

# ANALYSIS OF REASONS FOR BEER CONSUMPTION DROP IN THE CZECH REPUBLIC

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## Introduction

Beer-brewing has a long tradition in this country. The first documented reference about brewing in the Czech Kingdom is the Endowment Act issued by King Vratislav II in 1088, where the Collegiate Church of Vysehrad is granted a title of hops for brewing beer. It is thus likely that beer-brewing started in Bohemia even earlier than that.

In the 19th century brewing became, based on technological and scientific knowledge, an industrial sector. During this time five of today's most known Czech breweries are founded: Pilsner Urquell (1842), Smichov Staropramen (1869), Gambrinus in Pilsen (1869), Velke Popovice Brewery (1874), Budweiser Budvar in Budejovice (1895) and also important Moravian breweries Prerov (1872) and Starobruno (1872). Industrial brewing was accompanied by gradual concentration of production. In the first half of the 19th century there were 1 052 breweries in Bohemia, their number further reduced to 666 in 1912, 526 after WWI, and 260 breweries in 1946.

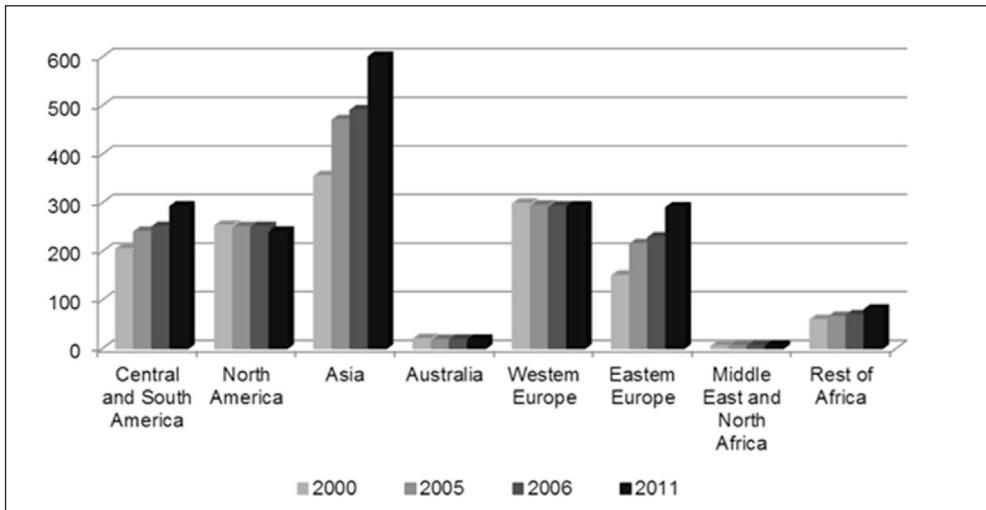
After 1948 the brewing industry was nationalized. During the communist era only one brewery was build in Most (now closed) and brewery Radegast, now one of the biggest and successfully growing breweries in the Czech Republic. After 1989 only 71 breweries were working with 18.2 mil. hl production. Lack of investment caused standstill, but the consolidation of Czech breweries was taking place. Nowadays, brewing is performed by 38 companies in 44 industrial-size breweries. There are more than 100 microbreweries in restaurants, the U Fleku brewery as the oldest one, founded in 1499. Others were established in 1991. [22]

## 1. Literature Review

In contrast to the Czech Republic, global beer production has been growing. The main reason lies in the fact that the Czech breweries have only a limited ability to enter emerging markets in Asia, Central and South America. A partial success can be viewed in entering markets of the former Soviet Union and building on contacts blithely lost after 1990. Significant Czech breweries, except Budweiser Budvar, are owned by multinational groupings which own hundreds of other breweries and, in order to fill markets, prefer acquiring new breweries by geographic location. Therefore, there is no interest in increasing exports from the Czech Republic to distant territories. Pilsner breweries, the largest Czech brewery group with fifty percent of the domestic market, are owned by SABMiller. Since 18 June 2012, a North American brewing company Molson Coors Brewing Company has completed the takeover of StarBev, which flagship firm are domestic Staropramen breweries. It renamed its new division of nine breweries to Molson Coors Central Europe. It has already been the third takeover for Staropramen after 1991. The second acquisition was done by Starobruno, which together with Krusovice and Zlatopramen Brewery owns Heineken. [1]

