



Dixie Cup 2009 – Houston, TX

Scott Metzger – Founder & CEO, Freetail Brewing Co., San Antonio, TX

**“GOING PRO”**

# The Story of Jason



# Many paths to the same goal

- Working (volunteering) at your local brewery
  - Recall Jason's story
- Formal education/training
  - Many times, may still require the same path as the brewer without
  - Just like bartending school, doesn't assure a job in the industry
- Open your own brewery
  - Success still relies on experience – if you don't have any, hire someone who does ASAP



- Conceptualized Dec. 31, 2005
- Phase 1 Cost Estimate: \$550,000
- Phase 1 Time to Completion: 11 months
- Actual Start Up Cost: \$1,000,000
- Actual Opening Date: November 28, 2009

“It’ll take twice as much money and three times as long.” –Actual words spoken to me at CBC 2007 (already 16 months into planning stage)



# Business Plan from the Outside-In

- More than anything, potential investors care about making a return
- Your business plan is the first visualization of what you will be
- Several key aspects of the plan stakeholders are looking for
  - In the end, they all need to focus around a central theme of returning value to stakeholders

# That Business Plan you Downloaded...

- ...is a great reference, but won't get your brewery open
- Be prepared to live, eat, sleep & breathe your business plan
- You are better positioned than anyone else to answer questions about your strategy, your market, your product, your goals

# Brewpub Business Plan

## “Rules of Thumb”

- 20-30% of revenue from your beer
  - Freetail – 47%
- Your number 1 selling beer will account for 50% of house beer sales
  - Freetail’s number 1 seller – 18% of house beer sales
- 1,000 barrels in year one is too ambitious
  - Freetail 2009 pace: 875 barrels

# Brewpub Business Plan Rules of Thumb

- <Insert Style Here> won't sell in that market
  - Old Bat Rastard (Winter Warmer, 9.1% ABV, 38 IBU) & La Muerta (Imperial Stout, 10.2% ABV, 50 IBU) combined to equal the sales of our #1 selling blonde ale, La Rubia (February 2009)
- The point: Your plan being different than industry standard doesn't make it wrong. Don't try to make a "standard" plan fit your non-standard marketplace




# 5 Basic Components

1. What is it? (Concept formulation)
2. How much will it cost? (Sources & uses of funds)
3. Why should anyone care? (Marketing strategy)
4. What will it be? (Long term strategic vision)
5. Why should we invest? (Financials)



# Concept Formulation





# Concept Formulation.. Hello Blank Canvas!

- Concept, layout, atmosphere, menu, etc.
- No idea is too “far out” there – at least not at this stage
- Treat this portion with care, because it will inevitably drive the remaining details of your plan



# Location, Location, Location

- The catch:
  - You need a business plan for a location
  - You need a location before you can get any money
  - You need money before you can get a location
  - You need a location to finish your business plan
- 3 important site issues before walking through the door:
  - Access
  - Visibility
  - Parking



# Location Considerations Inside the Door

## New construction

- Another blank canvas!
- Drains, sloped floors, super re-enforced slab all easy projects BEFORE it's built
- Plus, much easier to move a brewery in

## Existing building

- Need to get down to the true cost to retro-fit before signing that lease

# Negotiating the Lease

- Term: longer generally = better
- Make sure any potential use is in writing as allowable. Landlord is likely unaware of:
  - What you smell like (this has caused us major trouble)
  - What you sound like
  - The hours you keep
  - The company you keep
- Tenant Improvement Allowances



# Sources and Uses of Funds





# Step 1 – How Much Do You Need?

- Cost estimate needs to include every foreseeable expenditure during start-up
- Oversights become change orders → change orders kill your budget

# Freetail Brewing Co.

- Final price tag to open: \$1 MM
  - Could have used \$2 MM!
- 5000 sf restaurant, 1800 sf patio
- 154 seats inside, 120 outside
- 15 bbl brewhouse, 4 FV, 11 SV, 3 FV/SV
  - ~900 sf for brewery
- \$88/sf interior finish out cost
  - Very basic layout, warehouse look & feel

