2012 Craft Brewers Conference San Diego, California

Cost Analysis of Draught and Bottled Beer for a Small Brewery David Logsdon, Tom Moench, Van Havig Moderated by: Audra Marotta

Cost Analysis for a Small Brewery

- We are going to show and compare the cost of start up and operations of three different breweries, in different markets, with different products, packages, and price points.
- We will show and compare the cost to produce a barrel of beer and determine how long and how much beer is to be produced and sold to break even.

Cost Analysis Overview

- Brewery Purchase Price
- Bottling Line Costs Contract bottling
- Kegging Equipment Keg Options;
- Purchasing, Leasing • Cash Requirements fees
- Real Estate and Overhead • Purchase, lease or
- monthly rents Insurance
- Utilities
- Licensing and related

Cost Analysis Overview

- What is your beer worth?
- What does it cost to produce?
- What is your break even point?
- How many kegs, or bottles to operate?
- How long to reach the break even point?

Cost Analysis Overview

- What price will your market bear?
- Price of beer to wholesaler
- Price of beer to retailer
- Suggested retail price to consumer
- On premise, off premise.

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- David Logsdon, Logsdon Farmhouse Ales
- Tom Moench, Orange Blossom Pilsner
- Van Havig, Gigantic Brewing Company
- Audra..... Moderator

Logsdon Farmhouse Ales

- A farm brewery operating since February 2011. The brewery operates as a cooperative with 6 members.
- Organic Certified farmhouse style ales.
- Primary package: 750 ml bottle
- Draught: Small quantities of 1/2, 1/4 and 1/6 barrel kegs.

Logsdon Farmhouse Ales

- Start up Capital:(cash & in kind) \$325,000
- Brewery Cost: (used 15 bbl) \$75,000
- Bottling Line: (used 12 head filler, crowner, labeler, sparger) \$40,000
- Start Up Expenses for retooling, small parts and repairs: \$50,000
 Licensing and Legal Fees: \$10,000
- Operating Cash: \$150,000

| Logsdon Farmhouse Ales | | |
|--|---------------|--|
| • Rent: | \$1000 | |
| • Utilities: | 1000 | |
| • Insurance: | 250 | |
| Accounting & Legal | 250 | |
| Organic Certification | 100 | |
| Distributions: (labor) | <u>11,000</u> | |
| Monthly Overhead Expenses: | \$13,600 | |
| Annual Fixed Expenses | \$163,200 | |

Logsdon Farmhouse Ales 300 bbl annual production

| Malt & Fermentables: | \$13,500 |
|---|----------|
| • Hops | 1,600 |
| Bottles, Labels & Pkg. | 21,000 |
| Repairs & Maintenance | 13,000 |
| Advertising & Marketing | 7,000 |
| 300 bbl Annual Variable Costs | \$56,100 |
| Monthly Variable Costs | \$ 4,675 |
| | |

Logsdon Farmhouse Ales 300 BBL Annual Production

| Fixed Costs | \$163,200 |
|---------------------------------|---------------------|
| Variable Costs | <u>56,100</u> |
| Total Costs | \$219,300 |
| 100% Vield | \$219 300 / 300 bbl |

- 100% field \$219,300 / 300 bbi
- Total Cost per BBL = \$731

Logsdon Farmhouse Ales • Pricing Structure – 750 ml bottles • Price to Wholesaler (\$60/cs) \$5 / bottle • Price to Retailer (\$84/cs) \$7 / bottle • Suggested retail price \$10 / bottle

| Logsdon Farmhouse Ales | | | | |
|--|---|-----------------------------------|--|--|
| <u>Pricing Str</u> | <u>ucture - Draug</u> <u>Wholesale</u> | <u>ht Beer</u> <u>Retailer</u> | | |
| • ½ bbls | \$245 | \$330 | | |
| • ¼ bbls | \$130 | \$175 | | |
| • 1/6 bbls | \$85 | \$115 | | |
| | | | | |



Logsdon Farmhouse Ales

| 1st year barrels production | 300 |
|--|-----|
|--|-----|

- Cost per barrel / bottles \$1091
- Selling price per barrel (bottles) \$1092
- Cost per barrel / draught \$ 990
- Selling price per barrel (draught) \$ 660

Logsdon Farmhouse Ales

 Projected cost per barrel of bottled beer based on annual production increases

| • 300 bbl / year | \$1091 |
|-------------------------------------|-------------|
| 1000 bbl / year | \$270 - 320 |
| • 2000 bbl / year | \$185 - 235 |
| • 3000 bbl/ year | \$160 - 210 |

Gigantic Brewing Company

• Something really big is about to happen!

