COLORADO BUSINESS REVIEW

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Photo courtesy of Ball Corporation

New Markets and Sizes Driving Can Growth in Colorado and the United States

Jim Peterson

The 50-year-plus history of the aluminum beverage can in the United States has largely been one of growth. And it began right here in Colorado, where Coors developed a seamless, two-piece impact extruded aluminum can. A few years later, Ball Corporation acquired Jeffco Manufacturing Company (named for Jefferson County) in Golden, an acquisition that launched Ball on its path to becoming the largest beverage can maker in the world.

Today Ball is headquartered in Broomfield. The $8.6 billion company, ranked 297 in the current Fortune 500, employs more than 3,000 people in Colorado. Most Coloradans know Ball for its Ball Aerospace business, which began in Boulder in 1956. The rest of the world knows Ball for its packaging, which accounts for 90% of the company's sales, including more than 60 billion recyclable beverage cans a year produced at the company's plants in the Americas, Europe, and Asia.

In 2006, more than 101 billion aluminum beverage cans—85% of which were standard 12-ounce cans—were sold in the U.S. market, a high point in the new millennium. Even during down economies, consumers have traditionally continued to buy beverages and foods in cans. By last year, however, that number had declined to 92.5 billion, the lowest total since 1991. Is this decline a blip on the radar, or a sign of things to come?

The answer is neither. The U.S. beverage can market is quite healthy, still representing the largest unit share (40.7%) in the U.S. beverage packaging market, and is evolving to meet brand owners' growing demand for specialty packages. Demand for standard 12-ounce cans has decreased, while demand for specialty packaging—different can sizes, cans with special graphics and features that consumers love such as reclosable aluminum bottles—is increasing significantly.

Sales of standard 12-ounce cans have declined, at least temporarily, for several key reasons:

- Beverage companies are supporting less promotional activity on retail shelves as they seek improved pricing to catch up to supply chain increases. When there are

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From the Editor

Colorado's beverage sector, which includes soda, water, soft drinks, tea, beer, wine, and spirits, is an important part of the state's economy. Colorado has an integrated supply chain of raw materials—wheat, barley, corn, grapes, mountain water, and so forth—that feeds this nondurable goods manufacturing sector of our economy. Complementing this is the state's reputation for health and wellness, and beverage manufacturers have leveraged this in creating sports and wellness drinks. Beverage industry employment is growing faster than manufacturing employment and total employment in the state, and is outperforming beverage manufacturing employment nationally. It is also a growing sector in terms of gross domestic product at the state level. This issue provides insight into some of the specific sectors within beverage manufacturing, and discusses some of the nuances these manufacturers face doing business in Colorado.

Please contact me at 303-492-1147 with questions or comments.

Richard Wobbekind

CAN GROWTH, CONTINUED FROM PAGE 1

promotions, they are often less attractive than those in recent years.

- Sales of carbonated soft drinks, long a staple beverage for cans in economical multipacks, are struggling as consumers pursue wellness trends and choose other beverages.
- Ongoing weak economic growth continues to affect consumer spending. Most consumers have long since "traded down" to less expensive products. Some have stopped buying discretionary products altogether.

The net result is a decline in demand for beverages in 12-ounce cans, due largely to economic factors. When the economy improves, so should beverage sales.

New Markets

Meanwhile, some very interesting trends have developed that are creating new markets for cans. Many brand owners have actually expanded usage of beverages in cans in their packaging mix. For example, the evolution of craft beer into cans continued at the staggering growth rate of roughly 150% in 2011 as more craft brewers have come to realize the economic and sustainability advantages of choosing cans. Oskar Blues, the craft brewery that pioneered the movement into cans, is based in Longmont.

Over the last couple of years, more than 130 craft beer brands, including almost all of the top 10 craft beer breweries by volume, have added cans into their packaging mix, driving new, incremental sales of their brand. Last year, Sierra Nevada, the second-largest craft beer brewer in the nation, launched its well-regarded beer in both 12-ounce and 16-ounce cans from Ball. Among other craft brewers in Colorado who have chosen Ball cans are New Belgium Brewing, Breckenridge Brewery, and Avery Brewing Company.

