

Initial Business Feasibility Study

Micro Brewing Business

in Downtown Little Chute, Wisconsin



Prepared by:

**Small Business Development Center
University of Wisconsin Oshkosh College of Business**

Ryan Wolf, Market Research Intern
Andrew Stephany, Market Research Intern
Bob O'Donnell, Center Director

October 25, 2011

Table of Contents

I. Executive Summary	3
II. Business Description	3
III. Industry Analysis.....	4
IV. Customer/Market Analysis.....	5
V. Competitive Analysis	6
VI. Business Model	8
VII. Key Points for Financial Plan.....	9
VIII. Key Points for Management/Operations Plan.....	9
Bibliography	10
Appendix I – Current Products of Direct Competitors	11

I. Executive Summary

Craft or micro breweries are defined as businesses that produce less than 15,000 barrels per year. Currently, there are approximately 1,500 such businesses in the United States which account for 4.3% of total beer sales in 2010. While the overall sales of beer are down 3% in the U.S., the craft brewing industry was up 9% from 2009 and has been increasing the past several years.

Microbreweries have the ability to quickly develop and bring to market new varieties of beers, and recapture some of the local brand loyalty that was experienced in many Wisconsin communities prior to Prohibition. This competitive advantage is enhanced when the business also includes a brew pub operation that serves food along with a wide variety of beers brewed on-site.

As envisioned for this feasibility study, a microbrewery in downtown Little Chute would offer customers an opportunity to experience a uniquely Little Chute experience through a combination of products that reflect both the community's Dutch heritage and the beer making traditions of the Fox Cities region.

Based on an analysis of similar enterprises, the cost of starting a craft brewing operation with a brewpub would require an initial capital investment of between \$450,000 and \$800,000. To add a brewpub onto existing restaurant or tavern business would require an estimated investment of \$100,000 to \$150,000. The owner's would be required to fund 20% to 30% of the start-up costs with their own equity investment.

Management talent, however, would be just as critical as capital to the success of a micro brewing business. The management team for such an enterprise should include one or more individuals with prior experience in the micro/craft brewing industry and/or brew pub operations. In addition, the manager of brewing operations should have prior experience in volume production and packaging.

II. Business Description

Based on an analysis of successful micro brewing businesses, this feasibility analysis envisions a business that would have two revenue streams including on-site sale of beer and food products, and the retail distribution of beer products in the Fox Cities and Northeast Wisconsin.

Successful business models (and potential competitors) for the brewing portion of the operation include Hinterland Brewery in Green Bay, Wis. and Stevens Point Brewing in Stevens Points, Wis. Similarly, the Fox River Brewing Co. of Oshkosh and Appleton, Wis. and the Titletown Brewing Co. in Green Bay, Wis. offer examples of successful brew pub operations.

III. Industry Analysis

A. Current Situation

- Breweries with attached taverns and/or restaurants (“brewpubs”) vary in success with different areas, but are generally most successful in large cities and in areas where beer drinking is part of the local culture.
- Brewpubs generally sell 50% more draft beer than traditional taverns.
- Currently, there are approximately 1,500 craft or microbreweries (less than 15,000 barrels per year of production) in the United States which make up 4.3% of total beer sales.
- The volume of craft beer sales in the United States rose by 6% from 2008 to 2009 and the dollar sales were up 10.5% to \$6.3 billion during that period.
- While the overall sales of beer are down 3% in the U.S., the craft brewing industry is up 9% from 2009 and has been increasing the past several years.
- Employment among microbreweries declined by around 6,000 people from 2002 to 2007 possibly reflecting both consolidation and automation.
- The average brewery in the US has approximately 50 workers and most have a staff of fewer than 25.

B. Recent Trends

- It can be difficult for craft breweries to setup a distribution network. In some areas of the U.S., beer distributors may only carry a few microbrewery brands and there several breweries competing to be one of those brands.
- According to an article in the *Journal of Business Venturing*, many microbreweries attempt to target too large a geographic area when first starting up.
- Most craft breweries saw increased sales during the 2008/2009 recession
- Only 45 of 1,700 U.S. microbreweries went out of business in 2008/2009.
- Despite poor economy, 115 new microbreweries opened in 2008.
- More brewers are beginning to using exotic ingredients in their products.
- While microbreweries are popular in the U.S. the same is not true worldwide. For example, European countries are seeing increased demand for wine bars.
- For retail sales, “aluminum bottles” are growing in popularity for craft and regular beers since, compared to glass bottles, they are easier to recycle, reduce shipping costs, protect against ultraviolet light and allow beer to be chilled faster.

