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THE BRAND ISSUE

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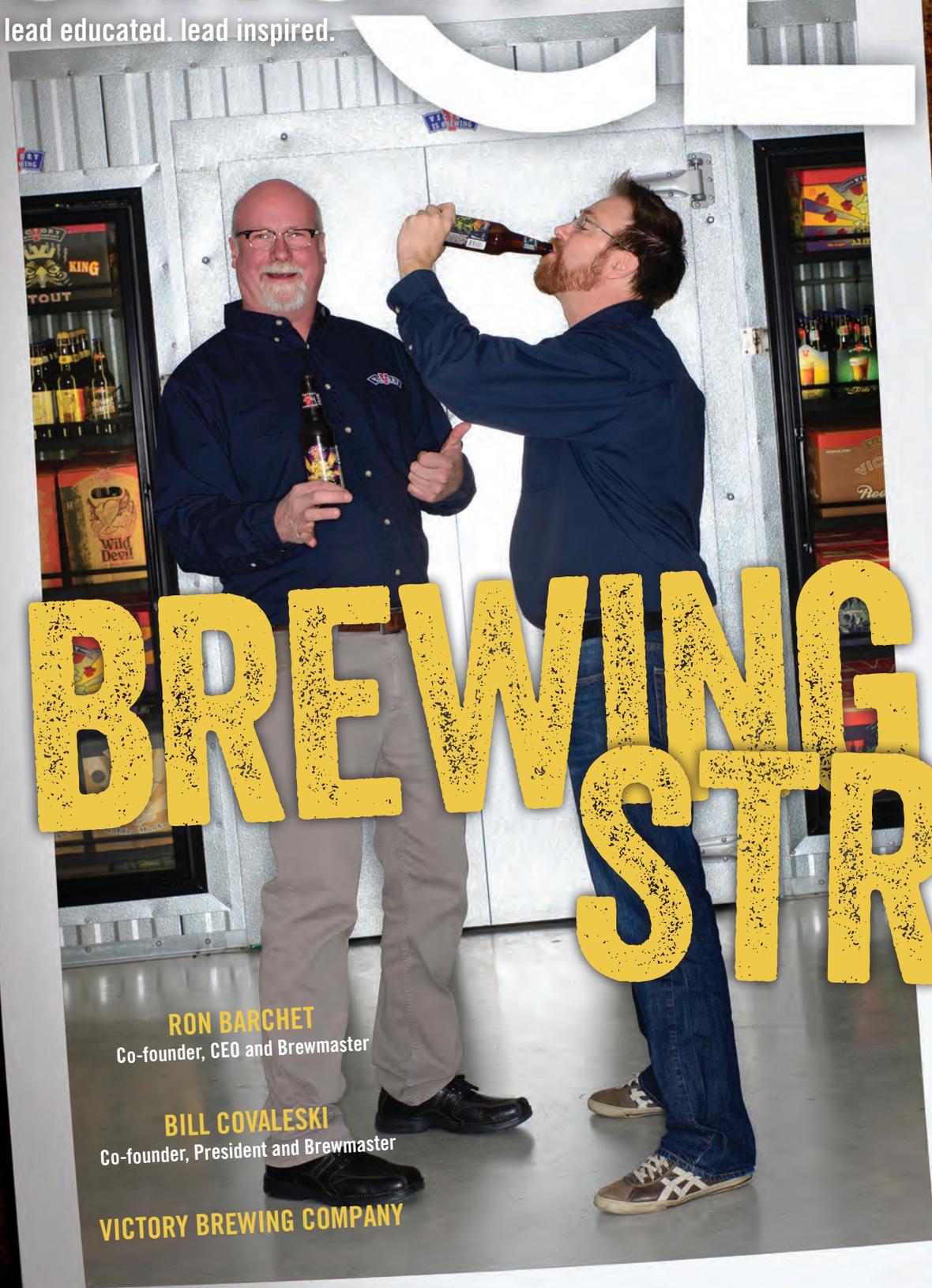
BREWING STRREAK

RON BARCHET
Co-founder, CEO and Brewmaster

BILL COVALESKI
Co-founder, President and Brewmaster

VICTORY BREWING COMPANY

How two childhood friends launched Philadelphia's first craft brewery and built it into the 28th-largest craft brewer in the U.S.