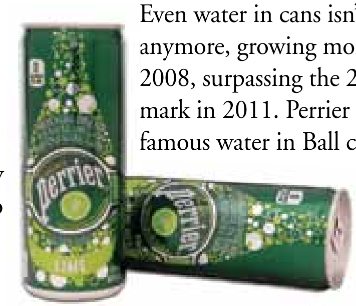
Another key driver of growth in the can industry is the increasing demand for specialty can sizes, which grew at a robust rate of approximately 15% last year. From the 5.5-ounce mini-can to the 32-ounce jumbo can, brand owners are leveraging the unique sizes and shapes of the beverage can industry to drive differentiation at retail. For example, the new 7.5-ounce sleek can appeals to consumers looking for smaller portions and offers an attractive package with

Photos of cans courtesy of Ball Corporation

a specific number of calories—something that is in the sweet spot for all major brand owners. XingTea, a popular all-natural green tea made by Denver-based Xing Beverage, is packaged in 24-ounce cans from Ball.

One well-known specialty package from Ball, especially in Colorado, is the Alumi-Tek bottle—also known as the aluminum pint. Miller Lite and Coors Light have had great success with the unique bottle, which offers a reclosable cap. Oskar Blues launched in Alumi-Tek in 2012.

Finally, other beverages continue to transition into cans. Energy drinks have been offered in cans for years. Wine is now available in cans as winemakers recognize the same benefits enjoyed by craft beer brewers who have been using cans for much of the past decade. Infinite Monkey, based in Denver, launched in Ball cans in 2011.



Even water in cans isn't that uncommon anymore, growing more than 30% since 2008, surpassing the 250-million-unit mark in 2011. Perrier introduced its famous water in Ball cans in Europe over the summer. And whole new sizes, such as the 586ml "royal pint" popular in Europe and a new 8-ounce can that meets USDA guidelines for school portions, have been introduced recently and are gaining traction.

It is tempting to paraphrase Mark Twain and note that "the reports of the death of the can have been greatly exaggerated." But the truth is the current decrease in the U.S. beverage can market is more a sign of progress than one of decline as the industry shifts away from reliance on just the 12-ounce can. And Ball is expanding its new products and capabilities to meet demand. In 2011 alone, Ball invested over $175 million in its U.S. manufacturing locations, including $60 million in Colorado for a new specialty can line in the company's Golden beverage can facility and a nearly $5 million expansion of its packaging R&D capabilities in Westminster.

With the sustainability advantages of the can catching the eye of consumers who are increasingly looking for more environmentally friendly packages, the evolution of an industry that had its start in Colorado continues to unfold.

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The Rise of the Colorado Distilling Scene

Rob Masters

Colorado is one of a growing number of states that is attempting to reclaim U.S. dollars from the global spirits market. The statistics don't lie.

The U.S. distilled spirits market is massive, providing a tremendous infusion into the national economy. According to the Distilled Spirits Council of the United States (DISCUS), in 2009, the entire U.S. alcohol beverage industry contributed more than \$393 billion in total U.S. economic activity, generating nearly \$90 billion in wages and over 3.9 million jobs for U.S. workers. Within that market, the distilled spirits segment accounted for nearly \$117 billion in total economic activity, or 30% of total economic activity from all alcohol beverages.

Distilled spirits are one of the highest taxed consumer products in the United States. Standardizing for alcohol content, the distilled spirits federal excise tax burden is more than double that of beer and almost triple that of wine. The federal excise tax burden per proof gallon (standard measuring unit for the Tax Trade Bureau) for distilled spirits is \$13.50. In comparison, the tax burden per proof gallon for beer and wine is \$6.18 and \$4.86, respectively. To put it in perspective, federal, state, and local taxes accounted for \$7.86, or 54%, of the average \$14.43 price for a typical 750ml bottle of 80 proof distilled spirits in the United States in 2011.

This market is clearly important to state economies. The overall beverage alcohol industry contributed more than \$21 billion directly to state and local revenues during 2009. Of that amount, distilled spirits accounted for over \$8.5 billion, or 41% of this direct revenue. In 2009 alone, beverage alcohol's total contribution to state and local revenues was over \$40 billion. Of that amount, \$19.7 billion came from indirect revenues, such as corporate, personal income, property, and other taxes generated by the beverage alcohol industry.

Like many other consumer products, imports have gained market share. The vodka market alone makes up 32% of all spirits consumption, and of that, 97% are imported brands. However, Americans are taking back their spirits.

