

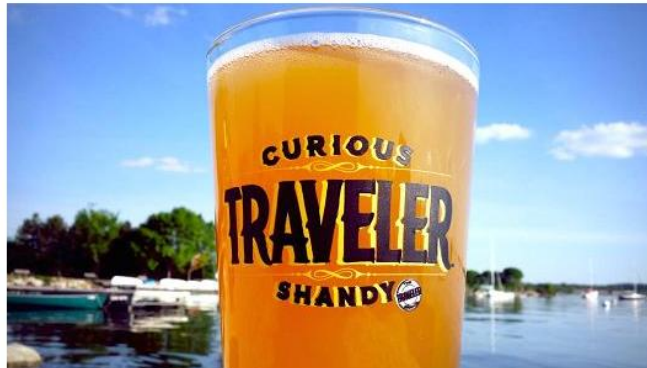
Shandy-monium: The sequel

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Brace yourselves beer drinkers: The summer of 2014 is shaping up for shandy-monium.

Shandy, a mixture of lager beer and lemon soda, is a long-time staple in Europe, but until recently, it was largely unknown in the United States.



Source: The Traveler Beer Company

Now a growing number of U.S. brewers are finding success experimenting with the style—a result of many beer drinkers continuing to seek out new flavors.

Leading the shandy charge was Wisconsin-based Jacob Leinenkugel Brewing, which introduced its Summer Shandy in 2007.

After many years of steady growth, 2012 was a breakout year for the brand after it achieved nationwide distribution and the support of national ad campaign from its parent company **MillerCoors**.

Summer Shandy now accounts for 50 percent of Leinenkugel's total business and the brewery is looking to keep the shandy momentum going.

"We're just now seeing shandies in the United States starting to blossom because probably half of all beer drinkers still don't know what a shandy is," said Jake Leinenkugel, president of Jacob Leinenkugel Brewing. "We're at a point where the shandy still has nothing but upside."

But it's becoming a more crowded category.

Traveler Beer, which is part of Burlington, Vermont-based Alchemy & Science, a unit of **Boston Beer**, is also betting big on shandy. Founded in 2012, as the House of Shandy, the company's stated mission is to "combine the European Shandy tradition with American ingenuity."

'What's a shandy?'

Alan Newman, its president and founder of Magic Hat Brewing, acknowledges there is still plenty of work to be done in introducing the shandy to the American consumer.

"We recently hired an online survey company to ask Americans 'What is a shandy?'," he said. "Eighty-nine percent missed it completely. I think, maybe 7 percent figured it was a beer. So the understanding of the category still has a way to go."



Leinenkugel: A beer drinker's favorite tongue-twister

Five generations after it was founded, Leinenkugel Brewing Company is still run by the family and trying to help those who just can't pronounce the name.

While still small, the category remains a bright spot at a time when overall beer sales are stagnant. Off-premise sales of the major shandy brands in multi-outlet channels, which include supermarkets, drugstores, **Target** and **Wal-Mart**, totaled \$67 million in 2013, up 227 percent versus the year before, according to Daniel Wandel, senior vice president, Beverage Alcohol Market Insights Group for IRI, a Chicago-based market research firm.

Wandel likens the current state of the shandy segment to another recent high-growth area.

"When I look at shandies now, the thing that comes to top of mind is cider, 10 years ago, when ciders weren't even a blip on the radar," he said. "Yet ciders continued year after year to have high double-digit growth increases, albeit off a small base, much like we're seeing with shandy, but over the last several years ciders have exploded."

It's that type of room to grow that has Leinenkugel's pursuing an aggressive growth strategy for the Summer Shandy brand.

"We feel wherever there is a Sam Adams placement there should be a Leinenkugel Summer Shandy placement. We're still below that line, but we're building and I would say we're at least one-and-half times better off on distribution than we were at this time last year," said Jake Leinenkugel.

As the shandy audience expands, so too does the competition, as brewers both large and small look to capture a piece of the pie. Larger players like **Anheuser Busch**, with its Shock Top Lemon Shandy, and Mike's Hard Lemonade have already entered the space.

But smaller players like Rhode Island-based Narragansett Beer, are also finding success. The brewery released its first shandy this year, made with New England favorite Del's Lemonade, and President and CEO Mark Hellendrung told beer industry trade site **Brewbound.com** that it can't keep the new shandy in stock, saying sales are "out of control."

Even brewers like Boston's Harpoon Brewing, which built its business on the back of the hoppier and bolder flavors of the popular IPA style, are offering shandys for the first time this year. Its UFO Big Squeeze shandy has a grapefruit flavor.

Reflecting on the competition, Jake Leinenkugel said where he once saw confusion, if not outright derision, from fellow brewers, he now sees imitation.

"Some of the same brewers that were making fun of it seven years ago are now starting to get into it and I think it's a nice form of flattery," he said. "It's opened up some eyes and people are admitting it's a lot bigger than they'd ever thought it would be and it's bringing in new beer drinkers."

Summer fling

While shandy may be bringing new drinkers into the beer category, for most consumers, shandy has all the attributes of a classic summer romance: exciting and refreshing in June, but over by September. Both Leinenkugel and Newman admit they see shandy sales drop off substantially after the Labor Day holiday weekend.

Newman said part of the seasonality problem stems from the way category leader, Leinenkugel, has trained people to view the shandy as solely a summer drink.

"There's no question that Leinenkugel is putting shandy on the map, and you know that's helping us as well," he said. "On the other hand, they've also done a great disservice by calling their beer Summer Shandy."

Newman said he expects that if Leinenkugel did not have "Summer" as part of its flagship shandy's title, the issue of seasonality would be diminished.



Leinenkugel's summer style

Jake and CJ Leinenkugel of the Jacob Leinenkugel Brewing Company, discuss the success of their "Summer Shandy" brand, and soaring hop and lemon prices.

He points to the success of brands like Blue Moon Brewing's Belgian White and Magic Hat's Number #9 as example of beers once perceived largely as summer staples that have crossed over to become successful year-round brands.

"Over time you'll see (shandy) stick around longer and it will eventually go year round," said Newman. "But I'm not gonna lie. I think the idea of a straight-ahead Shandy outside the summer season at this point is gonna be difficult."

Both companies are hoping a lineup of seasonal flavors can keep the shandy party going a little longer. Last year, Traveler introduced the first pumpkin shandy and it also offers a seasonal strawberry shandy. Leinenkugel plans to roll out an Autumn Sampler shandy variety pack this fall with three new flavors: Pumpkin Harvest, Cranberry Ginger and Old Fashioned Shandy, inspired by the classic cocktail.

Despite the high hopes for seasonal offerings, shandy, like the rest of the beer business, will always rely on summer as the key selling season.

It's this reality that has Jake Leinenkugel happy to have "summer" in the title of his brewery's flagship shandy offering.

"The one thing it's done is made us the 'rite of summer' beer for a lot of people," he said. "Our distributors have told us don't change the Summer Shandy name, because we own the summer space now."

—By CNBC's Tom Rotunno