

An Economic and Financial Perspective on the Craft Brewing Industry in Romania

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Abstract

The craft brewing industry has developed very fast in Romania, following a global trend that originated in the US several decades ago. In this article we present the main financial indicators of craft brewers and analyze the state of the industry, using the data provided publicly by the Ministry of Finance. This analysis is useful for entrepreneurs to better plan their strategies and understand their competition.

Keywords

Craft beer; brewing industry; entrepreneurship; financial analysis.

Introduction

The craft beer industry is a very young and dynamic sector of Romanian business. According to the Brewers of Europe (2021) Beer Trends 2020 report, the number of companies active in this area has increased from 3 in 2013 to 61 in 2019. This number is still small compared to the microbrewery sector in other countries in Central and Eastern Europe, or to the industry in similar western countries. It also has to be noted that around 85% of the Romanian beer market is dominated by multinational corporations (Bratoveanu et al., 2020). Nevertheless, the interest in craft beer increased in Romania, as well as all over the world (Salanță et al., 2020).

Given the recent upheaval in this sector and the fact that a significant number of companies are still too young to have a meaningful history, we have selected 36 firms that were already established two years ago. Because the data reported to the Ministry of Finance (2021) are sometimes incomplete, the following presentation does not always include the whole set of companies.

Craft beer generally means beer made traditionally, from natural ingredients, without chemical additives. As modern craft beer culture, however, requires a high level of innovation, the interest in analyzing the phenomenon is not the strict definition of beer as such, but how craft beer producers differ from "industrial" producers. Thus, the American definition of craft beer focuses on three characteristics: "small, independent

and traditional". Craft beer is made in microbreweries - production units the capacity of which differs depending on the legislation of each state. These factories are independent of the corporations operating in the beer market.

Craft beer gained global interest after the economic crisis of 2009. Interest spread from the Center (economies in which microbreweries had already taken off) to the Periphery (emerging economies). Consumers prefer craft beer considering that its production process is unique and trustworthy, connecting it with small companies (Carvalho et al., 2018; Garavaglia, & Mussini, 2020). We highlight again that the increased competition on this market is not related only with the small producers of craft beer, but also to the large multinational corporations which produce various brands competing on this market (Garavaglia, & Swinnen, 2017).

Google Trends shows that in Romania the public's curiosity expressed by searching for this term on the Google engine has only increased since 2015 and reached a maximum point in 2019, before the outbreak of the pandemic. Before seeing how this sector presents itself in Romania, it is useful to put things in a broader context. Romania ranks 9th in Europe in beer production and 7th in beer consumption. If we refer to the consumption of beer per capita, then we climb a position in the ranking and reach 6th place.

Microbreweries are a dynamic and expanding sector. In Romania, the number of microbreweries increased from 3 in 2013 to 61 in 2019. A similar evolution was registered in the other countries in Central and Eastern Europe. Based on international comparisons, we can see that there is still potential for growth as living standards increase. For example, in Portugal, a country with a population half that of Romania and with a GDP/capita relatively similar at purchasing power parity, no less than 115 microbreweries operated in 2019, almost double that of Romania.

The craft brewing industry on the radar

Turnover

The Romanian craft beer industry presents a strong polarization, and this can be seen first of all from the turnover achieved in 2020. Thus, the first 4 players in the market, each of them with sales higher than 1 mil. lei, have a combined market share of 52%. However, the median turnover was only 293,390 RON. Figure 1 presents the structure and evolution of the market.

