

Book Reviews

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VICTOR J. TREMBLAY and CAROL HORTON TREMBLAY: *The U.S. Brewing Industry: Data and Economic Analysis*. The MIT Press, Cambridge, MA., 2005, 397 pp. ISBN 978-0262201513, \$45.00 (paperback: The MIT Press, Cambridge, MA., 2009, 400 pp., paperback ISBN 978-0262512633, \$22.00)

With the advent of craft brewing in the United States, beer is no longer just for “Joe six-pack.” Beer has become a beverage for connoisseurs. Some domestic brewers today vie for the patronage of wine drinkers, as well as for the patronage of those who normally consume imported malt beverages.

In 2005, Victor and Carol Tremblay's *The U.S. Brewing Industry* was published. The importance of the book and its popularity provoked MIT Press to bring out a paperback this year. The Tremblay book became the standard economic text on the beer industry. The authors already had a reputation as students of this industry, having published several important papers on particular economic topics associated with the production and marketing of malt beverages. *The U.S. Brewing Industry* represents not only the summation of the Tremblays' prior work, but considerable value added beyond their earlier research as well.

The basic outline of the book reflects the Industrial Organization specialties of the authors. First, the Tremblays lay out the basic demand and cost conditions for beer. Building on this, they develop data on industry concentration and use economic analysis to explain the trends in industry concentration.

Putting aside the craft beer segment, which is fragmented, the beer industry has undergone one of the greatest structural transformations of any major U.S. industry. In the post-War period, there were hundreds of independent brewers. For example, in my home state of Michigan, the leading brands in 1957 were Goebel, Stroh's, Pfeiffer and Drewrys. Most beer drinkers in Michigan today would not recognize any of these brands. Budweiser barely made the top ten; Miller was number thirteen; and Coors had zero market share. In 1970, Pabst was the leading seller in Michigan; Stroh's was still in second place; but Anheuser-Busch had moved to #3. Miller had not made its move (this was prior to Miller's acquisition by Philip Morris); Carling was number four. Imports were barely on the radar screen in those days (less than 1% of sales). The beer brands that once were stalwarts in Michigan are gone (and the same story could be told over and again in other states from Maine to California).

Through exit and merger, the hundreds of independent brewers who once were household names have dwindled to a few. Some observers refer to the core of the beer industry today as essentially a duopoly: comprising Anheuser-Busch (recently acquired by InBev) and MillerCoors (a recent joint venture of Miller and Coors).

The Tremblays assess why the beer industry has gone through this structural transformation. The two main explanations that they consider are: the exploitation of economies of scale; and the role that mass advertising has played as the beer industry moved to its current structure. They find that both contributed to the industry's structural shakeup.

The U.S. Brewing Industry has one chapter devoted to the leading mass-producing brewers which provide the millions of six-packs for Joe six-pack (and, Jill six-pack). This focus on the major brewers is appropriate. As the authors put it, "Anheuser-Busch and Miller spill more beer than the specialty brewers produce." (p. 13). Increasingly, Anheuser-Busch and MillerCoors offer an array of new brands and line extensions from their flagship brands. The question is: will these firms be nimble enough to exploit the cost economies associated with 5+ million barrel capacity breweries and be able to tap into (no pun intended) the increasing demand for product differentiation spawned by the emergence of the craft brewing segment?

The Tremblays also discuss the economic importance of imports and what they call “domestic specialty brewers” in the domestic beer industry and they analyze the growth of this segment of the malt beverage industry. The domestic specialty segment, which now has its own brewers association, is the attention-getter in the industry. It has been the avenue for many new entrepreneurs to enter the malt beverage industry. These firms would be unlikely entrants if they had to go head-to-head against the major flagship brands.

In their prior writings, the Tremblays had an interest in pricing and advertising strategies, particularly by the large brewers. One chapter of their book is devoted to what they call “Strategic Behavior.” This chapter has a dual focus on pricing behavior and advertising resources devoted to the promotion of beer (with a primary focus on the major brewers). The analytical lens for this chapter is game theory. The academic literature on game theory often eschews empirical work and case studies. Thanks to the Tremblays, we have a real-world case study of oligopolistic interaction. Would that more of the game theory literature had this connection to the inside workings of an actual market.

The chapter on “Economic Performance” is devoted to whether the beer industry is an efficient steward of society’s scarce resources and whether the industry’s technological progress can be considered exemplary. The authors put the spotlight on Anheuser-Busch and its relative size and market power (this was before AB’s acquisition by InBev).

The penultimate chapter of *The U.S. Brewing Industry* is devoted to public policy. Here, the authors deviate from the stock-in-trade industry study of Industrial Organization economists. They discuss externality concerns associated with the beer industry, notably alcoholism and drunk driving. The research they cite is mainly that of other scholars, but the chapter provides an efficient introduction to this literature for the reader unacquainted with these studies.

The public policy chapter also contains the Tremblays’ assessment of U.S. merger policy as applied to the domestic beer industry. The beer industry not only experienced many horizontal mergers in the post-WW II period; the industry also has been the subject of several prominent antimerger cases. Here again, the book was written before the two mega-combinations: Anheuser-Busch-InBev and MillerCoors, both of which were approved by the Department of Justice.

The Tremblays book is solid economics: they are not in the pocket of the beer industry, nor are they in the pocket of the neo-prohibitionists. Any reader of *The Journal of Wine Economics* is likely to have a complementary interest in the economic analysis of malt beverages and sophisticated oenophiles may find *The U.S. Brewing Industry* to be a congenial diversion from reading about their beverage of choice. Not to be overlooked as an asset within the book’s covers are the statistical appendices and the bibliography. Anyone with an interest in the beer industry will enjoy browsing the sources that buttress the volume’s scholarship. The Tremblays’ book is a superb piece of scholarship and is the “go to” book on the U.S. brewing industry.

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