C. Future Outlook

- It’s estimated that 200 brewpubs will open in the U.S. in next few years.
- There is currently a bill in Congress that would reduce the excise tax on small craft brewers to allow them to better compete with the national brewers like Miller and Budweiser. Currently, microbrewers pay a \$7 per barrel tax for the first 60,000 barrels they produce. This bill would cut the tax in half.
- The addition of beer sales by retailers, like Walgreens, has the potential to increase beer sales for craft breweries due to increased retail outlets.
- New retailers, like Walgreens, want to keep beer prices low which may cause a price war and smaller companies may not be able to lower their prices to the levels these retailers demand.
- Many restaurants/bars throughout Wisconsin are adding craft beers to their product mix, as the beers are gaining popularity in the state.

IV. Customer/Market Analysis

A literature search identified the following key points regarding customers of successful craft or micro brewery businesses:

- Craft beer drinkers are looking for taste, distinctiveness, sophistication, and responsibility in beer advertisements.
- Craft beer sales in the Great Lakes region are up 40% and are the most profitable beer segment because of their local identity and appeal.
- Many distributors are willing to carry craft beers because they provide a higher profit margin due to consumers willing to pay a few extra dollars to buy beer that is brewed nearby.
- Brewpubs appeal primarily to people who are willing to switch from national brands to craft brewed beer.
- The *Journal of Business Venturing* found that many craft beer drinkers consider microbreweries a substitute for imported beers.
- A 2009 article in the *Wall Street Journal* reported that many people are drinking craft beers instead of having martinis.

A. Micro Brewery with Brew Pub

Based on the information above and additional analysis, the target market for a brew pub with a micro brewing operation in downtown Little Chute would be upper and middle income individuals from the Little Chute, Kimberly, Combined Locks and Kaukauna areas. Depending on product mix, the largest customer segments will be men between the ages of 21-34 and men between the ages of 35-50.

According to the Fox Cities Chamber of Commerce, 55.6% of the population in the metropolitan area that includes Little Chute, Kimberly, Combined Locks and Kaukauna is between 20 and 55 years old. This would represent a potential target market of 125,000 people. For the purpose of financial projections, the business could be expected to secure 1% of those potential customers, of 125 people, as actual customers on a weekly basis.

B. Retail Distribution of Micro Brewery Products

Based on the information above and additional analysis, the target market for retail distribution of products from a micro brewing operation in downtown Little Chute would include retailers, bars, restaurants and wholesalers in the Fox Cities and Green Bay. Retailers would include grocery stores, liquor stores and convenience store.

Grocery, liquor and convenience stores offer relative high consumer traffic and volume sales compared to taverns and restaurants. Convenience and grocery stores also have the advantage of the opportunity for impulse purchases while the consumer is shopping for other items. Future growth opportunities include retail distribution in the Milwaukee and Madison markets.

V. Competitive Analysis

In Wisconsin, there are almost 30 brewpubs, over 20 microbreweries (under 15,000 barrels per year) and five macro breweries (15,000 or more barrels per year) that market their products as, or like, craft beers (see Appendix I for list of products).

Most of the micro brewing operations in the state offer a wide selection of many different types of beers including seasonal offerings and product using unique ingredients. All of the businesses promote a strong local identity and brand recognition. Their major business challenges include establishing and maintaining distributor networks, lack of funds for major ad campaigns, and sometime expanding product lines too quickly.

A. Direct Competitors – Brew Pub Businesses in Fox Cities

Fox River Brewing Co. (Supple Restaurant Group) – Appleton & Oshkosh

- Product/Service Mix Strategy – brewpub with restaurant
- Product Mix Strategy - only carry in-house brands
- Positioning Strategy – upscale restaurant and tavern
- Place/Distribution Strategy – two locations in Wisconsin
- Place/Distribution Strategy – only available at brew pub

Stone Cellar Brewpub – Appleton, Wis.

www.stonecellarbrewpub.com

- Product/Service Mix Strategy – brewpub with restaurant
- Product Mix Strategy – only carry in-house brands
- Positioning Strategy – upscale restaurant and tavern
- Place/Distribution Strategy – only available at brew pub

