



Should You Stay, Or Should You Go?

Insight for craft brewers seeking growth through market expansion

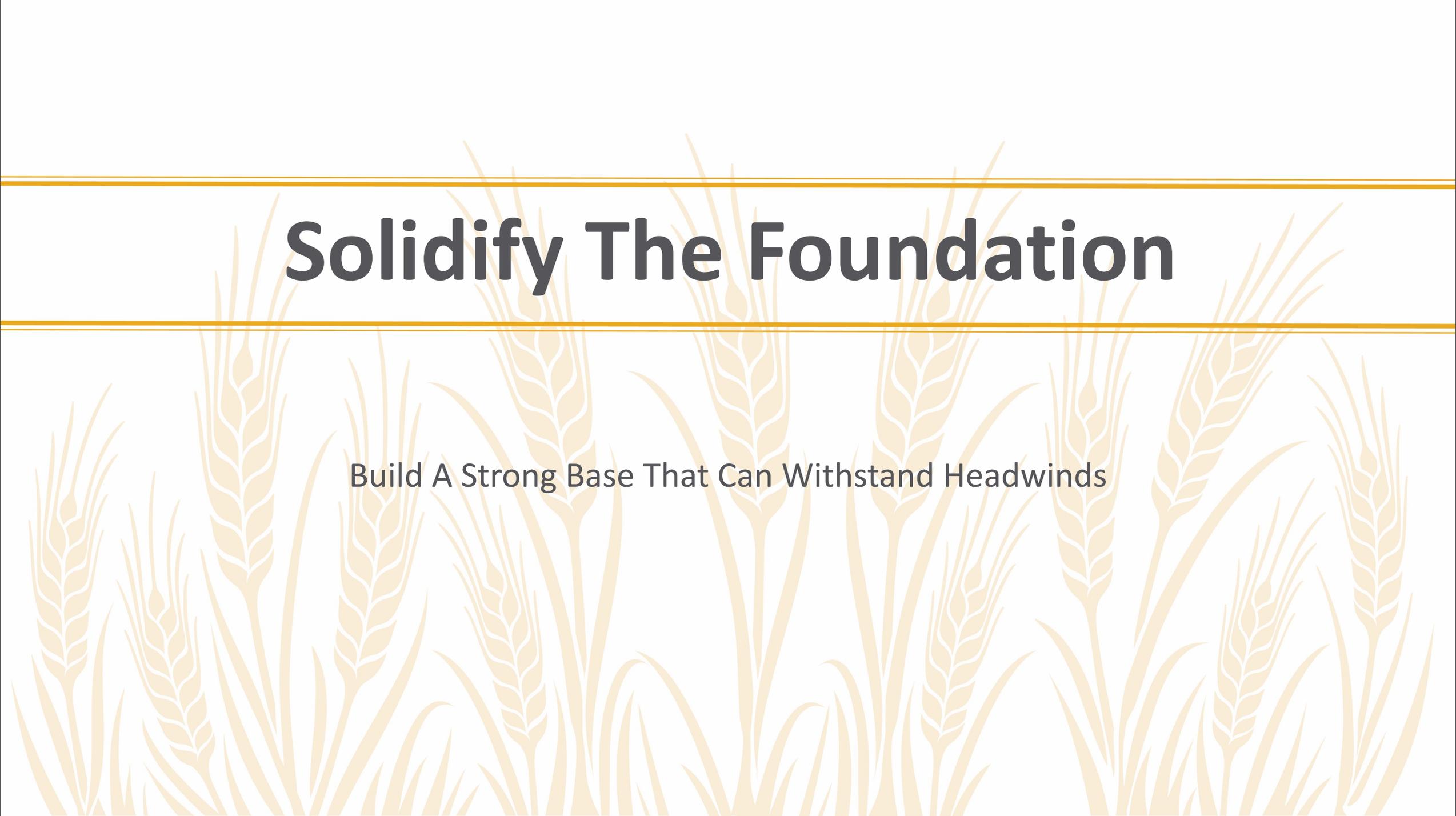
Panel Members

- **Rob Tod** – Founder, Allagash Brewing Company
 - Immediate Past Chair, Brewers Association
 - Top 35 Independent Brewer in U.S.
- **Kimberly Clements** - Managing Partner, PINTS LLC
 - Third-generation Beer Executive
 - Former President of Golden Eagle Distributors
- **Daniel Lust** – Partner, PINTS LLC
 - 15-year industry vet
 - Sales, Marketing and Data Analytics



Agenda

- **Solidify The Foundation**
- **Competitive Landscape**
- **Game Plan for Growth**
- **New Market Selection**
- **Parting Thoughts**



