

BREW PUBS WITHOUT BOUNDARIES: PACKAGING FOR THE OFF-PREMISES MARKET

By GREG KITSOCK



“Tomorrow we’re celebrating the fifth anniversary of the first canning of Dale’s Pale Ale,” says Dale Katechis, owner of the Oskar Blues brewpub in Lyons, Colo., when contacted on the last day of November.

Oskar Blues was a modest-sized brewpub, turning out about 700 barrels a year, when Katechis bought a manual canner for \$10,000 in 2002 and installed it in a century-old barn. For 2007, Oskar Blues was on pace to produce 14,000 barrels—close to 90 percent of that in cans.

“It would have been more, but we were unable to fulfill most of our orders for 2007,” says Katechis. He was preparing to cut the ribbon on a new production facility in Longmont, equipped with a 50-barrel brewhouse and a dozen 120-barrel fermenters that will be capable of raising his output to 30,000 barrels a year.



Obviously, Oskar Blues is a best-case scenario of what can happen when a brewpub decides to package beer for off-premises consumption. There are various reasons why other brewpubs should want to follow suit, whether in cans or bottles. Katchis decided to can his beer as a marketing ploy to get more customers through the doors of his brewpub. And it's worked. Katchis reports that his restaurant sales are up double digits. And he admits that percolating in the back of his head is a plan to open additional brewpubs.

Garrett Marrero, founder of Maui Brewing Co. in Lahaina, Hawaii (another brewpub that's begun canning its beer), says, "You can count on fairly steady growth in the restaurant if all goes well." But if the weather turns sour, or a recession cuts into the tourist trade, "Off-premises is a way to stabilize your cash flow" by reaching out to a wider audience.

"We can't pack any more people into our pub than we already do," says Steve Bradt, brewmaster for the Free State Brewing Co. in Lawrence, Kan. "Off-premise is the one place business can really grow." The brewpub has just about maxed out, producing 2,800 barrels in 2007, about 25 percent of which is kegged for other bars and restaurants. Keeping pace with demand "gets taxing in the cramped confines of a brewpub," complains Bradt. This spring, however, Free State will start doing test runs in its new packaging brewery in an 8,000-square-foot warehouse, conveniently located a few blocks from Bradt's home. Bradt hopes to have the first bottles on the market by the end of 2008.

There are a number of strategies for breaking into off-premises, some of them entailing less risk than others.

Toeing the Waters

As of press time, Volker Stewart of The Brewer's Art in Baltimore had just released his first beer for the takeout trade, Green Peppercorn Tripel in 750-milliliter bottles.



Oskar Blues produces 90 percent of its beer in cans.

He'll follow that up with additional seasonal brews in 240-case batches on a quarterly basis. Stewart is brewing the bottled beer under contract at the Sly Fox Brewing Co. in Royersford, Pa. Sly Fox provides the bottles, corks, wire cages, and base malts; Stewart provides the labels and specialty ingredients, and sends up a brewer to supervise production.

Stewart says his decision to bottle is partly a response to customer demand. "We have seasonals that are very popular, but they're only available a short time. Bottling them makes them available to a larger audience."

He continues, "We thought it would be a nice marketing tool. There is a distinct possibility that if people see our bottles in liquor stores, it might introduce them to our place ... or give them a good reminder that we're here."

Stewart characterizes contract brewing as "a way to test the waters to see if we want to open our own plant." A packaging facility would be "a colossal investment," Stewart notes, and he feels it's more prudent to gauge the demand for his beer before breaking ground.

The flip side is that contract brewing involves a loss of control over your beer. "Historically, contract brewing has the suggestion of not being the real deal, of being ersatz beer," says Phil Markowski of the Southampton Publick House in Southampton, N.Y. and its production arm, Southampton Ales and Lagers. Markowski brews three of his beers (Double White Ale, IPA and Secret Ale, an altbier) at Olde Saratoga Brewing Co. in Saratoga Springs, N.Y. for packaging into six-packs of 12-ounce bottles. He also duplicates a few of his bigger recipes, including a Tripel and an Imperial Porter, at Sly Fox for bottling into 22-ouncers. "I think I come very close, but it's never going to be the same thing."