# Freetail Brewing Co. Start Up Costs

	Final Cost		Final Cost
Brewery Installed and Operational	\$185,000	Finish Out Construction	\$418,000
Kitchen Equipment	84,000	Architect Services	15,000
Brewery, Kitchen, Bar Inventory	25,000	Insurance	12,000
Restaurant Furniture	25,000	Permits	4,000
POS System	23,000	Payroll	22,000
Televisions	10,000	Advance Promotion	6,200
		SBA Guaranty	12,000
Total FF&E	351,000	Signage	13,000
		Website	7,200
		Security	4,800
		Merch & Uniforms	7,600
Total Start-Up Cost	973,000	Cash & Other Expenses	100,900
		Total Construction & Start Up	623,000

# Step 2, Where's the money coming from?


- Friends and family
  - A great source, with tradeoffs
- Business Associates/Partners
  - Bring more than just money → expertise!
  - But also, more trade-offs
- Angel Investors
  - Do you believe in angels?
- Financial institutions
  - In the long-run, can be a very low cost financing option if used properly → but getting scarce

# The case with all sources of funds

- Do not expect an investor to put up the majority of your capital in exchange for a minority of the return
- Risk-reward proportional
  - My own general rule – an equity investor should be seeking a minimum of a 30% return
- Be very aware of who you are offering investment to → securities law may come into play (very costly)

# Debt Financing

- If attainable and applied properly, a very cost effective financing tool
  - Power of leverage
- SBA requires 20% down. Your bank will probably require more. Freetail → 43%
  - Another place to put your TI dollars to work
  - SBA process is tedious and can be difficult, but is typically best option for banks (their risk is limited)



Back to the sage advice  
given to me in 2007

“It will take twice as much  
money and three times as  
long.”



# Marketing Strategy




# Effective Media Development from Day 1

- Your new brewpub is big news
- Freetail had three major articles in regional publications within weeks of announcing our project → 18 months prior to opening
- The risk: your credibility and more so—your pride if your project collapses
- The reward: in our case, 18 months of hype resulting in a line out the door on opening day
  - And it didn't cost a dime!

# All that hype...

- Can also be an effective fund raising tool
- Media excitement can be used to generate investor excitement, especially as it demonstrates the openness of your market
- One thing that worked for Freetail that might not work for anyone else:
  - We became a “poster boy” for Credit Unions
  - Not even a credit crunch can halt your project when an entire industry faces a credibility crunch



# Developing your Media Persona Early On

- Mixed messages confuse consumers
- That blank canvas back in the Concept Formulation stage should have identified your public face
- Stay true to it at all times – don't try to be all things to all people. You are what you are.

# 3 Ways Consumers Get Messages

1. From someone paid to tell them (advertising)
2. From someone who's job it is to tell them (press)
3. From people who tell them because they care (word of mouth)

Leveraging #2 & #3 to minimize #1

We are very leery of the "1.5" – advertising masquerading as journalism. It's a growing trend



# Long Term Strategic Development



# What will you be when you grow up?

- Whatever your goals, spell them out now
  - Single unit brewpub?
  - Multi-unit chain?
  - Expand into packaging?
- Yes, strategy will change, but stakeholders want to see the direction their money will be planned for now
- Maintain consistency between public face & long term strategy



# Your Strategy Goes Beyond “We hope to...”

- How will you get where you want to be?
  - Marketing support?
  - Financial support?
- Know each step along the way now, so you can chart the most effective course to your ultimate goal



# Financials



# Pro-forma is a 4-letter word

- Your goal is for that 4-letter word to be: “deal”
- Become a master of anticipation – every expense from big to small
- Pro-forma P&L, Balance Sheet, Cash Flows
  - Remember, all back to the central theme of returning value to stakeholders



A vertical bar on the left side of the slide, consisting of several colored segments: a small blue segment at the top, a green segment, and a long red segment at the bottom.

**QUESTIONS?**