Solidify The Foundation

Build A Strong Base That Can Withstand Headwinds

Plan To Be Successful

- Business Plan
 - Mission, Vision, Values
 - 1 year: sales volume, revenue, expenses
 - 3 year: equipment, capital improvements
 - 5 year: organization, succession plan
 - Create an annual budget (revenue - expense = profit)
- Utilize tools available for data analytics to make informed decisions
 - VIP, IRI, Nielsen
 - Know your business inside and out



Build responsibly

- Build capacity to meet anticipated demand but don't get over your skis
 - Maximize current system and equipment
 - Calculate ROI on all new equipment purchases
 - Total brewery capacity vs. sales volume ratio = 80% target
- Invest in a QA program
 - Long term success depends on **QUALITY** and **CONSISTENCY**
 - Utilize BA resources available to you 
- Hire and promote the right people for the right job
 - Ensure team is trained and supported for their position
 - Build a team for the chain accounts

EDUCATIONAL PUBLICATIONS  

DESIGN AND CONSTRUCTION OF BREWERY QUALITY LABS

Learn Basic Guidelines

Brewery labs do not have to be complex, but it is important to understand the implications of material, site, and equipment selection.

Brewers, laboratory personnel and engineers can learn basic guidelines to consider when designing and constructing a laboratory for a new or existing brewery from the Brewers Association's [Design and Construction of Brewer Quality Labs](#) publication. An excerpt can be found below.

General Design Considerations

Start by Identifying the Purpose and Function of Your Quality Lab

- What analysis will be performed?
- What equipment will be used?
- Will the lab have a dedicated employee?
- Does the lab require a work station and computers?
- Will samples be stored or retained in the lab?
- Will sensory analysis be performed in the lab?

Establish financial health

- Solidify the economics of the business
 - Understand the cash flow implications of your business plan
 - Seek advice if you don't understand cash flow forecasting
 - Know the pros and cons (Family office, PE, Banks)
 - Ability to access capital to finance expansion
 - Limit debt to avoid legal issues
 - Have a timeline and plan to pay back investors

Explore all of your options

- Seek revenue growth within existing business environment
 - Self-distribution, food service, to-go sales, special events, merchandise, tap room expansion
- Know your state laws – use them to your advantage
 - Get involved with the state/local guild
 - Develop relationships with legislators (local, state, federal)
- Tax implications for business growth
 - Know your tax incentive options – use to your advantage
 - Be aware of the hurdles and consequences as volume grows
- Analyze non-buy accounts
 - Be in the accounts that matter in existing footprint

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Competitive Landscape

Everyone Thinks They Are Unique

Beer business is heating up

Craft Beer Is Finding It Harder To Stay King Of The Mountain In Colorado

BY BEN MARKUS | BEN.MARKUS@CPR.ORG
NOV 6, 2018

After years of double and triple digit growth, craft beer is slowing, weighed down by intense competition and even systemic changes to Colorado's beer market. There are more than 300 breweries now in Colorado. Competition to be the cold one you reach for is coming from both the biggest and smallest breweries.

Craft beer owns the market here and Bart Watson, an economist at the Brewers Association, said we "may be reaching that point of a mature marketplace where it's more difficult to grow the overall share."

The problem can be boiled down to competition. Most notably from **Anheuser-Busch InBev**, the world's largest beer company. They've **bought up** about a dozen craft brands across the country, including **Colorado's own Breckenridge Brewery in late 2015**.

When Anheuser it slashed prices on those beers, O'Connell was alarmed.

"That's just something that craft, independent craft, is never going to be able to compete with," he said. "An independent brewery will never win the price war."

In response, O'Connell pulled back on distribution and is instead focusing on this neighborhood tap room. The profit margins are much higher in that pursuit.

Something big is coming though, that will amplify the advantages big beer companies. The **Brewers Association's** Watson points out that on Jan. 1, 2019, grocery stores will be allowed to sell full strength beer in the state.



