



In Hop Pursuit

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## Supply Management and Pricing

Supplying top quality hops to brewers in a consistent, dependable manner is fraught with challenges. Agricultural products are subject to nature's whims, and preserving hop quality for the logistical journey into brew pots around the world requires substantial infrastructure and coordination. Large industrial brewers have developed expertise in forward planning and securing their hop supply through long-term contracts with hop merchants, who in turn secure long-term supply at the farm level with growing contracts. The process has evolved over many years and serves the industrial brewing industry well.

A different picture comes into view when studying hop supply to USA craft brewers. In the course of brewing history the American craft phenomenon is a short dash, with little reason to look back and every reason to be excited about the future. Hop supply to this fledgling segment has come from excess on industrial brewery contracts and research plots, with merchants and farmers finding craft breweries a convenient market for relatively small excess yields. That has worked until recently, but the growth of craft brewing and the steady movement by industrial brewers toward high alpha acid production and hop extracts has destabilized the supply of prized aroma hop varieties to the craft market. Continuing down this path would be a roller coaster ride of under supply and over supply, ridiculously high prices and artificially low prices.

We believe that a model to service the craft industry exclusively is in order, using hops grown based on craft brewer desires, pursuing new varieties to stoke creativity, and pricing consistently at a level reflecting a sustainable model rather than reflecting supply overages or shortages on industrial brewer contracts. If you believe existing claims that a model exclusively built around the craft industry exists, consider these questions:

- 1) "Why have craft breweries suffered pervasive shortages of key varieties over the last two years?"
- 2) "Why were even some of the largest craft breweries paying up to \$30.00/lb for a standard variety like Cascade?"
- 3) "Why have so many craft breweries been pressed into long term contracts at high prices, only to see the same suppliers they're contracted with sell to competitors at "spot" prices below the contracted prices?"
- 4) "Why are so few new aroma varieties being developed?"

A sustainable model requires a hop merchant to add value for craft brewers in the following ways:

- 1) Finance multi-year growing contracts that incentivize farmers to grow the varieties craft brewers want most. To Indie Hops this means aroma hops, old and new, since aroma hops are near and dear to the craft brewer's heart.
- 2) Invest in and operate processing and storage infrastructure to offer the desired product forms and deliver "just harvested" quality throughout the year.
- 3) Invest in hop research and breeding efforts targeting qualities that excite craft brewers, and addressing natural disease and pest resistance issues to respond to organic hop requests.
- 4) Manage customer service, sales and marketing to facilitate a meaningful communication loop with craft brewing customers and consumers of craft beer.
- 5) Manage inventory in the spirit of minimizing inventory risk to brewers. This requires accepting that less than 100% of inventory purchases will eventually be sold.
- 6) Make aroma varieties the top priority. This means pelletizing aroma hops at their peak quality instead of waiting for high alpha varieties to be stabilized for the alpha market. And, it means committing to aroma hops from the top aroma hops terroir in the land- Oregon's Willamette Valley.

By now you're saying, "just cut to the chase and tell me how much the hops cost"! The short answer is, \$10.62 - \$17.50 per pound depending on variety, and \$25.00 per pound for organics. Here's why:

- 1) Growing contracts for Oregon-grown aroma varieties range from \$4.50 to \$10.00 per pound over the contract term. We are contracting exclusively in Oregon with leading, certified sustainable/salmon safe farms because of the consistent high aroma quality here and the environmental qualities valued within the craft industry. New acreage planted in Oregon requires a first year without harvest to let the plants become established, then a mediocre first harvest in the second year. So, over the course of a five-year contract, roughly 3.75 years of full harvest potential are realized. On top of that, aroma varieties have lower yields than the powerful plants grown for high alpha acids and bittering potential.
- 2) We won't sell 100% of our purchases. The vast majority of craft brewers simply cannot project their future needs as accurately as industrial brewers can. Craft consumers desire variety, uniqueness and newness much more so than industrial beer guzzlers. We need to take a large part of the risk, especially in the beginning. Ultimately, if we can sell 80% of what we purchase, we'll live to fight another day (and will have more than enough hops left over to support our homebrew habit). So, divide the above growing contract prices by .80.
- 3) Now you have a sustainable base price to farmers, plus an inventory loss factor, bringing the inventory cost range to \$5.62 - \$12.50 per pound. We'll keep the capital costs for infrastructure like pelletizing, packaging and cold storage under our hats for now, not to mention a research and breeding program. If we get the opportunity to join you for some of your fresh beer, some numbers might pop out. Suffice to say that to cover such costs and to earn the honor of paying taxes some day on a humble profit, we need roughly \$5.00 per pound over the inventory cost.

For organics, the number is higher and frankly we don't see much likelihood that we can do better than break even in this category...at least not based on today's knowledge. We are inspired though by Gayle Goschie's commitment to growing high quality organic hops in Oregon so are joining her in this effort.

An old sage once said, "when you stop trying to get better, you start getting worse". We at Indie Hops agree. We won't abide the status quo, so opt to put the prospect of short-term profit aside and invest in organic hops as a viable business in the long term. Perhaps others will follow, and perhaps we'll learn how to bring organic hop prices closer to those of conventionally grown hops. It's clearly important for our environment, and many craft brewers and craft beer consumers are asking for organic hops.

Additional costs associated with organic production are:

- 1) The certification process requires one year for the ground to sit fallow. We need to offset some of the farmer's lost income from whatever crop they were growing on that ground.
- 2) Aroma varieties that are destined to fight the pest and disease battle organically need an additional year to establish and strengthen (two years total). Organic certification cannot be achieved until the fourth year of the process anyway. Planting and crop establishment costs during those two years are shared with the farmer, and no hops are harvested.
- 3) In the fourth year, our first harvest arrives. That's the good news. The bad news is that organic hop yields are inconsistent in the USA. On average they are roughly half that of conventionally grown hops, and crop care is more intensive/expensive. For the harvested hops beginning in year four we will need to pay \$15.00 per pound, and that is unlikely to make this a profitable stand-alone business for the grower, even though we've taken away much of the risk by committing to the acreage.

To end on an up-note however, despite low yields we are encouraged by the high quality of early organic tests in Oregon- a trait that has been lacking in most other organic hops. Clearly, the skill, wisdom and perseverance of the farmer play a critical role in bringing affordable organic hops to market.

We arrive at a selling price of \$25.00 per pound for organics because that seems to be a threshold on what the market will bear for an organic hop alternative. Our goal is to lower that price with future improvements in yield and growing techniques.

So there you have it. An honest attempt at transparency published on our website. We hope to build lasting relationships with brewers who believe in a sustainable model focused on servicing their market.

For a copy of our current sales program and prices by variety, [click here](#).