While global beer consumption in 2000 was 1.374 bil. hl, in 2005 it was increased to 1.572 bil. hl. Estimates of world renowned analysts for coming years from 2005 show that global consumption in 2011 could reach 1.819 bil. hl. The most dynamic growth is in Asia and Eastern Europe, Central and South America. Stagnation or decline in consumption is expected in North America, Western Europe and Australia.

**Fig. 1:** Beer Consumption in 2000 and 2005 and Beer Consumption Estimates for 2006 and 2011 by Continents



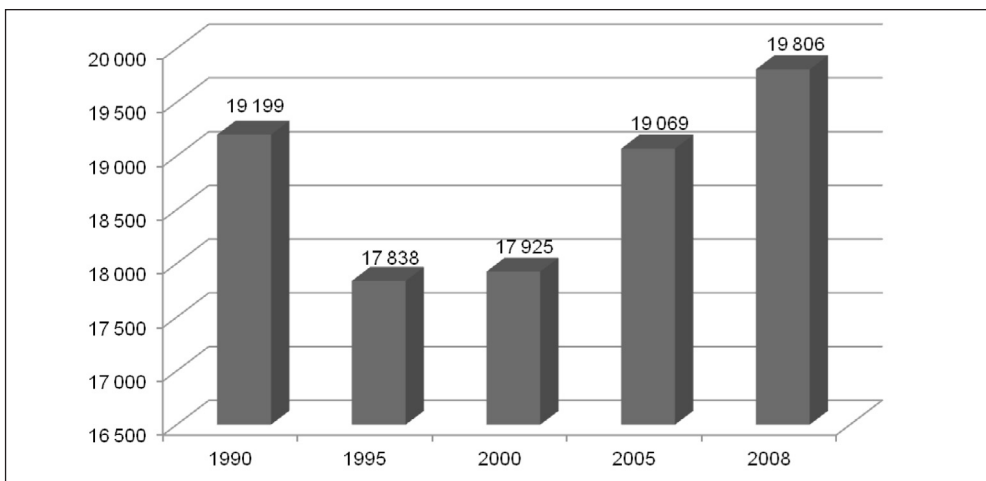
Source [1]

As for the consumption by country, the biggest consumer in 2005 was China with 309 mil. hl and the consumption there shall reach about 23 % of global quantity by 2011. The

U.S. with 232.5 mil. hl is second and despite a slight decline, this shall remain unchanged with 12% share. The third place will be taken by Russia and Brazil replacing Germany.

## 1.1 The Development of Beer Production and Consumption in the Czech Republic Beer Production by Brewery in the Czech Republic

**Fig. 2:** Beer Production by Brewery (in thousand hl)



Source [1]

Fig. 2 illustrates beer production in the Czech Republic. There is an evident trend in growth and the situation shows that Czech brewing industry was not negatively influenced by the Czech economic crisis during the monitored period.

**Year 2010** can be seen as a complicated one. As well as 2009, it was marked by economic crisis, which influenced not only total demand but brought changes in beer consumer behaviour as well. This was enhanced by the VAT increase, promising to bring more cash to the state treasury.