Know your competition

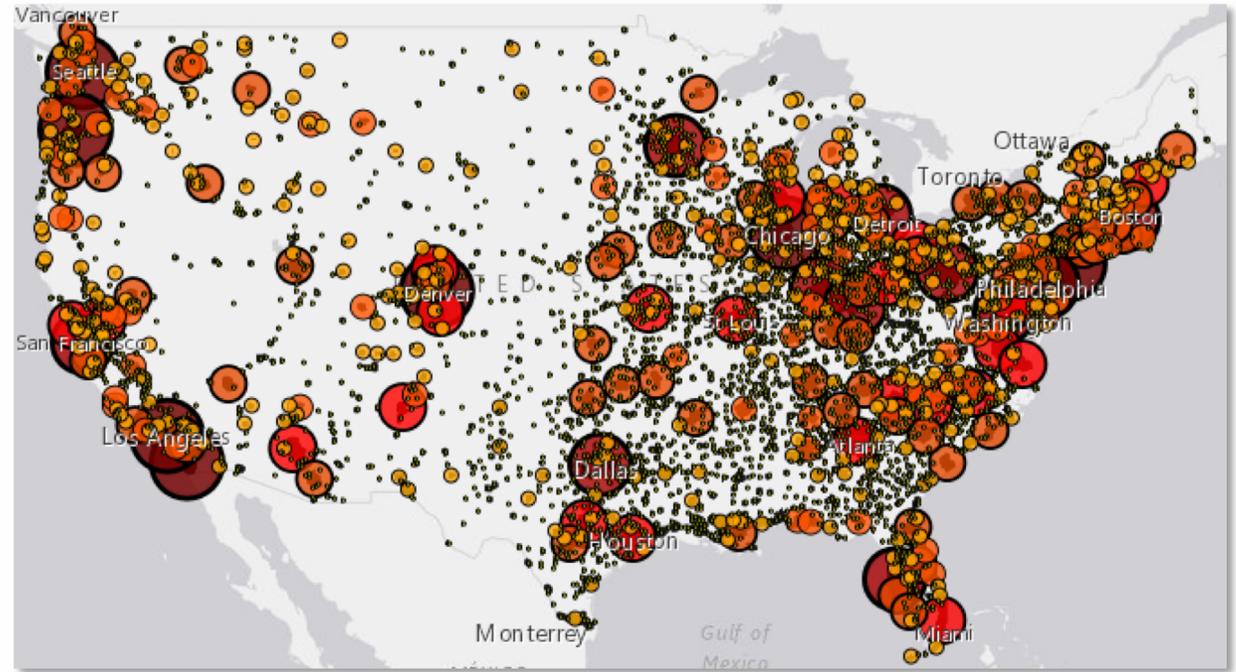
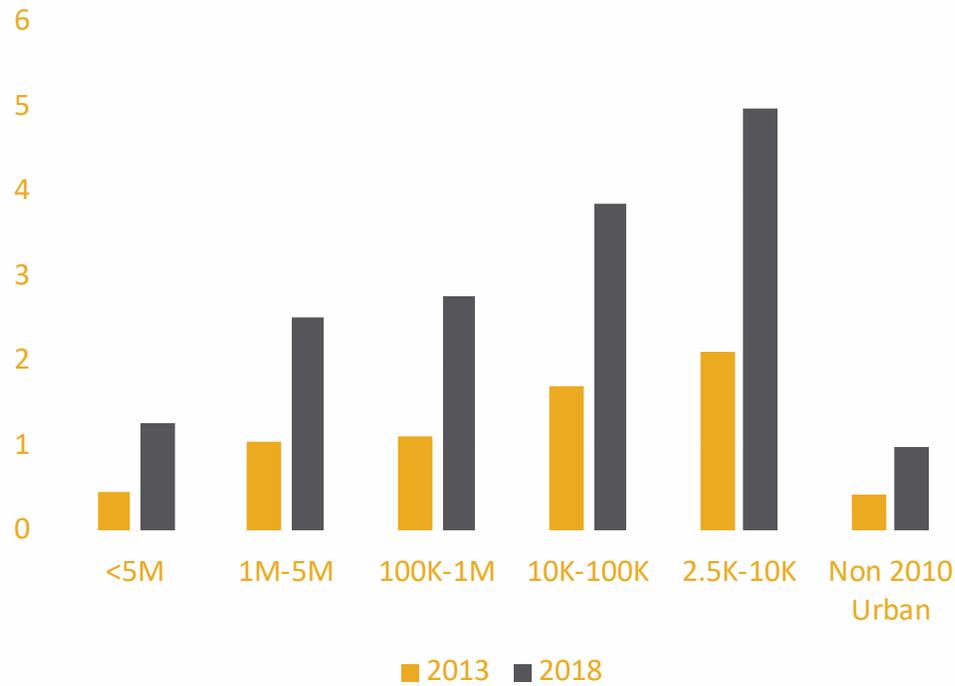
- Every brewery thinks they are unique
- There are only so many craft accounts in each market
- Large brewers wield retailer influence
- Rotation nation makes it difficult to gain loyalty
- 2018 YTD – Approx. 13,000 brands
- Know where your beers will fit in the pricing grid and fully understand the levers



July 16, 2018
Produced by [Cat Wolinski](#) / [@beeraffair](#)
<https://vinepair.com/booze-news/craft-brewery-ownership-chart/>