Several interrelated consumer trends are sweeping the nation, including slow food, locavore (local, seasonal eating), and buy American movements, as well as the focus on organic. In response, craft distillers are popping up from coast to coast. Though it may take a few years for the United States to catch up to the barrel stock of single malt whiskeys in Scotland, no longer do consumers need to look to England to find world-class gin and to Russia for world-class vodka. As well, within the U.S., Kentucky is no longer the only source for world-class bourbon. Craft distillers in every state are creating products to support the resurgence of the classic cocktail, the craft cocktail movement, and the digestive and aperitif traditions of European mealtimes.

Colorado is on the cutting edge of this movement. In 2004, a Woody Creek fireman named Jess Graber responded to a fire in the barn of a neighbor. A friendship was formed and a local industry was created. That was the start of what is now one of the largest craft distilleries in the country, Stranahan's Colorado Whiskey. In less than 10 years, there are now 34 distilleries across the state making a variety of products sought after for their quality and craftsmanship.

Colorado distillers are taking old-world traditions and making new variations using locally sourced raw goods that impart Colorado terroir. Vodka using Colorado honey (Spring44), single malt-style whiskey from Colorado barley (Stranahan's, Downslope, Deerhammer), and brandy (Peach Street Distillers, Peak Spirits) from fruit grown in Colorado's Western Slope orchards are just a few of the examples of products that are available here.

In order to make world-class spirits, you need to start with world-class ingredients. Coors has built an empire on the purity of Colorado water. Spring44 Distilling lays claim to its quality with its use of Colorado Rocky Mountain artesian spring water from its spring in Buckhorn Canyon. Who can argue that water from the highest reaches of the earth, naturally processed and minimally handled is not the source of the very best spirits? In addition to being sandwiched between the grain fields of the Midwest and fruit orchards of the West, Colorado also has access to wonderful varieties of Colorado-grown sweet corn for bourbon and excellent fruit crops for brandy. Those are the basic building blocks to world-class products.

Although counterintuitive, the sudden growth in a highly regulated, highly taxed, specialized industry with high barriers to entry makes sense in Colorado. We have a culture of people who support, with strong conviction, local handcrafted and high-quality products, especially those borne from the state's bounty. Also, there is a certain caché to Colorado—the outdoorsy focus, the pride in nature, and conservancy. Coloradans vote with their wallets and readily spend their money on locally made products, not only to support their friends and neighbors in creating jobs, but to support the artisans for their quality and diligence. This is powerful to the ancillary industries supporting the craft segment—beekeepers, malt houses, barley growers, and beyond.

Photo courtesy of Spring44 Distilling

Colorado maintains laws to further support the industry and its growth. One of the major hurdles for a small producer is distribution. It is difficult, if not impossible, for a small distiller to obtain distribution through a large national distributor. For them, it's considerably less trouble to focus on large internationally recognized brands. While not allowed in many states, self-distribution is a viable option in Colorado for small producers, and allows young brands to go to market. It's a proven strategy—New Belgium Brewing of Fort Collins, America's third-largest craft brewery, started selling beer out of the back of a station wagon.

Because of the proliferation and quality, Colorado craft distilleries have become tourist attractions. Many have tasting rooms, providing both revenue and immediate feedback for the distiller and a wonderful experience for the guest. You may find that your favorite rum is not made in the tropics, but rather high up in the mountains of Colorado.

Rob Masters is the Chief Ethanol Savant/Head Distiller for Spring44 Distilling in Loveland, Colorado. Rob is also the President of the Board of the Colorado Distillers Guild. He can be reached at masters@spring44.com.

Colorado Wine: Rooted in History

Doug Caskey

History

When Colorado Governor George A. Crawford planted 60 acres of grapes on Rapid Creek in 1890, above the town of Palisade in the "sweet spot" of today's Grand Valley American Viticultural Area (AVA), he was taking advantage of the perfect fruit-growing conditions in the newly settled area. According to "The Fruit Belt of Mesa County," an authoritative statement of the resources of Mesa County, c. 1896, prepared by the Commissioner of Immigration for Mesa County, the conditions "can hardly be improved upon. More than 300 days of perfect sunshine annually and the dryness of the atmosphere make it a natural sanitarium."