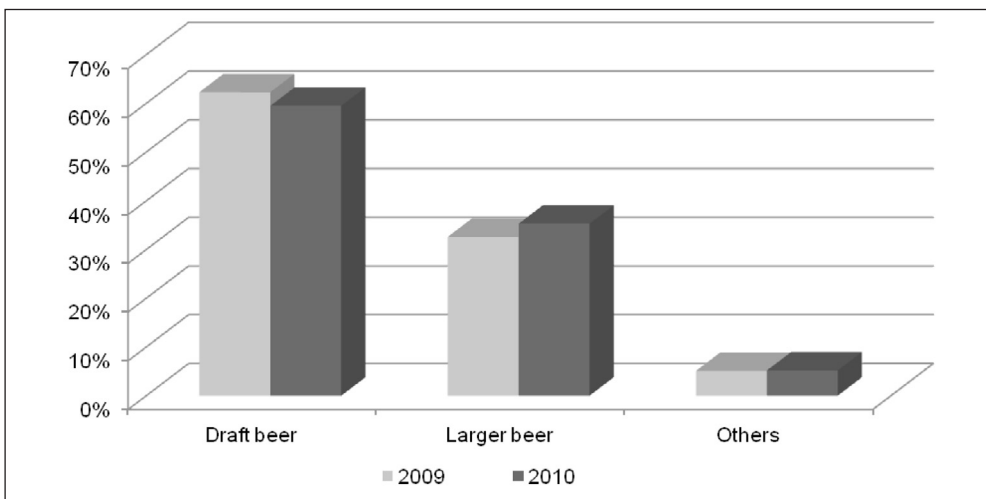
Breweries, members of the Czech Beer & Malt Association, produced 7.9 % less beer during 2010 than in 2009. Production decrease which started in 2009 thus continued. There

was a significant decrease in demand for draft beer, where a drop in production was 12.8 %.

Gradually, the structure of demand is changing by beer categories as well. The production of lager beer decreased by 2.6 %, but its share in the production of domestic breweries increased. Whereas the production of draft beer was 62.3 % of domestic production and lager beer 32.6 % in 2009, the production of lager beer in 2010 was 35 % and draft beer decreased below 60 %. The year-on-year share of other beers increased.

There has been a long-term continuing growth in popularity of special beers. In 2010, their production was 40 % higher than in the previous year. Also, the production of high-fermented and flavoured beer is growing, but with a minimal influence on the market. [1]

**Fig. 3: Share of Beer Production by Types in Domestic Market in 2009 and 2010**



Source [1]

## 2. Research Aim and Methodology

The aim of this research is to compile and analyze relevant reasons for the drop in beer consumption in the Czech Republic. Based on the research findings and their verification, the author drew up possible ways how to increase the consumption of beer in the Czech Republic, while maintaining a responsible approach to consumption. By responsible approach the author has in mind mainly observing the age limit for drinking alcohol [3], not aiming

advertisements directly at youth [20]. A comprehensive research on this topic has not yet been carried out; breweries representatives commented on the individual problems separately, the complex of factors was not taken into account. As most common were reported unequal conditions for doing business in the market of alcoholic beverages (still wine is excise tax free and the excise tax on beer was increased), underestimation of customer relationship management [5], [6], [7], pressure

on terms of delivery exerted by supermarkets [11], [9].

Contribution of this paper is to identify and quantify the individual factors. These were determined by means of semi-structured interviews with representatives of all industrial breweries. Based on the interviews, inner factors were excluded – e.g., mismanaging the technological process [4], underestimating marketing strategy [16], [8], the lack of expertise - because it is not difficult to find skilled workers with as many as 44 industrial breweries in the Czech Republic.

To obtain relevant data a questionnaire survey was used, as the aim was to address respondents from breweries in the whole Czech Republic. For the purpose of research were defined the following objectives:

- What is the decisive factor in reducing beer consumption in the Czech Republic.
- What is the order of factors which affect beer consumption in the Czech Republic.

Using the questionnaire, an entire basic group, i.e., all 44 Czech industrial breweries were contacted. In this research, a rating scale was used; the responses were summarized and averaged. 41 questionnaires (93% response) were returned duly completed. A high level of response is due to author's ten-year involvement in brewery business and his communication with former colleagues. Conclusions were verified by interviewing top managers of leading breweries such as Pilsner Urquell, Staropramen breweries, Heineken, Budweiser Budvar, Moravian-Silesian Breweries, K-Brewery and managers of microbreweries as well. The research was performed through discussions with restaurants and pubs' owners. To verify the findings, an interview was conducted with the owner of the Schweizerhaus in Vienna – Karl Kolarik – who has been a major importer of Budweiser Beer to Austria and who knows the situation in the beer industry and business in the Czech Republic very well. The results were further consulted in the framework of the Czech-Austrian program AKTION Communicative activities as part of the marketing for the preservation of Austrian and Czech beer culture: The Way out of the Crisis in 2011/12.