Craft growth continues

Breweries per 100K Population

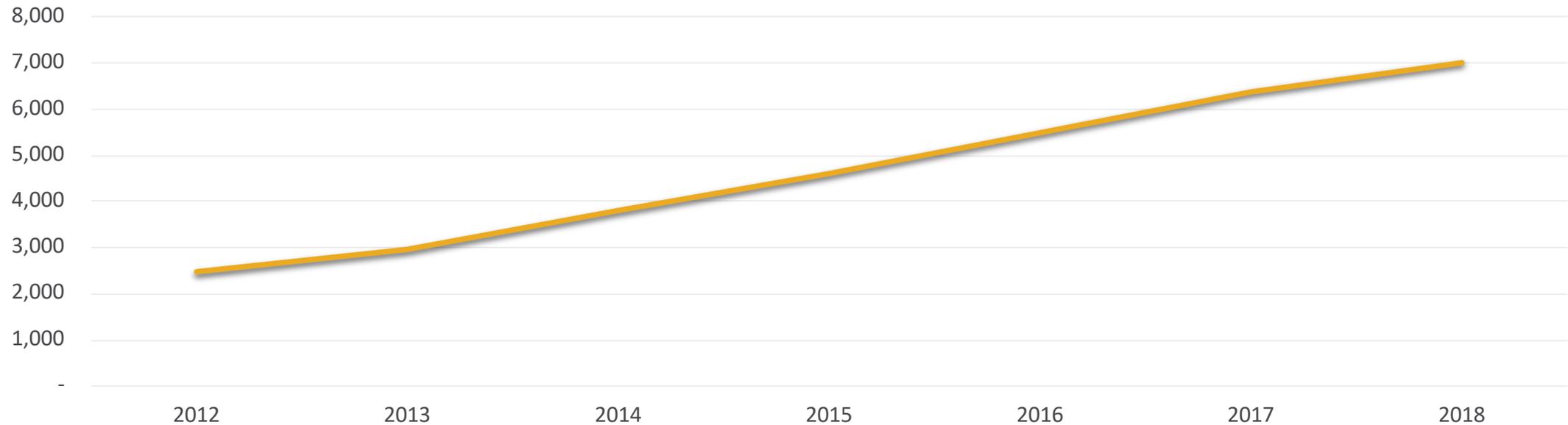


December 10, 2018 | Bart Watson

<https://www.brewersassociation.org/insights/brewery-growth-both-urban-and-rural/>

US brewery openings explodes

Breweries in the US

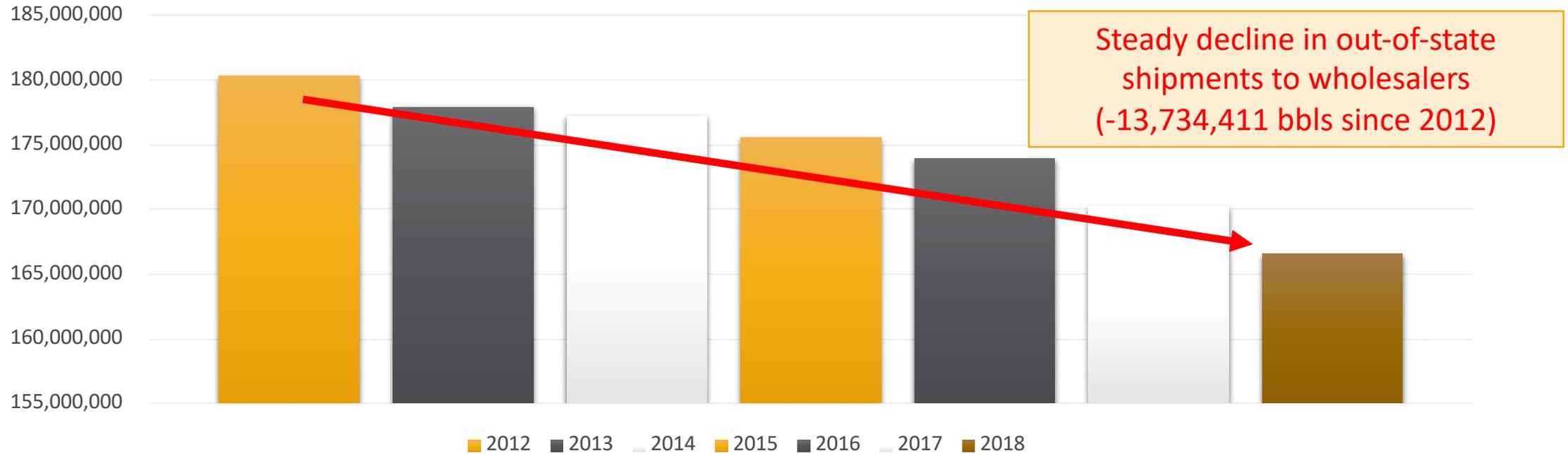


Data: Brewers Association



Beer shipments decline

Domestic Tax Paid Shipments to Wholesalers



Data: Beer Institute

The local phenomenon



December 11, 2018

<https://www.brewersassociation.org/press-releases/brewers-association-celebrates-the-year-in-beer/>

- In a new market you are not “local”
- Younger craft consumers are looking for new experiential drinking occasions
 - Taprooms
 - Brewpubs
 - Grocery pubs
 - Arcade bars