B. Indirect Competitors – Brew Pub Businesses in Green Bay Area

Legends Brewhouse & Eatery – Green Bay, De Pere, and Ashwaubenon

- Product/Service Mix Strategy – brewpub with restaurant
- Product Mix Strategy - unique beers at each location
- Place/Distribution Strategy – beer only available at brew pub

Titletown Brewing Company – Green Bay, Wis.

www.titletownbrewing.com

- Product/Service Mix Strategy – brewpub with restaurant
- Place/Location – located in community landmark, old railroad depot
- Place/Distribution Strategy – also available at retail outlets in state
- Positioning Strategy – strong local identity with Green Bay and “Titletown”

V. Competitive Analysis (cont.)

C. Direct Competitors – Craft Brewing Business

Hinterland Brewery – Green Bay and Milwaukee
www.hinterlandbeer.com/brewery.shtml

D. Indirect Competitors – Craft Brewing Business

Jacob Leinenkugel Brewing Co. (SABMiller) – Chippewa Falls, Wis.
<http://leinie.com/av.html>

Stevens Point Brewery – Stevens Point, Wis.
<http://pointbeer.com/point/>

E. Indirect Competitors – Popular Beers

Business Strengths:

- Promotion Strategy – budget for national ad campaigns
- Promotion Strategy – high brand recognition

Business Weaknesses:

- Promotion Strategy – little brand identification with region

VI. Business Model

A. Product Mix & Packaging Strategy

- Operate as both a brewpub and wholesaler of beer products to maximize potential revenue streams.
- To attract and retain customers, brew several types of specialty beers that are only available from the business or at the brewpub.
- Offer unique type(s) of beer(s) that are only available from the business on a regular or seasonal basis.

B. Pricing Strategy

- Price products at or near the other craft beers in Northeast Wisconsin.

C. Place/Distribution Strategy

- Initially focus on marketing brew pub to potential customers from Little Chute and the adjoining communities of Combined Locks and Kaukauna, and then expand marketing to include the rest of the Fox Cities.
- Initially wholesale products to retail locations in the Little Chute area, and then expand marketing to include the rest of the Fox Cities and Green Bay areas.

D. Promotional Strategies

- Jim Koch, the owner of The Boston Beer Co. which produces and markets the Samuel Adams brand, recommends that when marketing a craft brewery it's best to talk about the quality of the product rather than price.
- One of the commonly used ways to reach new customers is sampling events at beer festivals. Therefore, new business should look for, or create, such events to promote products.
- According to Jim Koch, the owner of The Boston Beer Co., one of the best ways to market a new beer is to produce it in unlabeled bottles and then have local bartenders and distributors try it without seeing the labels.
- The *Journal of Business Venturing* found that many popular craft beers have a name unique to the region or state where they're brewed. There are many former breweries in the Fox Cities or Northeast Wisconsin which could be used to build local identity and brand recognition for a new business. Example: Electric City Brewing Co. of Kaukauna, Wis.

E. Positioning Strategy

- Create and promote a strong brand identity that reflects and resonates with the unique Dutch culture of the Little Chute area

VII. Key Points for Financial Plan

- The approximate capital costs of starting a craft brewing operation (without a brewpub) is between \$3,500 and \$7,000 per barrel of weekly production.
- The cost of starting a craft brewing operation with a brewpub is estimated to require an initial capital investment of between \$450,000 and \$800,000.
- To add a brewpub onto existing tavern business requires an estimated investment of \$100,000-\$150,000.
- Capital costs will vary depending on the type of building used, whether the building is owned or leased, type of product(s) to be produced and what type of packaging is needed (i.e., draft only, barrels, glass bottles, aluminum cans).
- There is a consensus that buying new equipment is preferable to buying used equipment due to its frequent need for repairs and associated costs.

VIII. Key Points for Management/Operations Plan

- New business owners need technical and business planning input from a person who is experienced in the brewpub and/or craft brewing industry, and perhaps has even experienced a failure or two.
- Importance of hiring an engineer to oversee building of the brewing operation and working with suppliers who have prior experience in supply specialized equipment, such as packaging machinery.