The publication goes on to name the "finest European grapes [grown in the Grand Valley], such the Black Hamburg, Flame Tokay, Zinfandel, Sultana, Muscat and Malaga," a list that would have impressed a nineteenth-century sommelier.

Between 1899 and 1909, the grape harvest in Colorado reported by the U.S. Department of Commerce Agriculture Census went from 586,300 to 1,037,614 pounds, with 1,034 farms involved in grape production statewide. Many of the European settlers who had come to Colorado to work the mines in areas like Pueblo and Cañon City brought viticulture and a winemaking tradition with them.

Unfortunately, Colorado was ahead of the times and adopted Prohibition in 1916, four years before the rest of the nation. Grand Junction historian Abbot Fey calls Prohibition the advent of the peach industry in the Grand Valley as hundreds of thousands of grape vines were torn out when the wine tap was closed by the government.

In 1968, Denver dentist Dr. Gerald Ivancie founded the first modern winery in Colorado in his cellar. He hired an aspiring winemaker, Warren Winiarski, who went on to make wine at Stag's Leap Wine Cellars and had some notable success at the Judgment of Paris in 1976.

At Ivancie's urging and Winiarski's recommendation, grapes were reintroduced to the Grand Valley in the early 1970s. Colorado State University participated in viticultural research as part of a federally funded Four Corners Project grant that looked at the viability of grapes as an agricultural economic generator in all four of the adjacent states. That project would be the genesis for the current industry in all four states.

Jim and Ann Seewald headed a group of 18 investors to found Colorado Mountain Vineyards, and in 1978, the Denver winery produced its first bottle from Colorado grapes. After many corporate reorganizations, Colorado Mountain Vineyards essentially operates today as Colorado Cellars in Palisade.

The idea of using Colorado grapes grew quickly. Theron Barber planted mostly hybrid grapes across the interstate from the World Arena in Colorado Springs in 1979 as *vitis vinifera*, the species of the classic European wine grape varieties, does not tolerate the extreme temperatures and fluctuations of the Front Range. His winery, Pikes Peak Vineyards, had its first crush in 1984. Hobby winemakers Doug Phillips and Eric Bruner founded Plum Creek Cellars in 1985 along its namesake in Larkspur, but soon moved the operation to Palisade to be near the grapes they had planted. Grape grower Steve Smith opened Grande River Vineyards in 1987, and Parker and Mary Carlson followed suit with Carlson Vineyards and Winery in 1988.

Funding

Due to its agricultural roots and its potential to stimulate the economy of many parts of the Western Slope, the Colorado wine industry has always enjoyed the avid support of the state legislature. The Colorado Limited Winery Act, passed in 1977, gave small wineries using primarily Colorado fruit and produce to make their wine a reduced cost license that allowed self-distribution, without needing to go through a licensed wholesaler. It also allowed up to five remote sales and tasting rooms, plus one on the manufacturing premises, from which to sell Colorado wine directly to consumers.

These privileges, plus the Colorado Wine Festival License, enacted by the state legislature in 1999, permitted manufacturers of vinous spirits in the state unprecedented access for selling their products directly to consumers. While limited wineries were always allowed direct-to-consumer shipping, the legislature brought that privilege into compliance with the Granholm Decision (U.S. Supreme Court, 2005) in the 2006 session. More recently, the legislature first allowed wineries, then breweries, to take advantage of a federal rule allowing manufacturers of wine or beer to share "alternating premises" for production activities, thereby reducing the initial capital investment required to get into the business.

Perhaps the single event that moved Colorado's wine industry further ahead of the other Four Corner states was the passage of the Colorado Wine Industry Development Act in 1990 by the state legislature. Modeled after Missouri and Oregon's wine promotion statutes, the act created a continuously appropriated funding stream from a penny per liter excise tax on all wine sold in the state, an additional \$0.01-\$0.05 per liter sliding scale excise tax on wine produced by Colorado wineries, and \$10 per ton on grapes and other produce used by Colorado wineries to make wine.

The fund is overseen by the nine members of the Colorado Wine Industry Development Board (CWIDB), who were appointed by the governor. The board operates under the auspices of the Colorado Department of Agriculture. The Wine Industry Development statute mandates that at least one-third of the budget, which has totaled more than \$600,000 in recent years, be spent on research and at least one-third on promotion of Colorado wine and grapes.