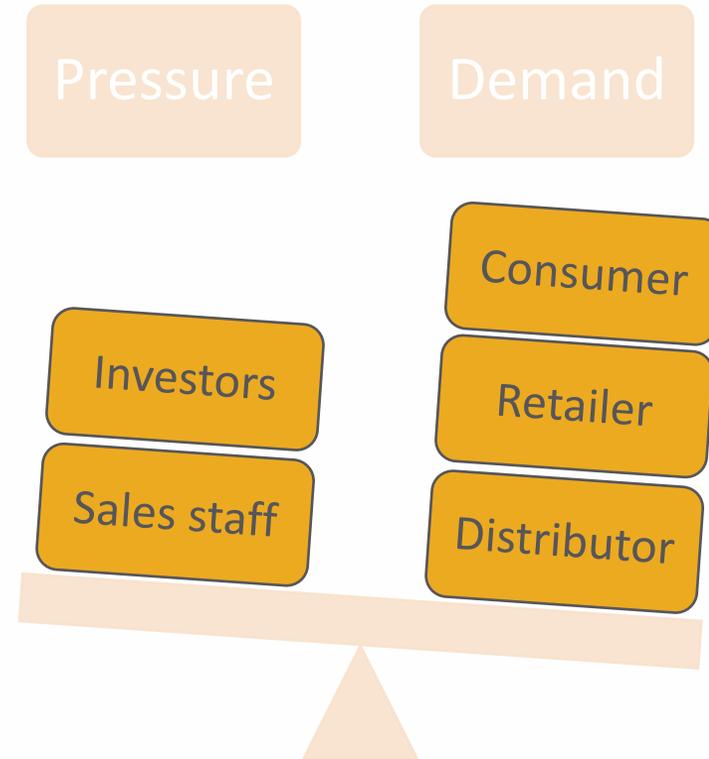
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Game Plan for Growth

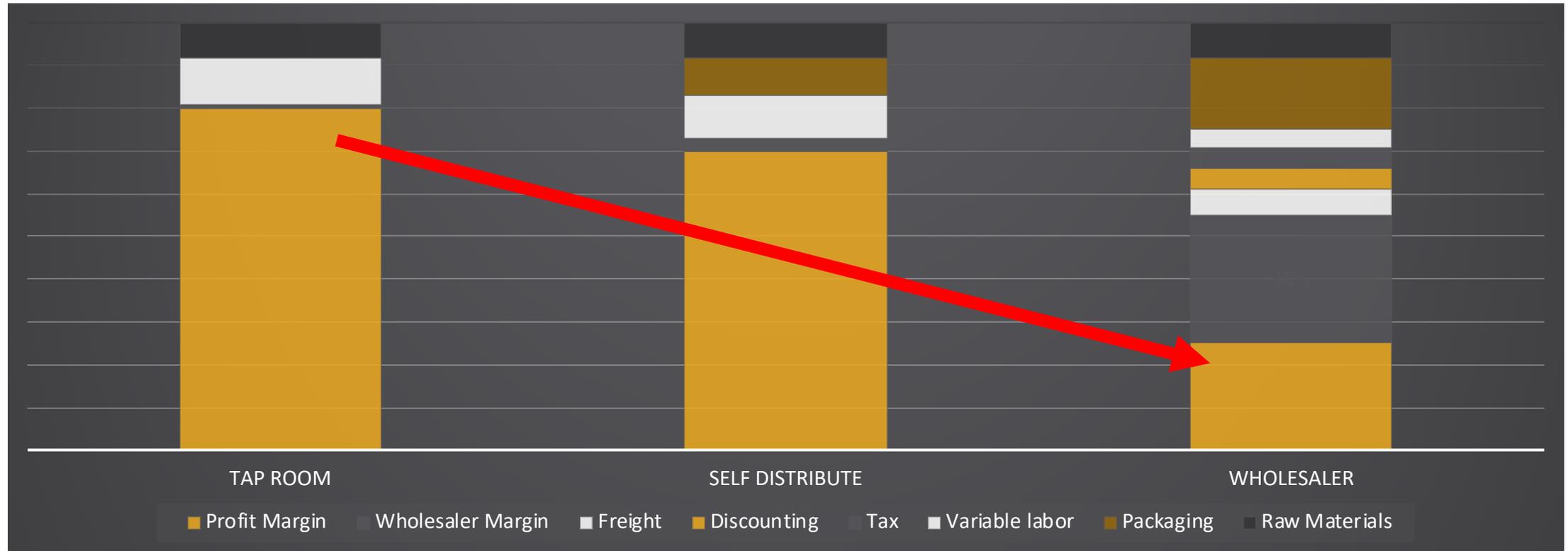
Slow And Steady Wins The Race

Market expansion dilemma

- Expansion Options
 - When to expand
 - Market conditions and consumer demand outweigh internal pressures
 - Where to expand
 - Within home state
 - Neighboring states
 - Regional footprint
 - Across the country