Bibliography

- Wikipedia listing for "Wisconsin Breweries"
http://en.wikipedia.org/wiki/Wisconsin_breweries
- Beaumont, Stephen. "Versatile pale ale pairs well with many dishes." *Nation's Restaurant News* 9 Aug. 2010: 50. *EBSCOhost*. Web. 29 Mar. 2011.
- Cioletti, Jeff. "Fermentation Fest & Females." *Beverage World* 1 Oct. 2010: 10. *EBSCOhost*. Web. 29 Mar. 2011.
- Findlay, Stephanie. "Every Hosers Nightmare." *Maclean's* 123.3620 Sept. (2010): 42. *Business Source Premier*. Web. 31 Mar. 2011.
- Hyatt, Josh. "Beer Baron." *Newsweek* 24 May 2010: 54. *EBSCOhost*. Web. 29 Mar. 2011.
- Kesmodel, David. "In Lean Times, A Stout Dream." *Wall Street Journal* 18 Mar. 2009, eastern ed.: D1. *EBSCOhost*. Web. 30 Mar. 2011.
- Mullman, Jeremy. "Craft Brews Draw Crowds as They Expand Distribution." *Advertising Age* 78.3030 July (2007): 4+. *Business Source Premier*. Web. 31 Mar. 2011.
- Passmore, Nick. "Micro Beers Brew Up Big Business." *BusinessWeek* 6 Feb. 2008: 8. *EBSCOhost*. Web. 30 Mar. 2011.
- Scarpa, James. "Liquid Assets: Restaurant owners tap craft beer's profitable power." *Nation's Restaurant News* 23 Nov. 2009: 23-26. *EBSCOhost*. Web. 29 Mar. 2011.
- Schrader, Jordan. "More states may put beer on tap." *USA Today* 20 July 2009: 3. *EBSCOhost*. Web. 29 Mar. 2011.
- Strenk, TH. "Beer." *Restaurant Business* 1 Mar. 2011: 14. *EBSCOhost*. Web. 30 Mar. 2011.
- Steverman, Ben. "Global Beermakers Eye US Craft Brewers' Growth." *Business Week* 5 Aug. 2010: 2. *EBSCOhost*. Web. 29 Mar. 2011.
- Wehrum, Kasey. "Drink Beer, Create Jobs?" *Inc* 32.8 Oct. (2010): 32. *EBSCOhost*. Web. 29 Mar. 2011.
- "US Specialty Beer." *Beverage World* 126.715 July (2007): 18. Print.
- Census Information
- Various beer companies' websites
 - Leinenkugels
 - Point Brewery
 - Shipwrecked
 - Fox River Brewing Company,
 - Titletown Brewing
 - Legends, Stone Cellar
 - Hinterland

Appendix I – Current Products of Direct Competitors

Ales

- Old Man Winter – Fox River Brewing Co.
- Blu – Fox River Brewing Co., blueberry flavor, made in warmer weather
- Buzzin Honey Ale – Fox River Brewing Co., brewed with honey
- Caber Tossing Scottish Ale - Fox River Brewing Co.
- Winnebago Wheat – Fox River Brewing Co.
- Raspberry Wheat, Vanilla Cream, Cherry Brau – Fox River Brewing Co. s
- Founders Honey Weiss – Legends
- Acme Amber - Legends
- Chocolate Stout – Fox River Brewing Company, made around Valentine's Day
- Rudolph's Red Nose Ale – Legends, around Christmas, specialty
- Scray's Hill Scottish Ale – Legends
- 400 Honey Ale – Titletown, named after train running to Chicago from GB
- Bourbon Legend Barleywine – Titletown
- Bridge Out Stout – Titletown
- Canadeo Gold – Titletown, named after former Packer Tony Canadeo
- Early Sunset Bitter – Titletown
- Hopasaurus Rex – Titletown
- Johnny "Blood" Red – Titletown, named after former Packer
- Kurty's Hop Monster – Titletown
- Railyard Ale – Titletown, silver medal in 2008 festival
- Smokey the Beer – Titletown
- Victory Ale - Titletown

Lagers

- German Pils – Fox River Brewing Co.
- Fox Light – Fox River Brewing Co., 2010 World Beer Cup silver medal
- Duck Creek Dunkel – Legends
- Longtail Light – Legends
- Crocodile Lager – Legends
- Dark Helmet Schwartzbier – Titletown, bronze at 2009 festival