### 3. Research Results

Mostly marketing managers or brew-masters of industrial breweries were asked to mark the ranking of the most important factors in the questionnaire. The sum of points of position and the number of place than indicated the importance of factor influence (the lowest value = the most important factor).

Based on the previous research and secondary data study, the most important reasons for beer consumption drop are the following:

1. **Obligatory military service cancelling** – soldiers used to visit pubs during their free time, railway stations restaurants during travel and used to buy bottled beer. Compulsory military service was abolished in 2005. During the last year of mandatory military service, there were pubs opened even in the barracks and beer consumption was the main source of entertainment for soldiers. They have taken over these habits into their civilian life.
2. **Excise tax on beer increase** – the government in an effort to increase income increased the beer excise tax in 2010. With still wine this was not the case and the tax remained at zero; thus the low-income public started buying cheap wine, including carton-packed. For that reason the expected increase was CZK 2 billion a year from charging excise duty on beer, however, the reality was only CZK 320 million due to lower beer consumption.
3. **Foreign tourists** – drop in tourism is related to the economic crisis and price increases in the Czech Republic as well. British tourists switched Prague for Riga and other cities in the Baltic region. The conversion of beer consumption of foreign tourists increases beer consumption in the Czech Republic by approximately 20 litres/person. This loss has not been recouped.
4. **Breweries owners' (foreign corporations) efforts to maximize their profits** – quarterly profits of the biggest brewery in the Czech Republic, Pilsner Urquell, are in billions of CZK as a result of beer sale price, at the edge of acceptance level for an average beer-lover. Foreign owners have been importing beer to the Czech Republic from their other breweries.

5. **Beer unification – Euro-beer** – most industrial breweries are using large capacity cylindrical-conical cisterns for beer ageing and fermentation. The original Czech beer character has been thus reduced. This technology enables producing quality beer, but the largest producer of beer in the Czech Republic shortens the time of beer fermentation and ageing to ten days or less.
6. **Partial decline of beer consumption in young generation** – some prefer non-alcoholic beverages, teenagers prefer high-content alcohol since its influence is faster [19]. A similar trend can be seen in all post-socialist countries [21], [10].
7. **Marketing concentrated on pub-oriented population, mostly males** – TV advertisements are particularly oriented at beer consumption after sporting activities or during watching sporting events, and aimed at male population, pub visitors. Organizers also focus different beer camps solely on men from pubs. A presentation of young couples in a nice restaurant with nicely decorated beer glasses is completely missing. Women are a promising target group. They prefer beer with lower alcohol content and fruity flavours – grapefruit, lemon, orange.
8. **Alcohol checks in the workplace, mainly drivers** – drivers are no longer allowed to drink beer after lunch during their working hours. At present, low-level jobs are done mostly by workers from the former USSR, not allowing them to visit pubs during work. Drivers are strictly penalized for alcohol use before and during driving, on the other hand, the consumption of non-alcoholic beer has increased.
9. **Export price-policy** – in an effort to keep the beer price high in the local market and to simultaneously increase export, a situation arose where Pilsner Urquell cost less in Germany than in the Czech Republic [16]. Cross-border beer tourism was reversed. The Czechs from border regions bringing beer for themselves and friends from Germany. This is one of the reasons for Vietnamese markets closing in border areas as well.

**Tab. 1: Rankings of Reasons Influencing Beer Consumption Drop in the Czech Republic**

Reason/importance ranking	1	2	3	4	5	6	7	8	9	Sum of multiples
1. Excise tax increase	35	6								47
2. Alcohol checks in the workplace	3	28	10					1		89
3. Decline of beer consumption in young generation	3		28		3		4			130
4. Obligatory military service cancelling		4		27	10					166
5. Foreign tourists number drop		2	1	5	23	5	4	1		208
6. Breweries owners' efforts to maximize their profits		1	1		2	22	11	3	1	257
7. Export price-policy					4	9	14	9	5	289
8. Marketing concentrated on males			1		1	2	5	21	11	322
9. Euro-beer						3	7	7	24	661
Check sum	41	41	41	41	41	41	41	41	41	2 169