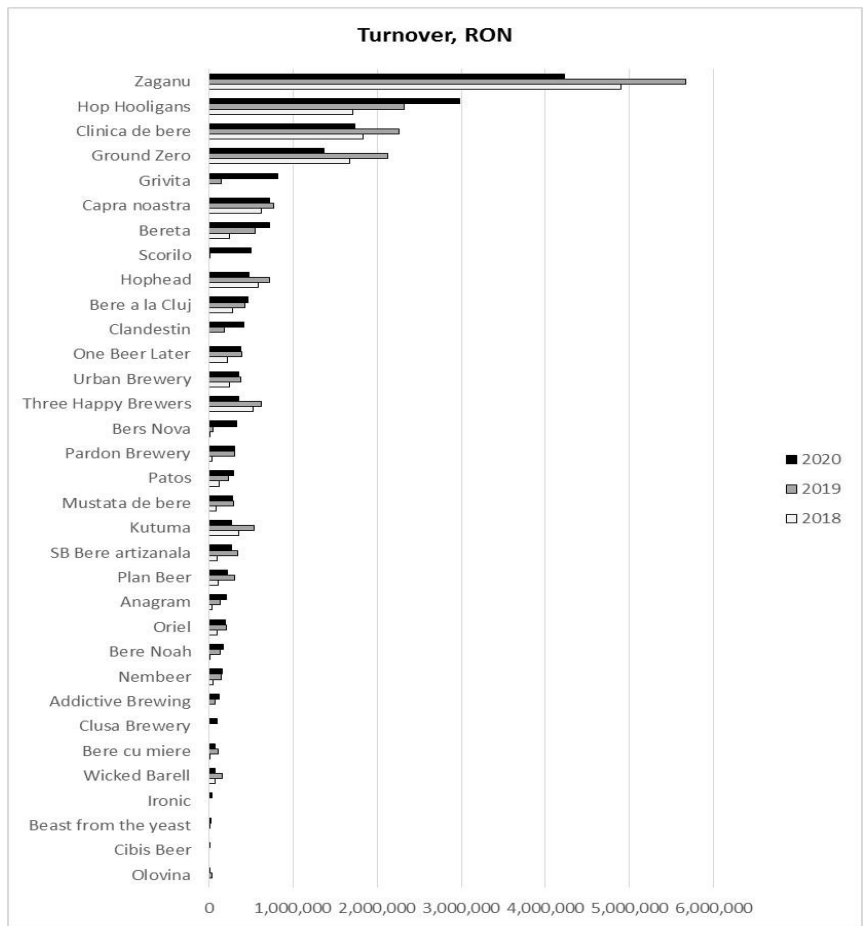


Figure 1. The evolution of the turnover of the main craft beers in Romania

Profit

The same asymmetric landscape exists in relation to profits. 14 firms have ended 2020 with a profit (Figure 2). Both the average and the median profit were negative. Indeed, most of the craft brewers have losses or insignificant profits, probably due to the very young age of their companies, as Warusawitharana (2018) explained, and to the economic restrictions that were implemented in the first pandemic year. The profitable breweries are situated in various parts of Romania, suggesting that proximity to the country's capital is not a determinant of profitability, as indicated by Jantyik et al. (2021).