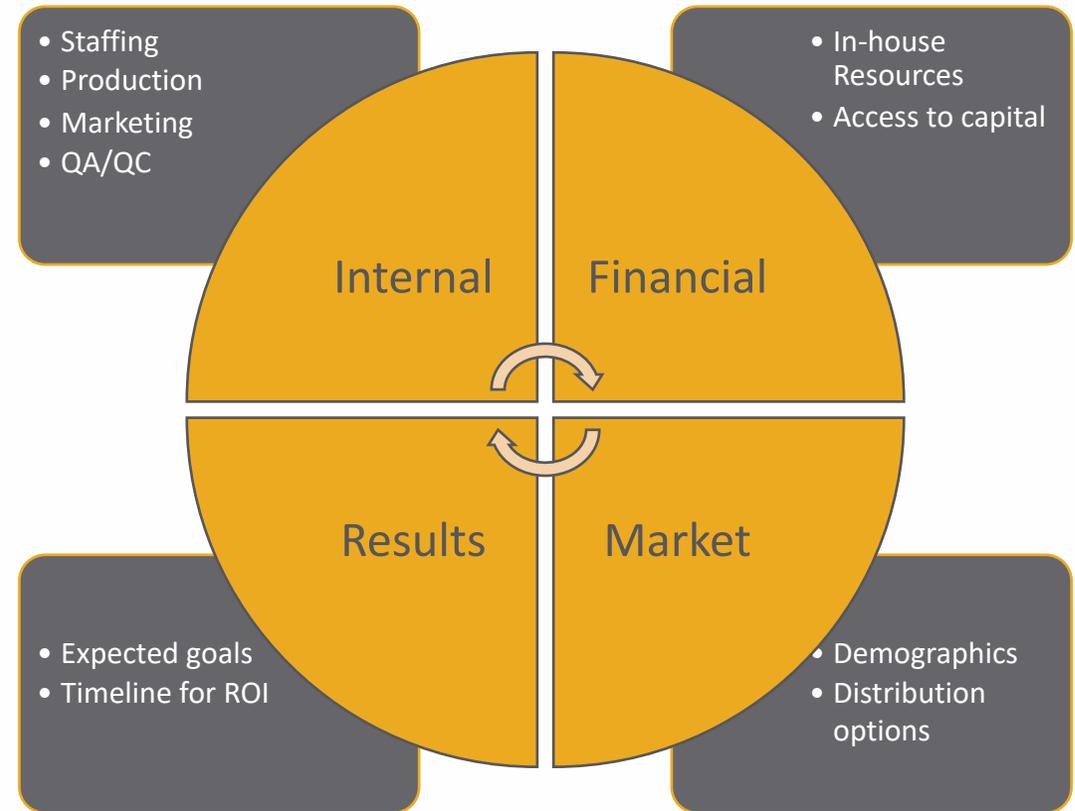
Economics of market expansion



Data: PINTS LLC

Anatomy of a new market expansion

- Internal
 - Align sales and operations
- Financial
 - Limit debt
 - Calculate volume to be profitable
- Market
 - Viability of retail landscape
 - Distribution network needed
- Results
 - Be realistic with volume goals





New Market Selection

Thorough Due Diligence Can Make All The Difference

Due diligence checklist

State Liquor Laws

- Distribution laws
- Franchise Protections
- Permits and Reporting
- Termination and Exit Strategy

PHILADELPHIA

Pennsylvania pitches 6% tax on craft beers in 2019

The tax increase will be enforced beginning July 1, 2019.

By Sarah Luoma

Published : December 03, 2018

Updated : December 14, 2018

Brewers target legislative changes to grow craft beer industry in SC

BY JAMIE LOVEGROVE JLOVEGROVE@POSTANDCOURIER.COM
DEC 13, 2018

Texas Lawmakers Propose Companion Bills to Legalize To-Go Sales

Chris Furnari | Jan. 9, 2019 at 5:48 PM

Due diligence checklist



Photo credit: NBWA

Distributor Landscape

- Wholesaler Options and footprint
- Portfolio Alliances
- Market Observations (sales, delivery, merchandising)
- Retailer Feedback
- Interviews
- Contract negotiation