The CWIDB's promotional efforts have included billboard, radio, and limited TV advertising, plus media trips for national and local writers to taste Colorado wines. However, wineries traditionally report that the most successful marketing tool is the Colorado Wine Brochure, listing all 105 licensed wineries and their remote tasting or sales locations. The publication has been distributed in tourist brochure rack services across the state for nearly 20 years. It has been expanded to include an interactive map and winery listing on www.coloradowine.com, which is also a source of information about virtually every aspect of the Colorado wine industry for trade members and consumers.

When the legislature passed the Colorado Wine Industry Development Act in 1990, there were 5 licensed wineries. That number grew to 35 in 2000 and 105 currently, although the total fluctuates. The volume of wine reported by the licensed wineries in the state has risen more than 12-fold, from 91,800 liters in 1992, the first year of records from the Wine Industry Development Act excise tax, to 1,115,139 in fiscal year 2012, which ended in June. Despite enduring some of the worst crop damage in recent history during December 2009, the average annual production increases for Colorado wine continue to track ahead of annual increases in overall statewide wine consumption, 4.7% versus 3.3% for 2008–2012. Nevertheless, Colorado wine's market share based on volume hovers around 1.8% compared to other wine states, such as Washington and Oregon, which together account for 20% market share.

A 2006 CSU economic impact study determined that the wine industry in Colorado generated $21.1 million in direct and induced effects. That amount, combined with an additional $20.6 million from wine tourism activities, created nearly $42 million in economic impact. An unverified 2009 economic impact study suggested this had increased to roughly $60 million total impact, but a revised number will not be available until 2013.

Photo courtesy of Colorado Wine Industry Development Board

Challenges

Contrary to the sunny picture painted by the Mesa County Commissioner of Immigration in 1896, extreme weather is the most consistent challenge for Colorado's grape growers. On the plus side, the low humidity precludes disease and pests that necessitate the extensive use of chemicals required in most of the major wine growing regions. Colorado viticulture is about as low impact as anywhere in the world, provided growers can find the 20 inches of annual water grape vines require.

The Grand Valley AVA, recognized by the federal government in 1990, follows the Colorado River (once known as the Grand River) as it emerges from the mouth of DeBeque Canyon up to the foot of the Colorado National Monument west of Grand Junction. Depending on the vintage, the Grand Valley yields 80%-85% of the grapes grown in the state. (See the Colorado Wine Industry Overview at www.coloradowine.com for more information on the climate of the Grand Valley AVA, as well as the other growing regions in the state.)

In a normal year, the growing season for the Grand Valley AVA yields as many degree days—a measure of the available heat for grape vines between the last spring and first fall frosts—as Napa Valley in California or Tuscany in Italy. But the heat is concentrated in a roughly 180-day growing season, compared with 232 days in Napa Valley. This means that Colorado grapes have to work faster to fully ripen. As a result, late ripening grape varieties, such as Zinfandel or Sangiovese, are relegated to a very select few sites in the valley, while the Bordeaux and Rhône Valley varieties, such as Cabernet Franc, Merlot or Syrah, and Viognier, flourish.

Even in good grape harvests, such as those in 2000, 2006, and 2009, the statewide average yield rarely surpasses 2.5 tons per acre, and averages 3.0–3.5 tons per acre in the more fruitful Grand Valley AVA in those strong years.

For most regions around the world, economic viability rests with high-quality grapes and production yields of 4 to 5 tons per acre. Colorado does not come close to that even in a good year, and historical trends predict a devastating year once every decade. As the cost of vinifera grapes ranges between $1,200 and $1,800 per ton, and a per acre cost for production around double that price, a yield of 2.0–2.5 tons of grapes per acres barely meets the break-even cost for growers.

The Future

Grape growing has persisted on Colorado's Western Slope because it offers fruit growers a greater diversity of crops and a broader hedge against frost damage. With an early spring frost, growers might lose cherries and apricots, but grapes will still be viable. As the commercial viability of apples has dropped precipitously in the last decade, grapes have increasingly filled that late season harvest slot.

