Craft Breweries & Sustainable Communities

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Mid-America Competitiveness Conference & Site Selector Forum
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Lagunitas Brewing - Chicago, IL
Select a community and property that offer the best chance for long-term success

- Community well-defined attraction targets
- Labor force ready to work
- Inventory of ready building & sites
- Appropriate utility infrastructure
- Streamlined permitting process
- Professional economic development team
Investment in craft beverages, farm-to-table, coffee culture - the fuel for transforming communities

- Craft breweries are built on the modern-age coffee shop – venues for creative people to gather, enjoy life, make plans

- Microbreweries add to quality of place by catalyzing new investment - on the block, in the neighborhood, across the community

- With improved quality of place businesses can attract and retain employees, families stay together, property values rise, wealth is created, crime is reduced
News Releases

Scoular Announces New Manufacturing Facility to be Constructed in Seward, Nebraska

March 20, 2019
Today’s Workshop Takeaway

- Understand the craft brewing industry, the current *localization growth* trend, and why downtowns are important

- Establish type and size of microbrewery that may be suited to your community

- Identify potential “best locations” and properties for a microbrewery

- Outline next steps needed to get the ball rolling
Today’s Agenda

1. Craft Brewery – Why Bother?
2. Craft Beer and the Brewing Industry
3. Why Downtown?
4. Concept, Design
5. Branding, Marketing
6. Corporate Formation
7. Licensing
8. Business Resources
9. Business Plan
10. Risk
11. Action Steps
12. Your Beer - Your Brand
1. Craft Brewery – Why Bother?

✓ Job creation and tax generation [NOTE: This should not be the primary driver]
✓ Demonstrate your community is engaged in working with small business and economic development
✓ Realize ancillary development that revitalizes neighborhoods
  • Downtown stabilization and growth
  • Quality of place - attract and retain talented people
  • Increase property values
  • Reduce crime
2. Craft Beer and the Brewing Industry

1880: 1 brewery per 25,000 population

2018: 1 brewery per 44,000 population

-0.8% overall beer
3.9% craft beer
3.6% import beer
Craft Beer’s share of the market

OVERALL BEER MARKET
$114.2 BILLION

CRAFT BEER MARKET
$27.6 BILLION
7% DOLLAR SALES GROWTH

CRAFT
13.2% SHARE
(25,632,766 BBLs)

IMPORT
18.4% SHARE
(36,660,588 BBLs)

OTHER DOMESTIC
68.5% SHARE
(132,985,234 BBLs)

SOURCE: BREWERS ASSOCIATION, BOULDER CO
Craft Beer Industry Market Segments

**Microbrewery** – Annual production <15,000 barrels per year, 75 percent or more sold off-site

**Nanobrewery** – Smaller than a microbrewery (U.S. Department of Treasury classifies nanobreweries as “very small brewery operations”)

**Brewpub** - Restaurant-brewery that sells 25 percent or more of its beer on site.

**Regional Brewery** - Annual beer production of between 15,000 and 6,000,000 barrels

**Large Brewery** - Annual beer production over 6,000,000 barrels

*Commonly used beer volume measures:  barrel (bbl) = 31 U.S. gallons, full keg = 15.5 gallons, pony keg = 5.16 gallons, case of beer 24x12oz. containers = 2.25 gallons, bottles in a barrel = 330, pints in a barrel = 248
More than 7,000 breweries in the U.S. today. Is it a bubble waiting to burst? In some places, yes. Other places are just getting started.
Number of U.S. Craft Breweries by Sector 2014 to 2018

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<tbody>
<tr>
<td>Craft</td>
<td>3,814</td>
<td>4,628</td>
<td>5,539</td>
<td>6,490</td>
<td>7,346</td>
<td>+13.2%</td>
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<tr>
<td>Regional Craft Breweries</td>
<td>135</td>
<td>178</td>
<td>186</td>
<td>202</td>
<td>230</td>
<td>+13.9%</td>
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<tr>
<td>* Microbreweries</td>
<td>2,076</td>
<td>2,626</td>
<td>3,251</td>
<td>3,933</td>
<td>4,522</td>
<td>+15.0%</td>
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<tr>
<td>Brewpubs</td>
<td>1,603</td>
<td>1,824</td>
<td>2,102</td>
<td>2,355</td>
<td>2,594</td>
<td>+10.1%</td>
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<tr>
<td>Large/Non-Craft</td>
<td>46</td>
<td>44</td>
<td>67</td>
<td>106</td>
<td>104</td>
<td>1.4%</td>
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<tr>
<td>Total U.S. Breweries</td>
<td>3,869</td>
<td>4,672</td>
<td>5,606</td>
<td>6,596</td>
<td>7,450</td>
<td>+12.9%</td>
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* Microbreweries – fastest growing market segment, there are lots of them, they are small.
The Industry is Now in a Localization Phase

The era when small craft breweries could achieve regional dominance has come to an end.