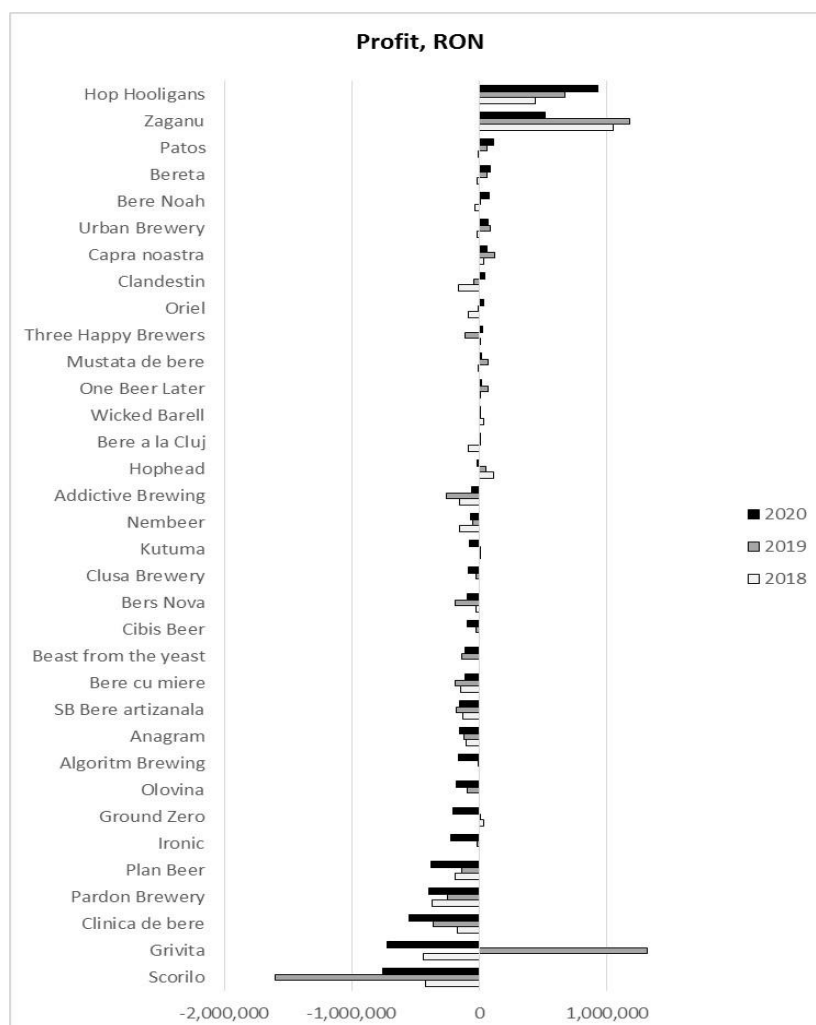


Figure 2. The evolution of the profits of the main craft beers in Romania

Figure 3 presents the rate of profit in 2020 for the entire craft brewing (considering aggregate profit relative to total turnover) sector, which was -13.8%. It entered negative territory after being zero in the previous year, lower than the -7.2% level attained in 2018. Therefore, at this stage of development, the Romanian microbrewing industry is not profitable in the aggregate. Nevertheless, 8 companies have managed to obtain in 2020 a profit rate higher than 10%, three of them achieving more than 30%.