Virtually all of the research funding from the CWIDB goes to Colorado State University. To improve the yields and profitability of grapes, Dr. Horst Caspari, CSU State Viticulturist, has been conducting trellising trials using techniques that would seem frivolous in a consistent climate such as California. He has elevated yields 25%–50% (and even higher) in experimental blocks by switching from the nationwide standard of bilateral pruning and trellising practices to quadrilateral arrangements, cutting away surplus shoots and buds once frost danger is over and winter damage is evident.

Coupled with CSU State Enologist Dr. Stephen Menke's efforts to expand the viticultural palate of Colorado grape growers and winemakers to include more cold-hardy hybrid grape varieties that would allow planting in the more extreme conditions of the Front Range and expanded areas on the Western Slope, the Colorado wine industry is on the verge of significant expansion and improvement. New areas for viticulture, from Montezuma County, where growers are actually dry-farming grapes on land cultivated by the Anasazi, to Fremont County that is reviving the immigrant grape-growing traditions from the nineteenth century, the Colorado wine industry is returning to the roots of its beginnings.

Doug Caskey is the Executive Director of the Colorado Wine Industry Development Board. He may be contacted at dcaskey@coloradowine.com.

Good for You, Good for the World... Good for Colorado!

Erin Humphries

Celestial Seasonings is proud to have been one of the founders of the natural foods movement here in Colorado, which has steadily grown over the last 40 years to become one of the driving forces in our state's economy. We're equally proud that we continue to develop innovative new products that meet our consumers' changing beverage tastes and needs, both here in our home state of Colorado, across the country, and around the world.

It's no coincidence that the tastes and trends enjoyed by Colorado consumers closely align with our brand's core mission: creating unique and delicious natural products that are good for you and good for the world. We frequently see Colorado act as an incubator for the entire natural foods industry. Ideas and innovations embraced by forward-thinking Colorado consumers quickly spread and are adopted by consumers nationwide. A few examples include bottled Kombucha, natural energy shots and drinks—and, of course, herbal teas!

Celestial Seasonings tea drinkers have always been receptive to adventurous new varieties—the "treasure hunt" in the tea aisle is part of the allure for consumers. We also see that tastes in tea are somewhat cyclical, with varieties like Rooibos, yerba mate, and many other teas enjoying increased popularity for stretches that often last several years. The challenge for us is to stay ahead of that curve and anticipate where the trends are heading in the coming months and years. Again, having Colorado's adventurous and healthy consumers on our doorstep and with so many hungry and innovative beverage and natural foods companies in our neighborhood helps us tremendously.

Photo courtesy of Celestial Seasonings

Wellness

With the increased focus on natural wellness both here in Colorado and across the country, wellness teas represent a large growth opportunity for our brand. Consumers are demonstrating an increased willingness to consider natural alternatives to over-the-counter wellness products that provide condition-specific and everyday wellness solutions, and Celestial Seasonings has responded to this opportunity by building out a robust line of wellness teas that meet consumers' needs throughout the day and year-round. Our wellness assortment includes blends for when you're feeling under the weather, like Sleepytime Echinacea Complete Care, Sleepytime Sinus Soother, and Sleepytime Throat Tamer Wellness Teas, as well as everyday wellness varieties like Natural Detox and Metabo Balance Wellness Teas. These innovative varieties are a big reason why sales of Celestial Seasonings Wellness Teas are growing nearly twice as fast (+15.7%) in the natural channel as the overall wellness segment (+8.4%). (Source: SPINS, 52 weeks ending February 18, 2012)

Energy

A new trend we've seen in the beverage market is a natural approach to meeting consumers' energy needs. Colorado natural and specialty stores are loaded with a wide variety of energy drinks, but curiously few single-serve energy shots. In response, we've recently launched two natural energy alternatives in our Celestial Seasonings Natural Shots line: ENERJI Green Tea Energy Shots and Kombucha Energy Shots. We know many consumers are looking to bridge the gap between finding the energy they need and making healthy, natural dietary choices, so we're providing great-tasting, natural, and portable solutions with our Natural Shot product line. We feel this is a natural extension for our brand because we've been providing teas that meet a wide variety of consumer needs for more than 40 years.