To grow, brewers must fight for bar taps and grocery store shelf space.
3. Why Downtown?

• Shop Local – Downtowns everywhere are being rediscovered as Americans refocus on local and unique

• Right Location – Downtowns connect with the community in multiple ways – shopping, services, entertainment, history, culture

• Right Building – Downtown real estate is often under utilized, offering buildings that are the right size, aesthetically appealing, adaptable, affordable
Kent, OH downtown north end: Coffee shop started ball rolling

There is more work to do but writing is on the wall – street is coming back!

Abandoned building becoming restaurant

Coffee roaster started neighborhood transformation

Shuttered flour mill

Abandoned storefronts
Kent, OH downtown north end: Coffee shop started ball
A warm & friendly atmosphere conducive to conversation
4. Concept, Design
The North Water Brewing Experience

- Adult oriented, family and pet friendly, eclectic music/art
- Quality acoustics, decibel levels that allow conversation
- Not a “college bar”
- Comfortable interior space, large outdoor 3 season patio
- Themes - outdoor activities and respect for environment
What’s right for your community?

- Microbrewery on-site production
  - 500 to 4,000 bbls per year
- Square footage
  - 2,000 to 7,000 s.f.
- Employees (FTE)
  - 4 to 14
- Operating Schedule
  - 4 to 6 days per week

- Themes
  - Music and art
  - Local culture
  - History

- Target Markets
  - Gen X
  - Millennials
  - Families
  - Empty nesters
  - Tourist, visitors
  - Children and pet friendly
Some microbrewery concepts to consider
Board game themed taproom

Kansas City, MO
Athens, GA

Catering to Events
Prodigal Son Brewing
Pendleton, OR

Startup Brewery as Centerpiece of Downtown Redevelopment Plan
Blue Tick Brewing
Maryville, TN

Down-and-Dirty
Start-up Brewery
Hendersonville, NC

Kid Friendly!

Music, art, kids, and dogs
Crux Brewing – Bend, OR
Appealing to Oregon’s Outdoor Culture

Bend
population 90,000
22 craft breweries
TVs and Ambient Music

What is right for your market?

Thirsty Dog Taproom – No TV

Rickety Cricket – no escaping TV

Sothern Appalachian – 1 small TV
Food is essential to a successful microbrewery*

- Warming oven
- Refrigerated food station
- Food prep surface
- Order counter
- Prep area barrier

*Availability of food results in .8 more pints per customer visit

Let someone else worry about the food
Signage is important to the brand.
Lighting should create a warm and friendly customer experience.

Lighting and interior finishes are part of successful branding.
Taproom Tables

Furnishings
- Brand reinforcing
- Functional
- Adaptable
- Safe
- Inexpensive

- 6 – 8 seat tables
- 8 – 4 seat tables
- 70 chairs
- 14 bar stools
Creative interior finishes don’t have to be expensive.
Restroom are a part of your brand*

Natural light, bright lighting, easy to clean surfaces

*No bathtub or shower needed. Picture shows desired interior design.
Create a vision that captivates the community, attracts investors.

North Water Brewing
Kent, OH
5. Branding, Marketing

Word of advice: Partner with a firm dominated by professionals under 35 years old.
Branding connected with target customers fosters brand loyalty.

Build brand around local strengths.
Good graphics help in attracting investors.
To stay relevant in a highly competitive environment requires constant attention to the market.

Reach your customers through the channels they follow.
6. Corporate Formation

Word of advice: Get a lawyer with corporate formation experience.
Corporate Formation Alternatives: Pick the one that best fits your situation

- **S-Corp**: profits/losses pass through to ownership
- **C-Corp**: corporate pays taxes, shareholders also taxed
- **LLC**: Offers the most flexibility for ownership and taxes

**S-Corp**
- Owners pay personal income tax on profits
- Business must pay corporate income tax
- All business income/loss is passed through to owners each year.
- No more than 100 shareholders
- Shareholders must be U.S. citizens or resident aliens

**C-Corp**
- Owners pay personal income tax on profits
- Business must pay corporate income tax

**Limited Liability Company (LLC)**
- Shields personal assets from business liability
- Requires separation of business and personal finances
- Allowable in all 50 states and the District of Columbia
- Highly flexible management structure
- Flexible tax reporting options
7. Licensing

• Federal TTB
• State Alcohol Beverage Control (ABC)
• State and local business licenses

Word of advice: Get a lawyer WITH brewery experience.
**Tax and Trade Bureau (TTB)**

Bureau of US Dept of Treasury - collects taxes on alcohol. Approvals are running 4 to 6 months.