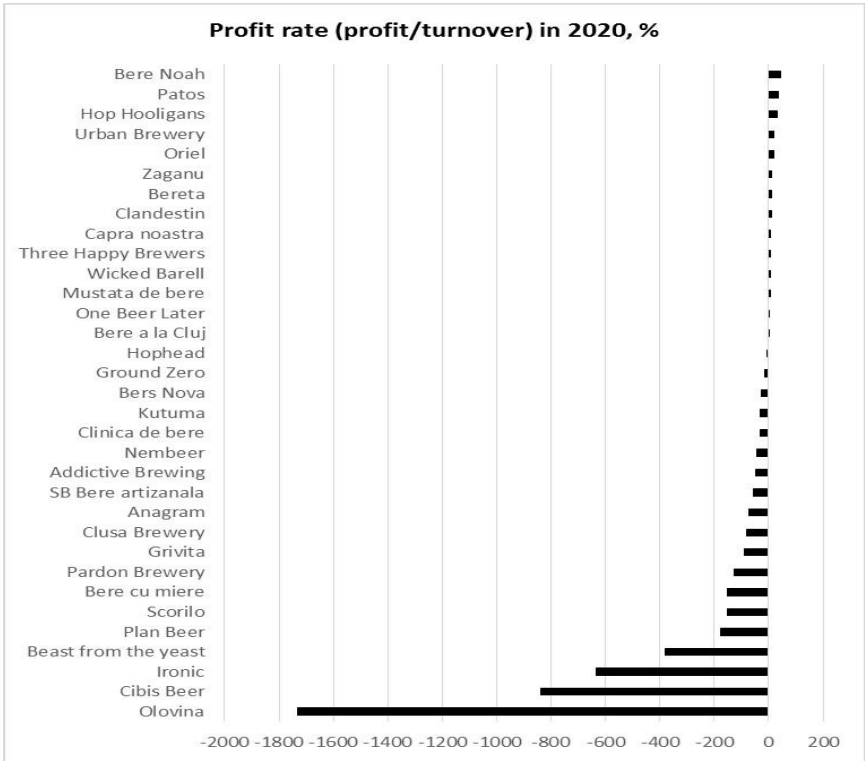


Figure 3. The evolution of the profit rates of the main craft beers in Romania

Capital

The microbrewing sector suffers from undercapitalization. Most of the firms have negative equity, reflecting the substantial investment financed via debt, but also the small return (Figure 4). The undercapitalization has worsened in 2020, compared to the previous two years.

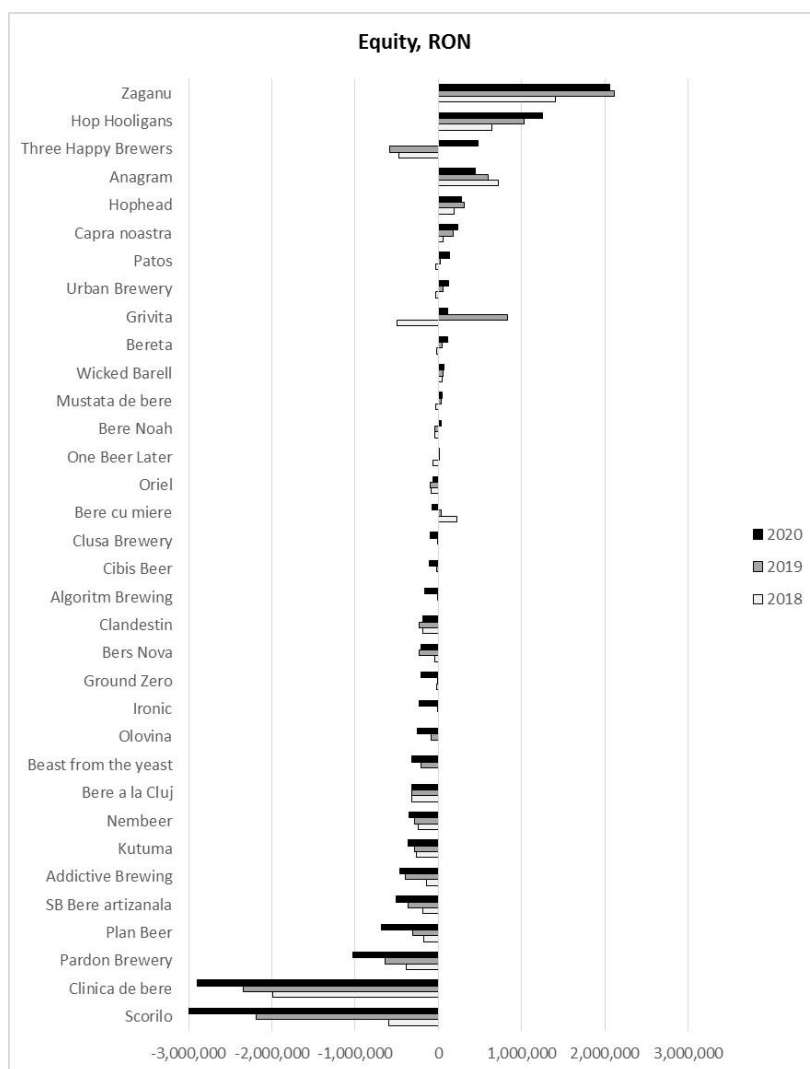


Figure 4. The evolution of the equity of the main craft beers in Romania

The size of investment and firms' competitiveness

The firms' competitiveness depends often on the scale of their production, which in turn depends on the magnitude of capital investment or the formation of the fixed asset (Agiomirgianakis et al., 2006). Using the data available we have calculated a correlation coefficient R of $-0,5$, showing that higher fixed investments are not at all associated with higher profits. The firms with the highest investment in fixed assets (Grivița, Pardon, Scorilo) had significant losses in the past three years.