Gigantic Brewing Co.

A small production facility in an industrial area with a 20 person tasting room.

Just started brewing in April.

One year round beer – IPA. Everything else is seasonal specialty.

Primary package 22 oz bottle – 75% of production Draught primarily in 50 liter kegs

Gigantic Brewing Company

- Start up capital \$630,000
- Brewery Cost (new 15 BBL brewery, etc.) \$250,000
- Bottling line \$0 using a local mobile bottling firm
- Start up expenses salaries and construction costs \$215,000
- Licensing and Legal fees \$30,000
- Operating cash \$135,000

Gigantic Brewing Company

- Rent \$2300
- Utilities \$1350
- Insurance \$435
- Vehicle \$750
- Distributions (labor) \$11000
- Monthly overhead expenses \$15835
- Annual fixed costs \$190,020

Gigantic Brewing Company

- 1000 BBLs per year annual production
- raw materials \$68600
- bottling costs (inc. labels and bottling fees) \$70,500
- Repairs and maintenance \$6000
- Marketing \$30,000
- Total annual variable costs \$175100

Gigantic Brewing Company

- Fixed costs \$190,020
- Variable costs \$175,100
- Total costs \$365,120
- Total cost per BBL at 1000 BBLs/yr \$365.12

Gigantic Brewing Company

- Pricing structure for 22 oz bottles.
- Two tiers of beer pricing
- Price "a" to wholesaler (\$30/case) = \$2.5 // bottle
- Price "a" to retailer (\$39 / case) = \$3.25 / bottle
- Suggested retail price "a" = \$5 / bottle
- •
- Price "b" to wholesaler (\$48 / case) = \$4 / bottle
- Price "b" to retailer (\$62 / case) = \$5.17 / bottle
- Suggested retail price "b" = \$8 / bottle

Gigantic Brewing Company

- Pricing structure for draught beer
- Two tiers of beer pricing, both sold in 50 liter kegs
- Wholesale "a" = \$97 Retailer "a" = \$124
- Wholesale "b" = \$112 Retailer "b" = \$143

Gigantic Brewing Company

- Total costs per BBL = \$365.12 (at 1000 BBLs / yr)
- Revenue per BBL (1 BBL = 15 cases, or 2.35 501 kegs)
- Bottle price "a" = \$450
- Bottle price "b" = \$720
- Draught price "a" = \$227.95
- Draught price "b" = \$263.20
- Bottles generate profit, draught is an advertising expense.

Gigantic Brewing Company

- Projected cost per BBL as production increases.
- 1000 BBLs / yr = \$365.12
- 2000 BBLs / yr = \$287
- 3000 BBLs / yr = \$262
- 4000 BBLs / yr = \$249
- 5000 BBLs / yr = \$241

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Orange Blossom Pilsner

- Contract brewed honey beer with wide appeal designed for the timid Florida palate.
- Plan was to establish brand, distributor network, fan base and sales record to justify a physical brewery.
- OBP is currently working on funding for Unique Brewing Company.

