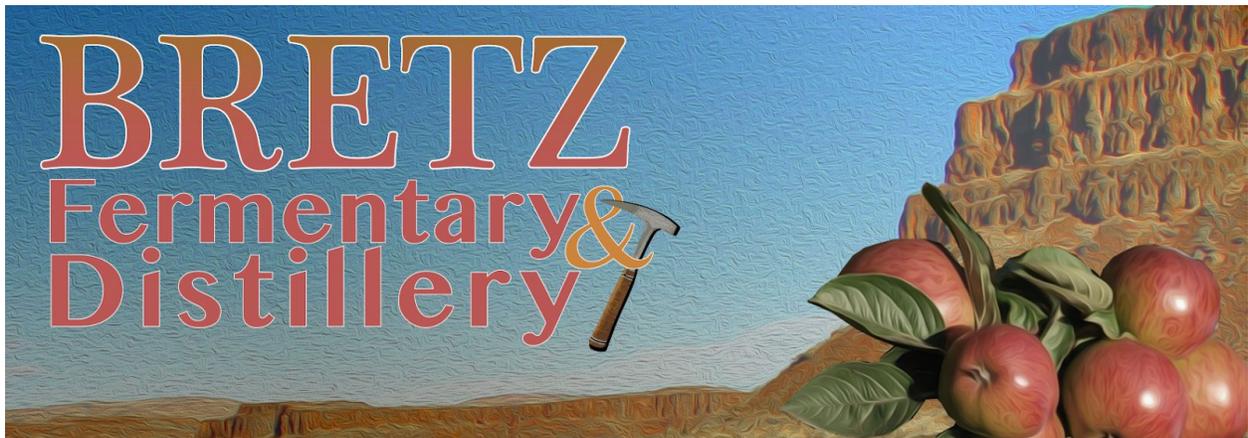


# Craft Distillery Opportunity Analysis

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## Opportunity

There is substantial market opportunity for a craft spirits distillery specializing in brandies made from Washington State apples and grapes. Branding and marketing that stresses local heritage and association with the state's well-recognized wine, beer, and cider industries will provide clear market advantages. The working name is "Bretz Fermentary & Distillery."



## Market History, Growth, Direct Competition

Craft alcoholic beverage industries in Washington State began with the wine industry, which slowly grew throughout the 1960s and exploded onto the world stage in the 1970s. The 1980s saw craft beer join wine on the shelves. But it wasn't until ten years ago that the first wave of craft distillers began.

With the relaxation of the state laws preventing distillation, Washington's craft spirits industry quickly grew from zero licensed craft distillers in 2007 to 92 in 2016. A craft distillery license allows production up to 150,000 gallons a year. The state is currently number three in a \$2.4B US market that has the potential to grow as large as the \$50B craft beer market.

Washington's regulatory climate is especially favorable to the spirits industry. As the Washington Post wrote in 2015:

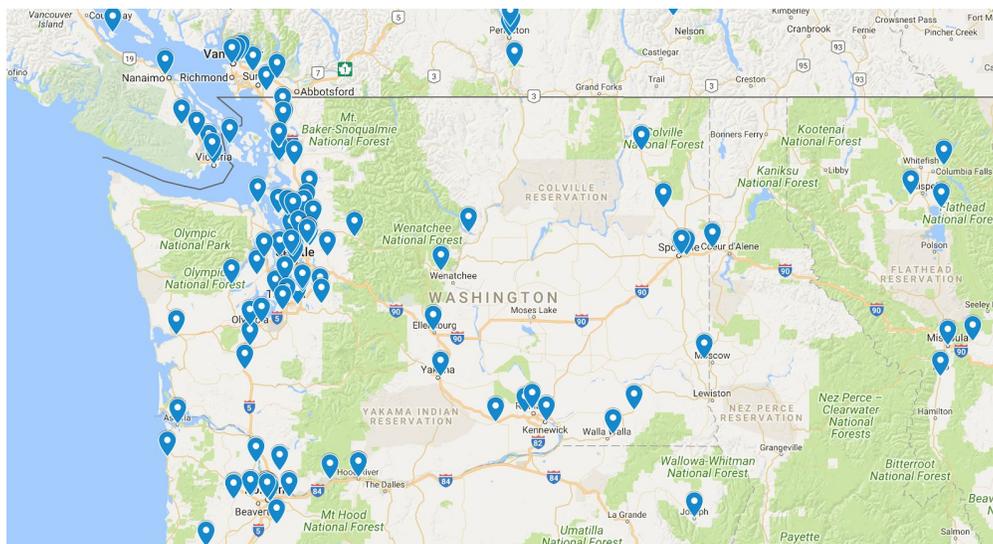
Industry analysts credit three factors for distilleries' success in Washington: First, a state law passed in 2008 simplified the license application process. Second, a ballot initiative passed by voters in 2011 allows craft distilleries to sell their products directly to

restaurants and stores, and to consumers through their own storefronts. And third is the strength of Seattle’s artisanal food market, which extends to the cocktail culture.