Victory LAP

In 2013, Victory Brewing became the 28th-largest craft brewery in the U.S. — a feat attained through passion, hard work and the melding of old-world tradition with new-world creativity.

RON BARCHET

Co-founder, CEO and Brewmaster

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By Samantha Drake
Photography by Mitro Hood and
Courtesy of Victory Brewing Company

Victory



On a cold, gray Saturday in December 1995, Ron Barchet and Bill Covaleski began brewing the first batch of their craft beer needed for the grand opening of Victory Brewing Company in Downingtown, PA. The event was still two months off and contractors were onsite working to finish the facility. But Barchet and Covaleski had decided to start with the beer that needed to age the longest.

The two were so intent on their work that they didn't notice snow had begun falling until the contractors quit working at noon to beat the impending snowstorm home. Putting the beer-making off and going home themselves wasn't an option for Barchet and Covaleski, who were not only the founders of Victory but also its only two employees at the time. They had to make two batches of beer to fill the fermentation tank to a level that would trigger the cooling process needed to maintain fermentation, explains Covaleski. Working with brand-new equipment only slowed down the already lengthy process, he says.

"It was the lowest job on the totem pole but I was happy from day one and never looked back. I never regretted it, not ever."

Ron Barchet, co-founder, CEO and brewmaster,
Victory Brewing Company

LAP

“We ended up walking out at 2 a.m. into the aftermath of a giant snowstorm and we didn’t get back to the brewery for 24 hours,” Covaleski recalls. “But the fermentation went fine and we had beer.”

It’s one of many situations in which Victory’s founders refused to take the easy route out. It’s also an early example of how Victory’s journey to becoming the 28th-largest craft brewer in the U.S. in 2013 is ultimately the story of two friends making beer together.

Victory opened its doors nearly 20 years ago and brewed 1,725 barrels of beer in its first year of production. After opening a second brewery in Parkesburg, PA, in 2014, the company brewed an estimated 125,000 barrels, including the top-selling Golden Monkey and DirtWolf beers. The new \$40 million brewery is already paying off: Production grew by 21 percent and revenue by 23 percent over 2013, according to the company.

Victory beers are available in 35 states as well as in Japan, Singapore, Europe and the Caribbean. South America is also under consideration. The Victory umbrella brand covers the 300-seat brewpub in Downingtown, and the soon-to-be-opened brewpubs in Parkesburg and Kennett Square, PA, as well as a brewpub in Leesburg, VA, that is scheduled to open in 2016. Aggressive expansion has also yielded a variety of partnerships to create beer-infused, alcohol-free packaged foods, from cheese spread to waffles.

On this solid foundation, Barchet and Covaleski plan to continue building the Victory brand with their fellow craft beer lovers in mind in 2015 and the years ahead.

ORIGIN STORY

At the heart of Barchet and Covaleski’s business partnership is a friendship of more than four decades. No Victory story is truly complete without mentioning how

the 10-year-old Barchet and Covaleski met on a school bus in 1973. They were both the new kids in town, starting fifth grade in Montgomery County’s Methacton School District. Barchet notes he had returned to the U.S. after three years in Germany with his family, while Covaleski had recently moved to the area from Levittown, PA.

After high school, the two stayed in touch while Barchet attended UCLA and Covaleski went to Temple University. They are the kind of friends who could pick up right where they left off after living on opposite coasts. Upon graduation, Barchet worked as a financial analyst and Covaleski as an art director. Meanwhile, Covaleski began dabbling in beer making and gave Barchet a home brewing kit for Christmas.

Beer wasn’t the only thing brewing in their lives. Dissatisfaction with their office jobs was as well. In 1989, Barchet left his job crunching numbers for the defense industry in Washington, DC, to become an apprentice at Baltimore Brewing Co. “It was the lowest job on the totem pole, but I was happy from day one and never looked back,” he says. “I never regretted it, not ever.”