Unique Brewing CompanyStart Up Capital: includes buildout,
startup, operating expenses and
lease down payment
30bbl brewhouse with 5, 60 bbl
unitanks (with space to expand to
30, 60bbl unitanks or 25k bbls +/-
a year)\$ 520,000\$ 475,000 Lease\$ 475,000 Lease75 Case Per Hour Canning Line\$ 100,000 LeaseTotal Investment\$ 1,095,000

Unique Brewing Company Monthly Bills Liability Insurance \$1,200

| Lease on Brewery Equipment | \$6,500 |
|----------------------------|-----------|
| Rent | \$6,000 |
| Water | \$1,100 |
| Power | \$4,500 |
| Payroll | \$ 22,000 |
| | \$41,300 |
| | |

| Unique Brewing Company Beer Cost Breakdown | | | |
|---|--------------------------|---------|---------------------------------|
| Cases (Cans 4/6 Pac | ks, 12 oz cans |) | |
| MATERIAL Cans Trays | Price 0.107 0.0125 | 000011 | Cost \$ 2.57 \$ 0.30 |
| rolls perfpak rings (4500 per roll) | 0.0096 | Per Can | \$ 0.23 |
| Liquid Cost Indirect Cost (annual avg.) | 1.25 | | \$ 2.81 \$ 5.62 |
| Total Cost Price Gross Profit | | | \$ 11.53 \$ 19.50 \$ 7.97 |

| Unique Brewing Company Beer Cost Breakdown | | | |
|---|---------|------|---------|
| 1/6 BBL Cost | | | |
| MATERIAL | Price | Unit | Cost |
| Keg Rental (Local) | \$8.600 | each | \$8.60 |
| Keg Collar | \$0.180 | each | \$0.18 |
| Liquid Cost | \$6.44 | each | \$6.44 |
| Indirect Costs (annual avg.) | \$12.91 | each | \$12.91 |

Total Cost Price

Profit Margin

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\$28.13

\$43.25 **\$15.12**

Unique Brewing Company Beer Cost Breakdown

| 1/2 BBL Cost | | | |
|------------------------------|----------|------|----------|
| MATERIAL | Price | Unit | Cost |
| Keg Rental (Local) | \$10.860 | each | \$10.86 |
| Keg Collar | \$0.180 | each | \$0.18 |
| Liquid Cost | \$19.33 | each | \$19.33 |
| Indirect Costs (annual avg.) | \$38.72 | Each | \$38.72 |
| Total Cost | | | \$69.10 |
| Price | | | \$ 88.00 |
| Profit Margin | | | \$18.90 |
| | | | |

| Target: 5,400 bbls at end of Yr 1 | | | | |
|---|--|-----------------------|-----------------|--|
| Unit | Avg Annual Gross Profit (per unit) | Units Sold (bbls) | Gross Profit | |
| Cases | \$7.97 | 27,600 (2,003) | \$220k | |
| 1/6 bbi | \$15.12 | 5,680 (947) | \$85.9k | |
| V2 bbl | \$18.90 | 4,900 (2,450) | \$92.6k | |
| | | Total Gross Profit | \$398.5k | |
| | | SG&A expenses* | \$298.2k | |
| | | YR 1 Operating Income | \$100.3k | |
| *(sales & marketing, general overhead, etc) | | | | |

Target: 10,800 bbls at end of Yr 2

| Unit | Avg Annual Gross Profit (per unit) | Units Sold (bbls) | Gross Profit | |
|---|--|-----------------------|-----------------|--|
| Cases | \$9.56 | 59,520 (4,320) | \$568.8k | |
| 1/6 bbi | \$18.75 | 12,960 (2,160) | \$243.1k | |
| 1/2 bbl | \$29.81 | 8,640 (4,320) | \$257.6k | |
| | Total Gross Profit SG&A expenses* | | \$1,069k | |
| | | | \$408.2k | |
| | | YR 2 Operating Income | \$661.2k | |
| *(sales & marketing, general overhead, etc) | | | | |

| Tasting Room | | | |
|-----------------|------------------------|------------------------------------|-----------------------|
| Pints (Per Day) | | Growlers (Per Day) | |
| Pints Sold | 150 (18.75 gallons) | Growlers Sold | 12 |
| Cost | \$23.43 | Cost | \$15 |
| Revenue | \$637.50 | Revenue | \$225 |
| Gross Profit | \$614.07 | Gross Profit Daily Gross Profit | \$210 \$824 |
| | | Monthly Gross Profit | \$21,426 |
| | | Annual Gross Profit | \$257,110* |