Distribution is getting crowded

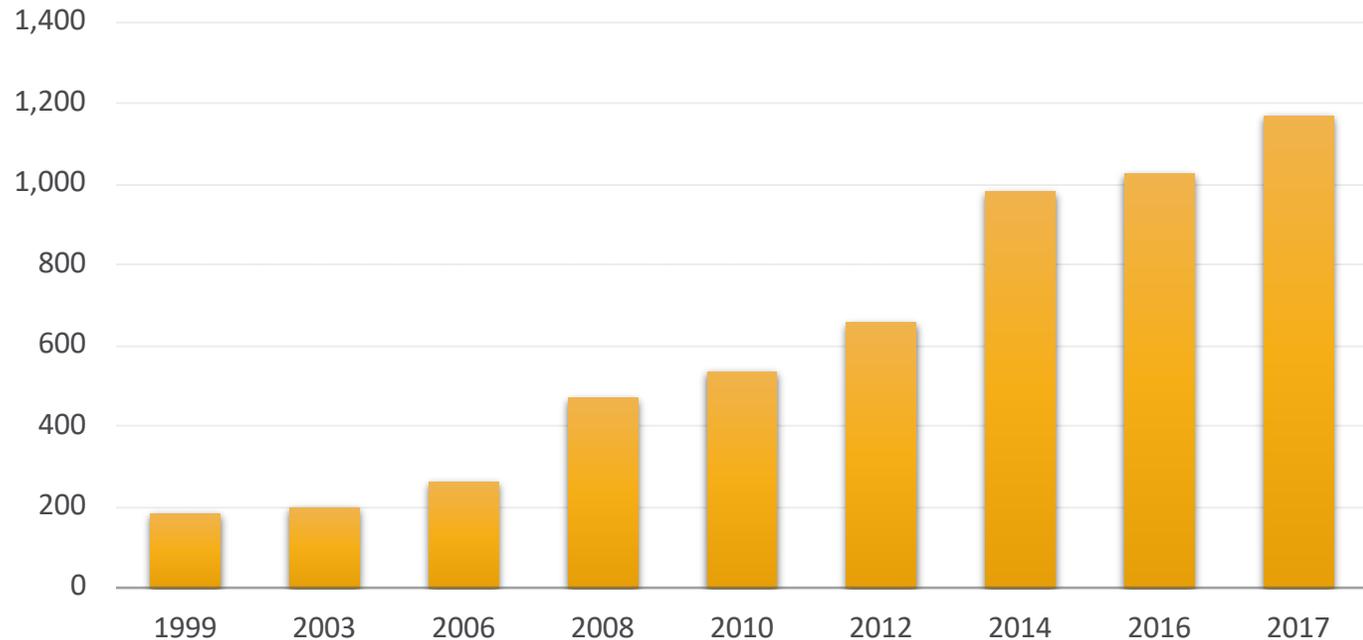
By the numbers

Avg Beer Suppliers: **36**

Avg Total Suppliers : **69**

Avg Brands : **237**

Average SKUs by Distributor



Data: NBWA Distributor Productivity Report | 2017

Due diligence checklist

Retail Environment

- On-premise vs Off-premise
- Chains vs Independent
- Grocery, C-store, Pkg Liquor, Mass Merch
- Chain shelf reset calendar
- Competing Local Breweries
- Venues



Due diligence checklist

Supreme Court Hears Liquor Store's Fight Against 'Good Old Boys System' That Bans Competition



Nick Sibilla Senior Contributor 
Policy
I cover criminal justice, entrepreneurship, and offbeat lawsuits.

A case before the U.S. Supreme Court may soon decide whether states can pass laws that do little more than protect in-state businesses from outside competitors in the alcohol industry. In *Tennessee Wine & Spirits Retailers Association v. Blair*, set for oral argument on Wednesday, the court will consider a Tennessee law that limits liquor licenses to residents who've lived in the state for at least two years.

Texas liquor giant Spec's sues Texas Alcoholic Beverage Commission for "abusive" enforcement attempts