Nevertheless, Markowski believes that for urban brewpubs like his own, this might be the most viable option. Opening a production plant "has occurred to me," he admits, "but this is one of the most expensive real estate areas in the country. Industrial space is hard to come by."

Most brewpubs advised a conservative approach to marketing. "Pick your battles," urges brewmaster Brian O'Reilly of Sly Fox, which both cans and bottles beer for the Pennsylvania, New York and New Jersey markets. "When we started, we focused on just a few places."

Bradt agrees. He admits that "we're looking at neighboring states" as potential markets, but adds, "The closer you can keep it to home the better you are." Most of his current keg sales, he notes, are within 50 to 75 miles of the brewpub.

He continues, "The big difference with selling your beer out the door is that your quality control systems have to be significantly more stringent. You have to pay more attention to how that beer will taste in four





can keep our money on the islands,” notes Marrero.

Canning beer is also a way to differentiate your brands from those of the larger regional craft breweries, almost none of which have sought to exploit the possibilities of canned beer. Cask Brewing Systems, the Canadian company that markets small canning lines, lists 33 customers in the United States, all brewpubs or microbreweries. It’s a matter of scale: Sly Fox’s O’Reilly notes that an automatic canner from Cask does 30 cans a minute, while the super-fast canning lines of an Anheuser-

Busch or Coors can spit out as many as 1,000 containers in the same time period. But that leaves little for mid-sized companies.

But cans have disadvantages as well. Marty Jones, Oskar Blues’ “lead singer and idea man,” admits that some confused retailers put the company’s Dale’s Pale Ale and other brands on the same shelf as PBR and other mainstream canned beer, where they’re less likely to sell.

O’Reilly cautions that cans have to be purchased in bulk quantities, in far larger amounts than bottles. A minimum order for Sly Fox, he reports, is 7,000 cases worth. “That’s a lot of money and space tied up.”

weeks, or six weeks.” Oxygen pickup, product stability and microbiological issues become key.

Although Kansans favor wheat beers, Free State will most likely enter the bottled beer market with its Old Backus Barleywine, its wood-aged “Eccentricity” series and other higher-alcohol, “value added” beers. “Big beers will tolerate more errors as we learn about the bottling process,” explains Bradt.

Glass or Aluminum?

Bradt believes the 22-ounce “dinner” bottle is the best package for such beers. It’s not a perfect fit everywhere. “A lot of bars don’t want to put that bottle out, but it’s got great potential in liquor stores and restaurants.” Another advantage is that 22-ouncers are generally sold as singles, so you don’t have to make an additional investment in six-pack holders. “You still need labels, but they don’t cost any more than they do for 12 ouncers.”

Other brewpub operators have different ideas on what the ideal container should be. Marrero decided to break into the packaged market by canning three of his most popular brands, Bikini Blonde Lager, Big Swell IPA and CoCoNut Porter. Inside the can, there is no light exposure, he notes, and the oxygen pickup is less than in a bottle (“The crown is not a 100-percent seal,” he asserts). The can is environmentally friendly (98-percent recyclable, says Marrero), and it won’t shatter and present a health hazard... an important consideration when you’re selling to the beach crowd.

There is another factor: shipping bottles to far-off Hawaii from the mainland would be cost-prohibitive. But the Ball Corporation, which manufactures aluminum cans, does have a branch plant in Hawaii. “This way we





Maui Brewing Co. offers three of its most popular beers in cans.

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And because the cans come preprinted, it's not likely a brewpub could afford to do more than three or four canned brands.

But aluminum and glass aren't mutually exclusive. Besides a Cask canning line, Sly Fox also possesses an Italian rotary filler and labeler, as well as a Spanish-made corker, that it bought secondhand. The cans are reserved for four lower-alcohol, session-type beers: Pikeland Pils, Phoenix Pale Ale, Dunkel Lager and Royal Weisse. Belgian styles and the annual Christmas Ale—those beers that benefit from a fancier presentation—are available in Chimay-shaped 750-milliliter bottles. The rest of the lineup comes in cheaper 22-ouncers.