Source: Author

**Comments**

The U.S. beer consumption also experienced decline when consumers aged 20 to 30 lost their interest in Bud or Miller Lite beer [17]. They focused on beer produced by small breweries, causing their beer sales increase by

double-digits in 2011. Even here is discussed inequality in the market – large breweries are strictly regulated [18], while small breweries can supply beer to the EU-member states that have a ban on the sale of alcohol. According to information from mid-2012 [2], beer production

has increased for the first time since 2008. It is stated that one of the causes of the decline in beer sales in the U.S. are key customers (men, blue-collar workers) who were hit hard by the economic downturn in the industry.

The respondents agreed that the main reason for beer consumption drop was excise tax increase. It caused a price increase by CZK 0.40 per a half litre of beer and VAT increase, a higher margin by sellers caused beer price growth by nearly CZK 1. The Ministry of Finance expected an increase in income to the state budget by CZK 2 billion, the reality after beer consumption decrease was CZK 320 million only. Breweries must find internal reserves and other ways to reduce cost, as it is unlikely that the excise tax will return to its initial rate.

The second reason according to significance rankings were alcohol checks in the workplace. Breweries have reacted to this fact by increasing production (sales) of non-alcoholic beer. Although non-alcoholic beer is not excisable, its price is almost the same as the price of traditional beer. Again, it is up to the breweries to look for ways of reducing prices of non-alcoholic beer.

The young generation shows an obvious diversion from drinking beer. Hanging out in pubs is no longer "in". The young generation prefers either soft drinks, or conversely hard alcohol, which acts faster. One of the ways to reach this generation is to produce non-traditional beers. The first successful attempt was Velvet beer, which attracted consumers with the avalanche effect in the glass. An unbelievable boom was achieved by Staropramen brewery, which launched into the market Cool Lemon in 2011. Beers are also made with grapefruit flavour and are popular among young people. They are drunk even by "non-beer drinkers". Less success was achieved with wheat beers that do not have their customer segment as well as jubilee beers (Advent, St. Wenceslas, Easter). In searching for new kinds of beer, clusters [14] could be useful as these would also help increase competitiveness of breweries.

Foreign tourists do not feel the need to visit the Czech Republic repeatedly. They walk through the historic part of Prague; while visiting a restaurant they find out that the price is not consistent with the quality of food offered and services provided. Not to mention beer

below the draft line and confusion of twelve-degree and ten-degree beer. The Czech beer drinkers were in a big shock when they learned that the Czech bottled beer is cheaper in Germany than in the Czech Republic. This is one, yet not surveyed, effect of beer consumption drop.

Ranking of marketing aimed mostly at males can be seen as a proof that breweries do not care about advertisement efficiency. Many consumers have complained that beer is consumed by educated people as well and not only by hairy rough men as presented on TV [12]. The production of "Euro-beer" ranked significantly as the last reason, according to the opinion of brew-masters and marketing experts. In their view the Czech beer still keeps its typical characteristics, despite industrialized production. Malt and hop use is mostly of Czech origin, tradition and experience of Czech brew-masters is of irreplaceable quality.

Representatives of pubs and micro-breweries mentioned some other reasons:

1. Beer sales using taps with a compensator and washing beer glass with detergents. Breweries are supplying pubs with taps allowing pouring the beer in one step. Beer thus loses its bite and after two glasses makes the consumer full. This is the reason why the Schwiezerhaus Pub in Vienna-Prater has been using classic taps. In the contrary to other competitors, this place is always booked with 1 500 seats in the garden and 800 seats under the roof. Using detergents for washing causes beer foam to quickly dissolve and beer looks less attractive. The real beer drinkers then view it as rather repulsive.
2. Beer consumption with friends outside beer pubs. Nowadays, it is no problem to make beer on tap at a grilling party. Supermarkets offer barrels to rent including cooling equipment and taps. At home, where a family is watching, the beer consumption is lower.
3. Summer gardens with beer on tap with minimum expenses. This factor does not influence beer consumption, but it is considered by pub owners as unfair practice. Place owners near the points with higher concentration of people such as bus-stops, bike routes, and tourist attractions sell beer and meals during nice weather,

plastic chairs and tables are their cost of business.