The job was a means to an end because serving an apprenticeship with a brewer was a prerequisite to attending Barchet’s chosen German brewing school, the Technical University of Munich at Weihenstephan. When Barchet left Baltimore Brewing, the company hired Covaleski to take his place. Covaleski says he felt a similar discontent with his job but derived tremendous fulfillment from making his own beers. He followed Barchet’s example by studying beer making at the Doemens Institute in Munich. Barchet, in turn, came back to the U.S. and took a job at Old Dominion Brewing Co. in Ashburn, VA.

With German training and practical experience under their belts, Barchet and Covaleski were ready to put their knowledge to work on their own venture. In

“You have to look at the conditions and situations you’re confronted with and figure out solutions.”

Bill Covaleski, co-founder, president and brewmaster, Victory Brewing Company

the early 1990s, when craft brewing, then known as microbrewing, was in its infancy, Barchet and Covaleski’s initial goal was simply to make beer for people as interested in good beer as they were.

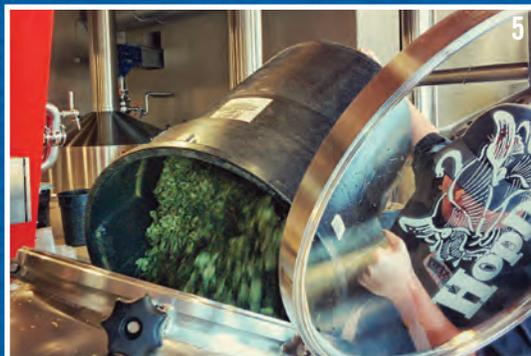
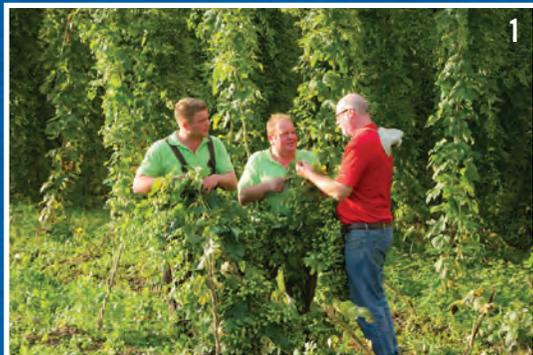
As the only major city in the U.S. without a craft brewery, Philadelphia presented an untapped market for Victory. Philly also came with a built-in safety net of support from family and friends, Covaleski adds. Both Barchet and Covaleski live in the Downingtown area — Covaleski with his wife and two daughters, and Barchet with his wife, two sons and two daughters.

Times have changed. Today, Victory is one of nearly 60 craft brewers in Pennsylvania, with 13 in Southeastern Pennsylvania alone, according to the Brewers of Pennsylvania based in Harrisburg. Pennsylvania is fourth on the list of states with the most craft brewers, notes Dan LaBert, the executive director of Brewers of Pennsylvania. (Covaleski serves as president of the organization.)

Victory “is the ultimate craft brewer story,” LaBert says, citing Barchet and Covaleski’s experience in previous careers and formal beer brewing education. “You can’t just be a home brewer and throw some ingredients together,” he points out.

BRAND APPEAL

Barchet and Covaleski, both 51, opened Victory in February 1996. Barchet is the company’s CEO, Covaleski is president; and both hold the title of Brewmaster.



Back to nature: 1: Ron Barchet talks with hop ranchers at harvest time. 2: Victory Brewing uses whole flower hops to make its beers. 3: Bill Covaleski shows whole flower hops in the refrigerated storage room at Victory’s new brewery in Parkesburg, PA. 4: A brewer opens whole flower hops. 5: Flower hops being poured into a sealable chamber, dubbed the “HopVic.”

Victory

Worts and All

The division of duties was obvious from the start. Barchet is the inside guy, overseeing brewery operations, finance and supplier relationships. Covaleski is the outside guy, handling sales, marketing, events and consumer relationships. Both are involved in the creation of new products.