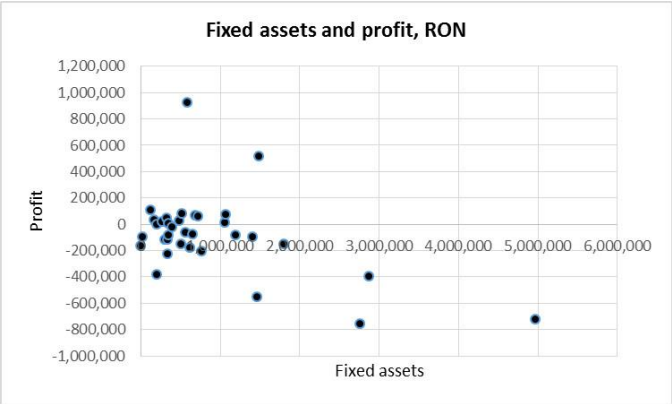


Figure 5. Fixed assets and profit on the craft beer market

A very weak correlation exists between fixed assets formation and turnover ($R = 0.185$), showing that the size of investment is not determinant for the performance of Romanian microbreweries.

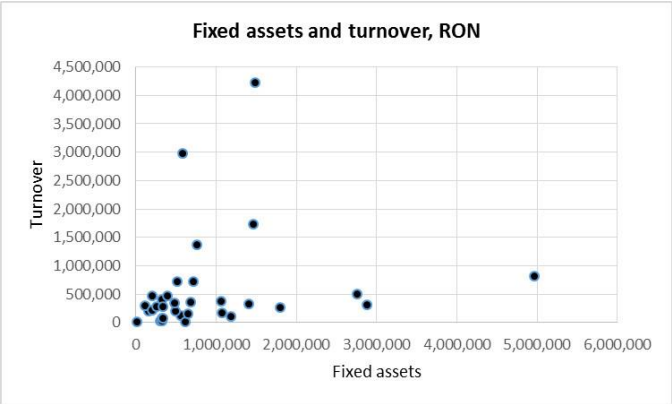


Figure 5. Fixed assets and turnover on the craft beer market

The relation between equity and economic performance

We have calculated a correlation coefficient R of 0.34, showing a weak positive relationship between firms' equity and their turnover (Figure 6).

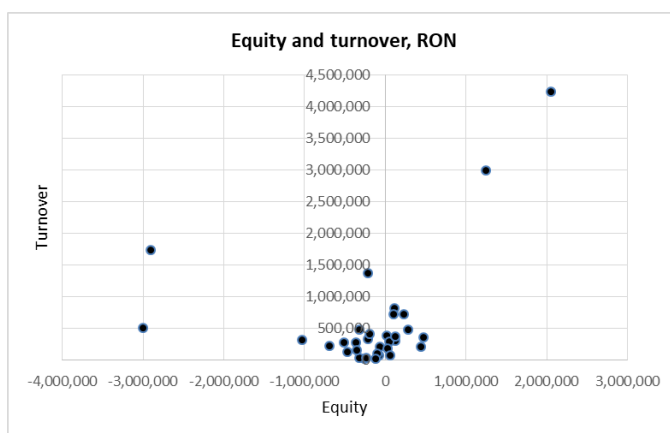


Figure 6. Equity and turnover on the craft beer market

There is a strong positive correlation between firms' capital and profits, ($R=0,76$) and the result is also statistically significant (Figure 7).