Of course, to choose the right package and brand mix, you need to understand your market. Maui Brewing Co. has been canning beer since last spring, but Marrero won't start selling kegs for off-premises until February 2008. That reverses the usual order in which brewpubs waded into off-premises. "Getting tap handles is very difficult in a sealed market," elaborates Marrero. It's easier to place a few six-packs in a cooler, he believes, than to pry draft lines away from Budweiser, Heineken and Kona, the three "800-pound gorillas" that dominate the draft market in Hawaii.

Giving Birth to a Microbrewery

Another noteworthy case is that of Barley and Hops Grill & Microbrewery in Frederick, Md., and its foray into the West Virginia market.

Operations manager Gary Brooks began supplying kegs to a few bars in Harper's Ferry, about 20 miles from his brewpub, gradually adding other accounts in the state's resort areas. Eventually, he was shipping 30 to 40 barrels a month to West Virginia. "The demand was putting so much pressure on the pub that we stopped doing seasonals to keep up with production."

"We considered putting a second brewpub in Harper's Ferry, but we didn't think that we had enough name recognition there," he continues. Eventually, he arrived at a very different strategy. "Bars in West Virginia have five to six taps at most, so there was little opportunity for draft business. Our distributor kept saying, 'Go to bottles, you'll grow.'"

That's what Barley and Hops did. In fact, the brewpub set up a bottling microbrewery in Martinsburg, W.V. under the name Mountaineer Brewing Co. (a moniker likely to appeal to residents of the Mountain State, as well as to fans of the University of West Virginia's football team) and formulated an entirely new product line. (Actually, the two businesses are *(continued on page 64)*)

Brewpubs from page 60

incorporated separately, but they hold most of their shareholders in common, and Brooks performs the same duties for both.)

West Virginia and Maryland border each other, but they might as well be on different continents in terms of taste in beer. "At the pub in Maryland, you can't put enough hops in the beer," relates Brooks. "But when we put our pale ale and lager on tap at a fraternal club in West Virginia, the word came back that everybody hated the pale ale." Mountaineer's bestseller, he says, is a nut brown ale.

Mountaineer Brewing is making progress. The microbrewery turned out about 3,000 barrels in 2007, Brooks estimates, and he hopes to double that output in 2008. But growth hasn't come without effort.

"Off-premises is a totally different animal," muses Brooks. Capitalization costs are greater, and there's a lot more red tape involved, especially when state boundaries are crossed. (He recalls that when he first began selling beer in West Virginia, he had to post a \$25,000 bond for an "importer's license"—the same amount, he grouses, that Anheuser-Busch pays to do business in the state.)

"At a brewpub, people come to you to get beer," he continues. "You can control the competition. Now you're going into other people's businesses and trying to get them to give up a precious tap or shelf space. ... You spend a lot of time on the road being a salesman."

It helps to have a thick skin, he suggests. When he worked full-time at Barley and Hops, Brooks remembers giving salesmen the brush-off if they dropped by when he was busy. That came back to haunt him.

"I was at a sports pub in Wheeling. The distributor brought me by to introduce me to the owner, but the owner said, 'I don't have time for you guys!' Now the shoe was on the other foot."

Free State's Bradt weighs in with a similar view, that you have to work harder to maintain outside sales. "If your off-premise accounts don't think you're the hot stuff this week, you're off line. And you don't have an endless stack of coasters and glasses and fancy little umbrellas to drop on somebody's porch."

But there is one advantage to having a separate production facility that he's eyeing with anticipation: by taking the pressure off the brewpub, it will allow Bradt more creat-



ity. "At the brewpub, we're looking forward to doing less volume, to do more lagers that take more time to mature, to do more experimentation. We'll have the pub serve as a development facility for new products."

In a similar vein, Katechis has no intention of getting out of the brewpub business regardless of how rapidly the demand grows for his canned beers. "The pub is our soul and lifeblood," he says.

Greg Kitsock is editor of Mid-Atlantic Brewing News as well as a regular contributor to The New Brewer.



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