“Having this longevity, we really understand one another and know what to expect from one another,” says Covaleski. “So there’s this fundamental underlying structure that doesn’t need analysis and questioning.”

Or, as Barchet puts it, “We don’t get in each other’s business too much.”

Victory’s tag line, “European Tradition, American Ingenuity,” reflects the founders’ German training and their own flair for flavor. “We have the best of both

worlds — we have the technical background and access to the ingredients that are traditionally used, but we have the freedom to do whatever we want with them,” notes Covaleski.

One of Victory’s most unique aspects is its use of “flower power.” According to Victory, it’s the only brewer on the East Coast that uses unprocessed whole flower hops, rather than pellets, to make beer. Although using whole flower hops is more challenging in terms of cost, storage and consistency, Barchet and Covaleski maintain the practice not only yields better flavor but is in keeping with European brewing tradition and their own commitment to using all-natural ingredients.

Victory’s roster includes beers produced year-round and a growing list of seasonal and specialty beers. This

Victory has collaborated with local artisan food brands to make a variety of packaged foods. “Collaboration grows the product,” says Daniel LaBert, executive director of Brewers of Pennsylvania. “If two well-known labels get together, the foam will rise for everybody.”

Wort from the Victory beer-making process, particularly for the top-selling Golden Monkey as well as Hop Devil, Prima Pils and Storm King Stout, adds buzz-free flavor. Wort is the liquid extracted from mashing during the beer-brewing process and contains sugars that will be fermented to produce alcohol.

Victory-branded packaged foods are available at certain local grocery stores and farmer’s markets, and Victory’s retail store in Downingtown, PA.

Victory’s partnerships produce foods including:

Beef jerky. Righteous Felon Jerky Cartel in West Chester, PA, offers jerky called Victorious B.I.G.

Beer and cheddar spreads. Key Ingredient Market of Bath, PA, makes several Victory cheddar cheese products.

Chocolate truffles. Eclat Chocolate in West Chester, PA, offers HopDevil Truffles.

Hot sauce. Punch Drunk Hot Sauce is made by Homesweet Homegrown of Kutztown, PA.

Pasta. Pasta alla Prima is made by Vera Pasta in West Chester, PA.

Pickles. Pint Pickles is made by Crisp & Co. of Hockessin, DE.

Waffles. Waffatopia in West Chester, PA, offers Sweet & Stormy Belgian Waffles infused with Storm King Stout.



inventory has inspired a variety of brand-building partnerships to create beer-infused packaged foods and participate in beer-centric events like Sierra Nevada's Beer Camp Across America craft beer tour. Victory also collaborated with four other local brewers on Brotherly Suds 5, a golden bock created for the 2014 Philly Beer Week.

Partnerships help craft brewers build their brand and gain broader appeal by interacting with consumers in new ways, explains Bart Watson, chief economist of the Brewers Association in Boulder, CO. In an increasingly

"Failure is not an option. You just can't give up."

Ron Barchet, co-founder, CEO and brewmaster, Victory

Victory often tests new ideas at its Downingtown brewpub before making them available to the broader public. The approximately 28 beers on tap include a few made specifically for the brewpub, says Matt Krueger, VP of retail operations, who first joined Victory as the Downingtown brewpub's general manager.

"It gives you an amazing opportunity to have a tactile experience of our brand in a setting that's very conducive to our core values," Krueger says. This grassroots approach helps drive sales and gives the up to 10,000 customers a week who visit Victory's brewpub a first-hand experience of the company's core values of excellence, innovation and support of community, he adds.

It's also easier to offer brewpub customers free samples or a new menu item than to gauge consumer tastes out in the marketplace, Covaleski explains. For example, Victory featured its own beer-flavored ice cream at the brewpub before selling it at retail locations, he says.

New ventures expand the Victory brand while also creating development opportunities for employees, notes Covaleski. If the company didn't continue to generate new opportunities for career growth, employees would have no reason to stay, he notes. It's also difficult to walk away from a

good idea. Covaleski says he and Barchet have "very opportunity-driven personalities, so when we see an opportunity, we have a hard time backing off of it."