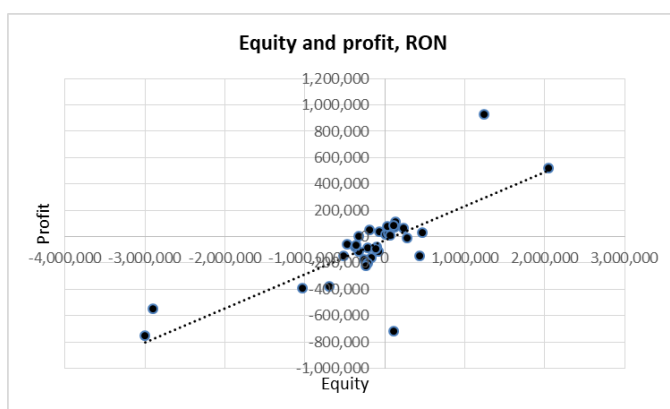


Figure 7. Equity and profit on the craft beer market

The relation between employment and economic performance

We have calculated a strong positive correlation ($R=0.85$) and statistically significant between the turnover and the number of employees. This is consistent with the fact that the product is largely similar among different microbreweries and, consequently, the price is similar too. Therefore, increasing the turnover can be achieved only by producing more which, in turn, requires a higher number of employees.

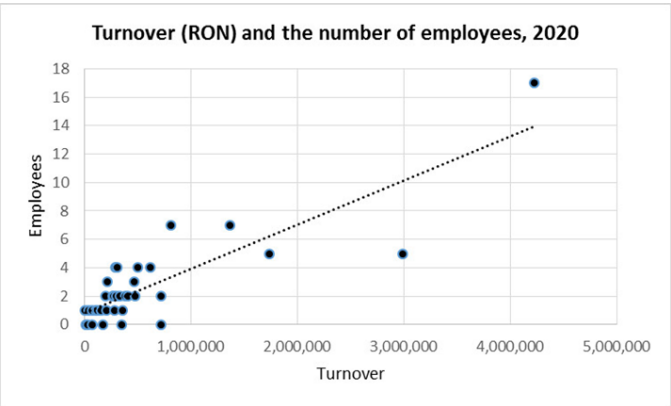


Figure 8. Relationship between the turnover and the number of employees on the craft beer market

However, there is a very weak correlation between profit and the number of employees ($R=0.12$).

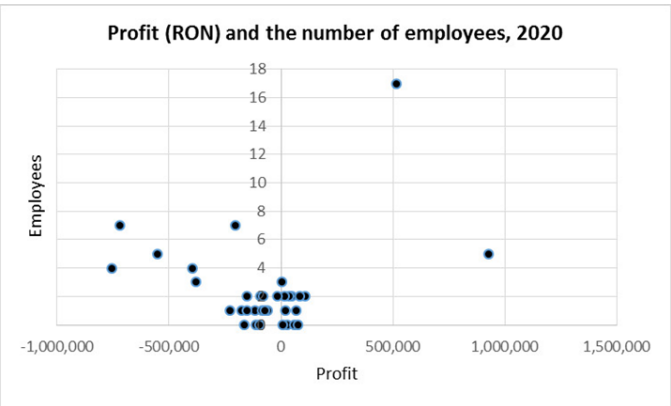


Figure 9. Relationship between the profit and the number of employees on the craft beer market

Conclusions

We have presented the main economic and financial features of the Romanian craft beer industry in this paper. Most of the industry is young or very young, therefore a significant level of aggregate losses occurred in the past and is expected in the short term. The sector is also very polarized, with a few well-capitalized and profitable businesses and a large number of companies that struggle to increase sales and revenues. We detect no relation between the size of investment and profitability, which is perhaps explainable given the youth of the industry.

Our analysis shows that, despite the enthusiastic effort of dozens of dedicated entrepreneurs, success in craft brewing industry is difficult to achieve. The companies which managed to get a consistent market share are firms with considerable capital

investment active in this sector for many years. While there is no single recipe for success, as the two different types of business embraced by Zăganu and Hop Hooligans show, the investment in social media is essential for attracting customers and fans. Also, export might be an outlet for innovative craft brewers, given the high price of the product. Production in or near the main regions where a high share of the labor force is involved in IT sector (Bucharest, Cluj, Timiș, Sibiu, and to a lesser extent Iași), where the salaries are well above the national average and people have cosmopolitan tastes, is also determinant for the potential profitable business.

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