### Conclusion

Beer consumption in the Czech Republic has dropped during the last 20 years from 160 litres/person to 130 litres. The number of industrial breweries has not changed for the last 10 years and it has reached 44 now. There is a brisker competitive environment. The capacity use is 80 % and mainly the production of big breweries is reduced. On the other hand, microbreweries are on the rise, completely or partially excise tax-free. They do not offer only beer with local taste, but culinary specialties as well. Visitors are offered music evenings or other events [13].

The research aim was to identify main reasons for drop in beer consumption. All 44 industrial breweries were contacted, managers of microbreweries and pubs interviewed. Rank of influencing factors was completed as follows:

1. Excise tax increase.
2. Alcohol checks in the workplace.
3. Decline in beer consumption in young generation.
4. Obligatory military service cancelling.
5. Foreign tourist number decrease.
6. Breweries owners' efforts to maximize profits.
7. Export prices policy.
8. Marketing concentrated mainly on male population.
9. Euro-beer.

Great consensus exists in naming the first two and the last reason.

Representatives of microbreweries and pubs mentioned mainly:

1. Beer sales using taps with a compensator and washing beer glass with detergents.
2. Beer consumption at private parties, where participants are under family control.
3. Summer gardens with beer on tap with minimum expenses.

As a chance for beer consumption increase there is a special beer offer. In the past, this was the domain of small breweries and microbreweries. Today even Gambrinus and Starobrnno offer beer with added flavour. Another option

lies in events according to consumer wishes. Not only microbreweries should be named, but the Starobrnno brewery as well, where concerts are presented in the beer garden near the beer pub on the Mendel Square. Brewery visits are becoming popular with meal in brewery restaurants, serving local specialties such as beer soup, ripened round cheese pickled in beer, beer roasted meat and brewers goulash, grilled pork knee. And as a desert beer ice-cream is offered.

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## **ANALYSIS OF REASONS FOR BEER CONSUMPTION DROP IN THE CZECH REPUBLIC**

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*According to the Czech Beer and Malt Association statistics, the Czechs have been reducing their beer consumption. Last year, each Czech citizen drank on average 134 litres of beer, which puts the Czechs on the first place with the Irish being second. Yet in 1995 beer consumption reached 160 litres. Average weekly half-litre portions consumed by males dropped from 9.5 in 2007 to 7.7 in 2010. For women this figure is stable and on average it is 2 half-litre portions per week. At the same time, there is a drop in beer-drinking frequency and the number of beer consumers in the Czech population. Reasons are commented by Jan Veselý, executive director of the Czech Beer and Malt Association, rather simply: "Trend in the drop of beer consumption is a logical consequence of several phenomena. Firstly, long-term changes in population lifestyle, pressure from employers to use working hours in more efficient manner and, last but not least, the fact that great beer-lover generation is slowly fading."*

*Based on his long-term involvement in the brewery industry and continuous research in this field, the author of the article has divided the reasons for beer consumption drop into two factors, inner and outer. The most important outer factors can be seen in an increase of excise tax on beer, military service being not obligatory anymore, alcohol checks of workers in the workplace, especially professional drivers, a lower number of tourists, a partial decline in beer drinking in the young generation, a low number of regular beer drinkers in towns and the country, an increased margin for tap beer in restaurants and pubs and the use of taps with a compensator as well. Among the most important inner factors are pricing policy of breweries, efforts of breweries owners to maximize their profits, marketing concentrated mainly on males visiting pubs regularly, individual beer imports from neighbouring countries although without any statistical facts, beer quality unification, i.e., "Euro-beer" production. Whereas the production of large breweries has been decreasing, the production of microbreweries has been growing, often offering accommodation and catering services as well.*

**Key Words:** *beer consumption, reasons for beer consumption drop, Euro-beer, microbreweries.*

**JEL Classification:** *M31.*