SUPPLY AND DEMAND

But success can create problems, particularly those related to supply and demand.

Victory had a banner year in 2011, with an anticipated growth rate of 20 percent and an actual growth rate of 37 percent. The founders planned to decide in 2013 whether they should up their game and increase production by building a new brewery facility. They ended up having to make that decision in 2012, a year earlier than scheduled, and moving forward on a second facility, says Barchet.

With funds from retained earnings and a \$33 million loan from longtime financial partner First Niagara Bank, Victory started building a new 212,000-square-foot brewing facility on 42 acres in Parkesburg, PA, with the capacity to generate 225,000 barrels a year. And then Victory's growth stalled — plummeting to 11 percent. Covaleski blames the drop on a stale craft beer line-up that sent Victory fans looking for new options from other craft brewers.

Tough decisions followed as Victory killed a few underperforming brands and introduced new products, "which was like stomping on the gas pedal," says Covaleski. "It brought a whole new level of consumer attention to our brewery." Sales ramped back up again in 2013 and 2014.

Steve German, Victory's VP of sales and marketing, expects sales to continue rising as new consumers discover craft beer for themselves. The challenge is to appeal to the younger generation's more sophisticated palate, he notes. Victory must keep in mind that older craft beer consumers were raised on meat and potatoes, while the twenty-somethings embracing craft beer are more likely to be eating sushi from a young age, says German.

Younger consumers are often selecting craft beers right from the start, so Victory's end-consumer base is growing,

Barchet says. To address this key group's preferences, Victory will start offering its beers in cans as well as bottles in 2015, he says. Beer in cans isn't the Victory founders' personal preference, "but we've come to the realization that our bias doesn't really matter to a 22-year-old who likes cans," Barchet points out.

NEVER GIVE UP

Problem-solving is an inherent part of manufacturing, especially if the product is constantly evolving like Victory beer. Barchet says the best advice he can give a fledgling beer maker is to persevere no matter what. "Failure is not an option. You just can't give up," he says.

Covaleski agrees. "You have to look at the conditions and situations you're confronted with and figure out solutions," he says. But Covaleski adds that Victory's brand of perseverance requires adapting to the situation at hand and not simply refusing to go in a new direction.

Victory's founders cite their early struggle to find beer distributors in the region willing to work with them as a notable example. They decided to distribute their beer themselves in Pennsylvania where that was allowed and found the silver lining in the added workload. Barchet and Covaleski realized they didn't want people who didn't value their brand to represent them in the marketplace.

"The only safe way to go to market was to do it on our own," explains Covaleski. "You don't get two chances to launch a brand."

Although Victory found a wholesaler in Philadelphia, Barchet says they opted to pack up a delivery truck and distribute Victory beer themselves in Chester and Montgomery counties for two years. Distributors eventually offered to work with Victory because they realized the new craft brewer had established a brand that wasn't going away, notes Barchet.

At the end of the day, regardless of how many problems crop up, Barchet and Covaleski can kick back with a good beer, maybe Prima Pils since that's on both their lists of favorites. The knowledge that they make it possible for their customers to do the same motivates them to keep finding ways to evolve and expand the Victory brand.

"We can see people having a good time with their families and friends because of the creative stuff that we and our team made," says Covaleski. "That's really rewarding and fulfilling." **CEO**

Samantha Drake is a freelance writer based in Lansdowne, PA. Contact us at editorial@smartceo.com.

Tapping the Victory Inventory

The following Victory beers produced year-round are:

DirtWolf Double IPA
Golden Monkey
Headwaters Ale
HopDevil IPA
Prima Pils
Storm King Stout
Victory Helles Lager

The seasonal and specialty beers are:

Anniversary 19
Festbier
Harvest Ale
Hop Ranch Imperial IPA
Kirsch Gose
Moonglow Weizenbock
Summer Love Ale
Winter Cheers

The "large-format" beers (that come in 22 oz. and 750 ml bottles) are:

Helios Ale
Mad King's Weiss
Moving Parts
Old Horizontal
V Twelve