Sleep

The other side of the coin is, of course, sleep. According to Mintel, sales of natural and homeopathic sleep aids now have a larger share of the overall sleep aids category than active pharmaceutical brands. So we're very pleased to announce the launch of Sleepytime Snooz Natural Sleep Aid shots, which are intended to address consumer demands for natural alternatives in what might be the most important need-state of all. Sleepytime Snooz shots are perfect for consumers who need natural support to help them fall asleep faster, stay asleep longer, and wake up feeling refreshed. We think it's a game-changing product that's also in line with our long history of relaxing products—after all, we've been one of the most trusted names in sleep for more than 40 years.

While we're extremely excited about the prospects of our Wellness Tea and Natural Shots lines, we continue to see increased popularity in some of our consumers' most beloved blends in our core herbal tea segment. This year, Celestial Seasonings is celebrating the 40th anniversary of the best-selling specialty tea of all time, Sleepytime Herbal Tea, which has sold well over 2 billion servings since 1972. We're marking this milestone by introducing two new Sleepytime herbal varieties: Sleepytime Peach Herbal Tea and Sleepytime Kids Goodnight Grape Herbal Tea. Sometimes innovation comes in the form of big new ideas, and sometimes it's just a little update to an already proven formula. It's a testament to the staying power of our Sleepytime subbrand that both young and old consumers continue to be so receptive to new varieties.

It's an exciting time for the natural products industry in Colorado, and especially for beverage manufacturers. To be certain, the current economic climate represents a challenge for all consumer brands. But Celestial Seasonings continues to grow at a rate that exceeds that of the specialty tea category, and there are a variety of long-term opportunities that we believe will help us reach even more consumers (in Colorado and across the nation) in the months and years to come.

Erin Humphries is a Senior Product Manager with Celestial Seasonings. She may be contacted at erin.humphries@hain-celestial.com.

The Colorado Craft Beer Industry: Something Special Is Brewing in Colorado

John Carlson

Photo courtesy of Colorado Brewers Guild

Colorado Craft Brewing Overview

Colorado is a state with a great brewing tradition. Shortly after Front Range mining communities began forming in 1858, Colorado entrepreneurs saw an opportunity. Over the 120 years from 1859 to 1979, Colorado was home to 251 brewing companies.

In 1990, there were 10 Colorado breweries; by 2000, that number had expanded to 91. According to a July 2012 Colorado Liquor Enforcement Division report, Colorado has 161 licensed craft breweries (97 brewpubs, 64 manufacturer breweries). This represents the greatest number of breweries operating in Colorado history. In addition, more than 60 breweries are in planning phases in various locales across the state. While California leads the nation with approximately 268 breweries, Colorado is close behind and with a smaller population.

Job Creation

What is quite remarkable is that Colorado craft beer represents 4.6% of beer brewed in Colorado. Yet, of the approximately 6,600 brewery-related jobs in Colorado, roughly 4,200, or 64%, involve craft beer. The Colorado Front Range is the largest craft brewing market in the United States, with about 74 breweries in operation. In 2012, Colorado ranks second in the number of breweries by state, and it is third in the number of breweries per capita by state. In aggregate, Colorado craft breweries employ approximately 5,800 Coloradans. Craft brewers in the state donated an estimated $1.2 million to nonprofits in 2011. More than 10% of Colorado craft brewers export internationally. Colorado has the highest percentage (20%) of draft beer sales, indicating Colorado beer lovers like to try new beer styles. The Colorado beer culture is growing, and two Colorado craft brewers are each planning to construct a new brewery, both in North Carolina, to more efficiently serve the East Coast market. Increased demand for Colorado craft beer leads to more jobs in the Colorado craft brewing sector.

Innovation in Packaging and Beer Styles

The local Colorado market is the largest market for Colorado craft brewers. Brewers have packaged their craft beer in many interesting ways to meet the desires of the Colorado beer lover. Colorado also fostered the move of craft beer into cans, an innovative package for craft beer. New styles of cans are being manufactured in the state.

Craft beer is flavorful, and many Colorado craft beer styles highlight hops as an ingredient. Colorado has approximately 20 farms growing hops for local brewers across the state.

Distinctive Beer Events and Colorado Beer Culture

Known as the Munich of the West, Denver hosts the Great American Beer Festival (GABF), celebrating its 31st year in 2012. Colorado brewers were awarded 45 medals at the 2011 GABF, 37% of which were gold. Other distinctive Colorado beer events include the Colorado Brewers Rendezvous held every July. The Rendezvous set a record in July 2012, with 62 breweries pouring their finest. Every February, Colorado brewers gather in Colorado Springs to host a cask ale tasting called the Firkin Rendezvous.