- Articles of Organization filed - Secretary of State
- Federal EIN
- Executed Operating Agreement
- Executed Lease Agreement
- Diagram of Leased Premises
- Source of Funds Documentation
- Bank account, bank statements
- Document funds already used
- Copy of promissory note (loan)
- Anyone holding 10% or more
  - Register with the TTB
  - Complete Personal Questionnaire

**State Alcohol Beverage Control (ABC)**

**State of Ohio ABC licensing (<$10,000)**

Regulations are geared to craft breweries. NWB will acquire three Ohio ABC licenses. These licenses are not limited in number and are awarded to qualified applicants:

- A1A ORC 4303.021 Beer, and any intoxicating liquor by the glass or container until 2:30am.
- A1c ORC 4303.022 Manufacturer of Beer - producing up to 31 million gallons per year, for sale on premises at retail and sell beer products to retail and wholesale permit holders.
- D6 ORC 4303.182 Sale of intoxicating liquor on Sunday between the hours 10:00am or 11:00am and midnight.
8. Business Resources
Every State has a Brewers Guild

California Craft Brewers Association
Tom McCormick, Executive Director
555 Capitol Mall - Ste 1275
Sacramento, CA 95814-4504
Phone: (916) 228-4260
Website: www.californiacraftbeer.com

<table>
<thead>
<tr>
<th>License Type</th>
<th>Barrel Limit per License</th>
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<tr>
<td>Type 75 - On-Sale General Brew-Pub</td>
<td>Not less than 100 bbls and no more than 5,000 bbls</td>
</tr>
<tr>
<td>Type 1 - Beer Manufacturer</td>
<td>Over 60,000 bbls</td>
</tr>
<tr>
<td>Type 23 - Small Beer Manufacturer</td>
<td>Under 50,000 bbls</td>
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Statutory Definition of Beer: "Beer" means any alcoholic beverage obtained by the fermentation of any infusion or decoction of barley, malt, hops, or any other similar product, or any combination thereof in water; and includes ale, porter, brown, stout, lager beer, small beer, and strong beer, but does not include sake, known as Japanese rice wine. Beer aged in an empty wooden barrel previously used to contain wine or distilled spirits shall be defined exclusively as "beer" and shall not be considered a dilution or mixture of any other alcoholic beverage.
Brewers Association – great resource for start-ups

Membership <$200 for brewery in planning
Finding a brewer

- Engage a passionate local home brewer
- UC Davis – newsletter goes to brewery program graduates
- Brewers Association posting
- Pro Brewer – equipment, help wanted, and much more
- Word of mouth – informal craft brewery network

Develop a document that outlines an opportunity to work at a startup brewery in exchange for an ownership share. Establish contract terms.
9. Business Plan
Business Plan Outline

1. EXECUTIVE SUMMARY
2. OPERATING PHILOSOPHY
3. LOCATION AND REAL ESTATE
4. CRAFT BREWING INDUSTRY
5. REAL ESTATE
6. OWNERSHIP
7. FINANCIALS
8. RISK
9. BREWERY DESIGN
10. LEGAL DOCUMENTS
11. PROPERTY DUE DILIGENCE
12. HUMAN RESOURCES
13. ENVIRONMENT & SUSTAINABILITY
14. OPERATIONS

Financials

APPENDIX A-1 PROFIT & LOSS
APPENDIX A-2 BALANCE SHEET
APPENDIX A-3 ASSUMPTIONS
APPENDIX A-4 STARTUP EXPENSES
APPENDIX A-5 DEPRECIATION
APPENDIX A-6 BANK LOAN
APPENDIX A-7 CITY OF KENT LOAN
APPENDIX A-8 TAPROOM BAR SALES
APPENDIX A-9 KEG SALES
APPENDIX A-10 FOOD-SWAG SALES
APPENDIX A-11 YEAR 1 STAFFING & WAGES
APPENDIX A-12 TAPROOM SCHEDULE
APPENDIX A-13 BREW HOUSE STAFFING
10. Risk

Around 60 percent of new restaurants fail within the first year. Nearly 80 percent shutter before their fifth anniversary.*

* Source: “The No. 1 thing to consider before opening a restaurant”, CNBC, July 6, 2016
11. Action Steps for starting or attracting a brewery

- Do you want to take on the challenge – recruit or start your own?
- Establish the scale of investment you are willing to tackle
- Select a location / building
- Initiate preliminary design development and branding
- Develop budget estimates
- Prepare a business plan and implementation schedule
- Seek investors
11. Your Beer is Your Brand

Poor quality beer is the reason many breweries fail.
What does the Lagunitas brewer master say about this beer?

We're going a bit blurry on this nebulous release... Hazy Memory is a cloudy IPA full of oats and smooth wheatly-esque-ish-ness, packed with some of the murkiest, juiciest, turbid Loral 291, Hallertau Blanc, Galaxy, and Citra Hops. It's a huge flavor you won't forget!

**ABV 8.0 / O.G. 1.065 / IBU 55**

* Source: 2019 Brewers Association Beer Style Guidelines.
There are over 150 recognized beer styles.
12. **What opportunities do you see for your community?**

Visit breweries, see how they work and what they offer, apply the best parts to developing your own establishment.

Rate your experience

- ✔ Fully satisfied
- ✔ Halfway there
- ✔ Leaves me empty
Cheers!

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