialty market looks like a failure in comparison to the form of their success in previous decades. Before the Microbrew Revolution, Anheuser-Busch, Miller and Coors had been aggressively consolidating their positions in the aggregate American beer industry at the expense of their rivals. To these three breweries, success had not simply meant profitability, but clear market dominance over their competition.

Success had meant large percentages of the national market and seeing old, formerly competitive breweries go out of business every year. Success meant moving the market steadily into oligopoly.

Because of the necessarily competitive and varied nature of the American specialty market, it is unreasonable to evaluate the success of the Big Three in this market using the same definition of success that applies to their positions in the American light lager market. Specialty brewing was a market to which scores of new entrants flocked every year. Consumers demanded novelty, variety and the charm of a beer from either a distant country or the brewery across town. In a market with products as homogenous as the American light lagers of the late 70s, only a few companies were necessary to satisfy the demands of the consumers; oligopoly was not only possible but probable in such an environment. In a market that demanded such varied products as the American domestic specialty market, however, the number of firms required to produce such a multiplicity of products precluded the Big Three from completely dominating the arena. Consumers simply could not be satisfied by the brewing creativity of three firms alone. In the American specialty market during the Microbrew Revolution, the type of success that the Big Three was used to enjoying in the American light lager market was impossible.

But does this mean that the Big Three were generally unsuccessful in the American specialty market, as current scholars posit? In the case of Miller the answer seems to be a clear “yes.” With Anheuser-Busch and Coors, however, this answer does not fit as cleanly. Though both these breweries suffered setbacks in specialty beer at various points during the Microbrew Revolution, they also won several victories. Either

on their own or with the help of foreign or domestic partners, these two big breweries found ways to profit from the rising popularity of specialty beer even as the aggregate beer market was in a long state of stagnation. By the standard of their historical growth in the larger American beer market, Coors and Anheuser-Busch were not successful in the specialty market: they did not dominate the market or drive their competition out of business. Given the constraints of the specialty market during the Microbrew Revolution, however, such a definition of success is inappropriate. When we look clearly at the stories of the Big Three's specific ventures into the specialty beer market in the 80s and 90s, we see that big breweries were often able to find ample customers and profit in this small niche of the American beer industry.

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