Colorado is home to 5 of the top 50 craft breweries. U.S. craft brewer retail sales in 2011 totaled an estimated $8.7 billion, up from $7.6 billion the previous year. Nationally, craft brewing is growing, with a 5.7% market share in 2011 that is predicted to hit 10% by 2016.

Explanation for Craft Beer Growth in Colorado

Craft beer has been successful in Colorado for a number of reasons, including an active outdoor lifestyle and a rational state regulatory system with

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CRAFT BEER INDUSTRY, CONTINUED FROM PAGE 7

flexibility for both manufacturing breweries and brew pubs. A highly educated population that is interested in supporting local businesses and sustainable enterprises also plays a large role in the growth of Colorado craft beer.

Structural factors supporting the success of craft beer entrepreneurs are found in an atmosphere where a specialty beer brewer can gain access to market without overly burdensome barriers. Two market-friendly factors exist in Colorado. First, a lack of overly stringent beer franchise laws allow craft brewers to self-distribute and modify their distributor agreements when necessary with beer wholesalers without punitive measures like those found in other states. Second, a vibrant independent retail tier allows a Colorado craft brewer to form vital relationships with store owners in order to secure shelf space for their craft beer. In other states, stock keeping unit (SKU) rationalization programs of major chain buyers tend to exclude small specialty beers with lower sales velocity. Many chain grocers and large warehouse retailers are interested in ubiquitous products with the widest market appeal that sell or turn at a very rapid rate.

Opportunities and Excitement

Craft brewers are well connected to Colorado beer lovers and local communities throughout the state. Because of this connection, Colorado brewers have established a solid reputation and demand for their beer that is likely to continue into the future. Moreover, the excitement and activity surrounding the local purchasing movement has begun to move into the mainstream. Craft beer is becoming a standard for Coloradans. Flavorful craft beer is considered less exotic than in the past. For many, a Colorado craft beer is the beer of choice. The growth in market share continues to climb for Colorado craft beer. The newest generation of Colorado beer lovers, the millennials, have never known a world without Colorado craft beer. Their first beer may have been a craft beer; they have a relationship with the craft beer category. Colorado craft beer represents quality, it highlights the beneficial aspects of living in Colorado, and it is fun. Craft beer lovers experiment with beer styles and enjoy limited seasonal offerings. This demand provides growth and excitement in the craft beer category. This stands in sharp contrast to the larger beer industry, dominated by commodity-type lager produced by global corporations, which has been relatively flat.

Challenges to Growth

Many new entrants that are joining the market will make capturing retail shelf space more complex. As large brewers explore producing more flavorful beers with large marketing budgets, the concept of what is and what is not a Colorado craft beer could become blurred.

In addition, large beer distributors continue to consolidate under pressure from large global brewers and the future distribution options afforded to Colorado craft brewers could be in peril. For Colorado wholesalers, the success rate of getting new brands to market effectively will be important, especially to a Colorado brewer trying to get established in the retail channel. The continued pressure from convenience and grocers to sell full strength beer raises questions about the future of the Colorado beer market. If successful, access and availability of a wide array of Colorado craft beer may be jeopardized. Colorado craft brewers have experienced complexity selling their beer in states that allow chain store sales. Chain buyers typically stock less varieties of beer than a retail liquor store. This makes it more difficult for craft brewers to get their beer on the store shelf. State legislation regarding beer composition, franchise, self-distribution, excise tax, and tasting room operations of manufacturing breweries all present potential pitfalls for the Colorado craft brewer.

On the federal front, regulatory actions from the U.S. Food and Drug Administration, the Alcohol and Tobacco Tax and Trade Bureau, and the Federal Trade Commission could adversely impact craft brewers.

Hop growing decisions by local suppliers, major domestic suppliers, and the international market could influence beer pricing.

Finally, as Colorado craft brewers continue to grow their operations from start-ups to mature going concerns, the financing of capacity expansions present challenges and opportunities to meet demand for flavorful, locally brewed ale and lager. Brewing is a capital intensive activity. Efficiently financing explosive growth can be a complex endeavor.

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