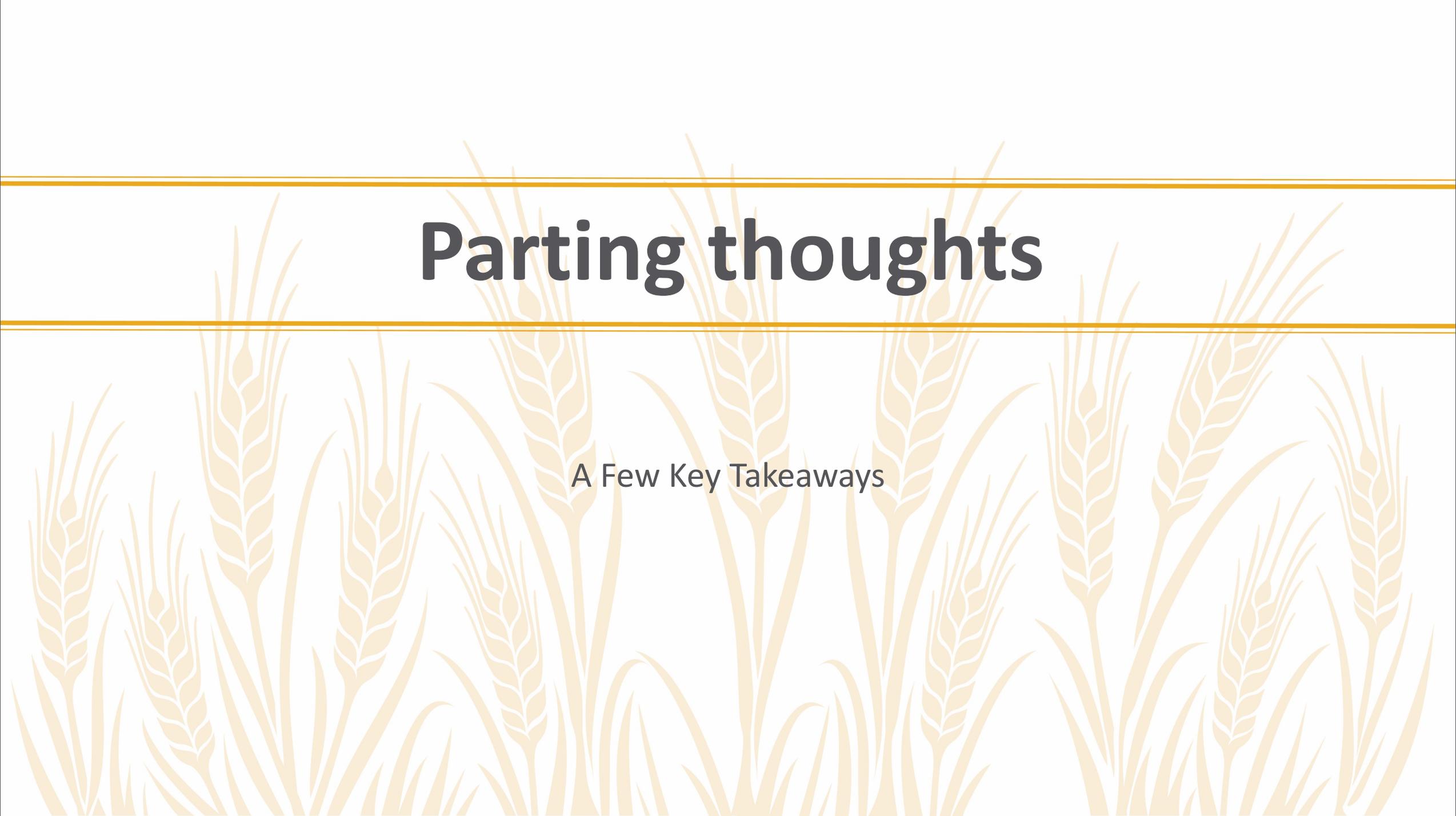
In a case that alleges overzealous business regulation, Spec's, the state's largest liquor store chain, is suing the Texas Alcoholic Beverage Commission for "wrongfully and maliciously" trying to impose huge fines and sanctions on the retailer. The state says it's immune from such suits.

BY **JAY ROOT** DEC. 5, 2018 12 AM

- Market landscape
- Transient customer base or local
- Seasonality
- Distance From Home Market
- Demographics of consumers
- Health of local economy
- Legislative environment

Plan beyond the initial rollout

- Organizational structure
 - Policies and procedures
 - Sales training
- Market support
 - Budget for marketing, advertising, promotional spending – invest in the future
 - Retailer management - chains
- Business planning
 - Develop an annual plan to remain relevant
- Distributor management
 - Clearly defined expectations
 - Regular follow-up



Parting thoughts

A Few Key Takeaways

Key takeaways

- Don't get caught up with short-term growth, build a plan to sustain long-term methodical and PROFITABLE growth
- If you have a **PULL** problem, expanding your territory only makes the problem worse
- Entering a new market is tough and requires a lot of work

-It's going to be a tough year for craft. The segment is set to post low-single digit growth for 2018, and trends will come close to dipping into the negative for 2019, but will ultimately elude the red thanks to easy comps. Let's face it, today's consumer trends aren't exactly driving people towards craft beers. Low is what's in right now – low-calories, low-carbs, and low sugar. And that's tough to find in the current craft segment.

-We'll see a couple craft brewers achieve national distribution, like Dogfish Head and Founders, but that could be it for a while.

-On the flip side of that, we'll continue to see big craft brewers pull out of markets and place more emphasis on their backyard.

Craft Business Daily – Our 2019 Predictions | January 3, 2019



Key takeaways

- Do your homework upfront before signing a distribution contract
- Be prepared to invest in a new market, ROI takes time
- If you don't have a QA lab, don't enter a new market
- Invest in recruiting talent and train them properly
- Off-premise chains are the key for successful growth in a new market
- Know when to say when...

The warning signs

- Know when to cut bait – do your analytics and know the warning signs of when to course correct goals or exit the market altogether and reallocate resources
 - No help from distributor and communication declines
 - Sales trends are negative
 - No sales movement in the chains
 - Lost placements and buying accounts
 - Lack of market chatter about your brands



Thank You

Rob Tod

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Daniel Lust | @lustywes | Daniel@pintslc.com

Additional Resources can be found at:

<https://www.brewersassociation.org/>