The Washington Distillers Guild list 64 members on its website. Of those, only eight list “brandy” as one of their top products. The American Distilling Institute shows nine brandy distillers in Washington State, with a total of 20 products. The ADI list is below.

Admiralty Distillers	Eau de Vie Apple Brandy	WA	Brandy	Distilled	<a href="http://admiraltydistillers.com">admiraltydistillers.com</a>
Admiralty Distillers	Eau de Vie Brandy	WA	Brandy	Distilled	<a href="http://admiraltydistillers.com">admiraltydistillers.com</a>
Admiralty Distillers	Eau de Vie Marc Brandy	WA	Brandy	Distilled	<a href="http://admiraltydistillers.com">admiraltydistillers.com</a>
Admiralty Distillers	Eau de Vie Pear Brandy	WA	Brandy	Distilled	<a href="http://admiraltydistillers.com">admiraltydistillers.com</a>
Admiralty Distillers	Eau de Vie Plum Brandy	WA	Brandy	Distilled	<a href="http://admiraltydistillers.com">admiraltydistillers.com</a>
Bellewood Distilling	Apple Brandy Eau de Vie	WA	Brandy	Distilled	<a href="http://bellewooddistilling.com">bellewooddistilling.com</a>
BelleWood Distilling	Reserve Apple Brandy	WA	Brandy	Distilled	<a href="http://bellewooddistilling.com">bellewooddistilling.com</a>
Black Heron Spirits	Black Heron Brandy	WA	Brandy	Distilled	<a href="http://blackheronspirits.com">blackheronspirits.com</a>
Golden Distillery	Apple Brandy	WA	Brandy	Distilled	<a href="http://goldendistillery.com">goldendistillery.com</a>
Heritage Distilling Company	Distiller's Reserve Aged Vodka (Wheat/Corn Vodka finished with Brandy)	WA	Vodka	Distilled	<a href="http://heritagedistilling.com">heritagedistilling.com</a>
Orcas Island Distillery	Apple Brandy Eau de Vie	WA	Brandy	Distilled	<a href="http://orcasislanddistillery.com">orcasislanddistillery.com</a>
Orcas Island Distillery	Haro Apple Brandy	WA	Brandy	Distilled	<a href="http://orcasislanddistillery.com">orcasislanddistillery.com</a>
Orcas Island Distillery	Island Orchard Brandy	WA	Brandy	Distilled	<a href="http://orcasislanddistillery.com">orcasislanddistillery.com</a>
San Juan Island Distillery	Apple Brandy	WA	Brandy	Distilled	<a href="http://sanjuanislanddistillery.com">sanjuanislanddistillery.com</a>
San Juan Island Distillery	Thimbleberry Brandy	WA	Liqueur	Distilled	<a href="http://sanjuanislanddistillery.com">sanjuanislanddistillery.com</a>
Sidetrack Distillery	Plum Brandy	WA	Brandy	Distilled	<a href="http://sidetrackdistillery.com">sidetrackdistillery.com</a>
Sidetrack Distillery	Raspberry Brandy	WA	Brandy	Distilled	<a href="http://sidetrackdistillery.com">sidetrackdistillery.com</a>
Sidetrack Distillery	Strawberry Brandy	WA	Brandy	Distilled	<a href="http://sidetrackdistillery.com">sidetrackdistillery.com</a>
Tinbender Craft Distillery	Apple Brandy	WA	Brandy	Distilled	<a href="http://tinbendercraftdistillery.com">tinbendercraftdistillery.com</a>
Tinbender Craft Distillery	Immature Brandy	WA	Brandy	Distilled	<a href="http://tinbendercraftdistillery.com">tinbendercraftdistillery.com</a>

As suggested by the WaPo excerpt, Seattle’s robust economy and increasingly sophisticated tastes make it the home for many of the new distillers. This map from the ADI website shows the heavy concentration of craft distilleries along the I-5 corridor.



## Operating a Distillery

In essence a modern distillery is no different than any other product manufacturing business. Initial product development leads to a replicable process for creating the product at scale. That scale is fixed by investment in equipment, staff, and facilities but may vary depending on availability of materials and market development.

Actual distilling just one step in a longer manufacturing cycle.

The source crops (apples and grapes in our case) must be sourced, acquired, prepared, and fermented. Assuming single-stage fermentation, the time from delivery to distillation can be assumed to be three weeks.

(One of the appeals of brandy is the ease of fermenting fruit compared to fermenting malted grains — many “craft” distillers actually purchase neutral grain spirits and then distill them again to infuse them with flavors, then sell the result labelled as their own gin, flavored vodka, etc.)

Depending on equipment, distillation can be a batch process in which a vessel is filled with mash and heated until distillation is complete or it can be a continuous process in which mash is distilled as it flows into the still from holding vessels.

Finally, the distilled spirit must be bottled and packaged for shipment.

So, while the still is at the heart of the distillery, there is a significant need for fermentation vessels, fruit presses, bottling equipment, and the space to store and use them. Some of that

space will need to be climate controlled to maintain quality. The exact requirements are determined by the scale of the distillery. One approach to determining scale is addressed in this excerpt from Beverage Master magazine:

The most common question I get asked when consulting on a startup is “How big of a still should I buy?” My answer is, “How much money do you NEED to make?” Here is a simple example: Distilling a batch of spirits from grain on a 60 gallon pot still will make you about four 12pk cases a day (about 7-9 Proof gallons), depending on the mash bill. If these bottles retail for \$40 per bottle, you can probably sell those bottles to a distributor for \$20/bottle. That is a total possible revenue of \$960/day. Assuming a healthy 40% profit margin after Cost of Goods Sold for raw materials, you can net \$384/day. Assuming you distill Monday to Friday for 250 days per year, can \$96,000 per year after material costs cover overhead, rent, other expenses, and payroll? Assuming reasonably similar labor inputs and profit margins on materials, a 600 gallon pot still will produce 10x the spirits in the same number of working days. At that production level, a distillery can both sell unaged products and lay down spirits for aging. Estimate your revenue needs to cover your overhead and back into how many cases you need sell. Reasonability account for year over year growth and calculate how big your still needs to be to keep up with demand.

The production of spirits is a form of cooking, but it's a type of cooking that lends itself to operational efficiency and tight control of variables. Developing solid products through creative experimentation and market research will pay off with the establishment of a well-managed production and quality assurance regimen.

## Startup Cost and Breakeven Considerations

The exact cost of establishing a craft distillery depends greatly on many factors, from location costs to size and amount of equipment to number of staff and salaries paid. Of course, the biggest single determinant is the goal of the business.

Thoroughbred is a distillery consulting company that recommends a \$3M - \$5M investment in order to create a viable, scalable business ready for acquisition.

The American Distillery Institute published an ebook that lays out a plan for a business that produces 3,000 - 5,000 cases a year for an investment of \$350,000.

There are stories of beloved craft distilleries that produce a limited run on a mere \$10,000 investment.

Understanding business goals and structure is the first step in determining startup costs. Understanding the size of the market, and the costs of marketing and delivery is the first step in

determining the breakeven point.

A profile of California's Venture Spirits Company in Entrepreneur magazine provided a valuable bit of insight:

Distilling is less expensive—and more profitable—than brewing, if you don't count the cost of holding your inventory in oak barrels for years as you wait for it to age into sippable whiskey. It's why distillers always start by selling vodka, gin, or white (unaged) whiskey. The best marketing tool is the origin of the ingredients: local, local, local.

## Preliminary Proposal

This is a preliminary proposal for a craft distillery business to be named Bretz.

### Short-Term Goal

The initial goal of Bretz is to bring to market between one and three Eau de Vie style brandies made primarily from Washington State-sourced fruits.

### Long-Term Goal

Bretz has as its long-term goal the development of a line of barrel-aged apple brandies to rival in complexity and reputation the best bottles of French Calvados.

## Branding and Marketing

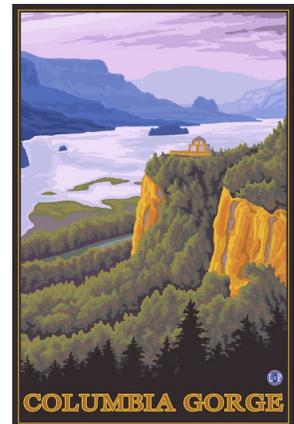
"Ideas without precedent are generally looked upon with disfavor and men are shocked if their conceptions of an orderly world challenged." — J Harlen Bretz

The Bretz brand will be closely associated with Eastern Washington's famous fruit-producing regions.

Marketing materials will feature the scenic landscape of Eastern Washington with an admiring nod to the character of geologist J Harlen Bretz. Bretz bucked the traditionalists in his field to advance a



controversial — and ultimately accepted — theory about the dramatic forces that shaped that landscape. His love of good company and good drink is legendary. The imagery will recall the WPA-era artwork produced during the time Bretz was teaching and the regional fruit industry was developing.



## Initial Production Capacity

A 200 gallon capacity operation can scale to produce 50,000 gallons if operated five days a week and 50 weeks of the year. This is a third of the total allowable output of a licensed craft brewery, but initial research suggests the price for a starter system of this size is not unreasonable.

Having overhead capacity will also allow Bretz to start producing both straight-to-market Eau de Vie to generate cash flow and barrel-aged brandies to command a higher price and raise brand visibility.

## Location and Facility

Bretz's production facility will be located in rural Eastern Washington, both for cost and branding reasons. If a practical arrangement can be reached, it could be located on property in Spokane County currently owned by my family. The building itself need be little more than a prefab metal shed, provided a climate controlled fermentation room is built inside.

Per state law, a tasting room/storefront can accompany the facility. Later, when revenue allows, a warehouse space in town could be rented and the tasting room/storefront moved there.

## Estimated Startup Costs

At this point, much more research is needed to nail down a final number but based on rule of thumb reading I think \$500,000 over two to three years would be enough to reach profitability.