**Business Growth Plan**



Megan McKay, President

**Peace Tree Brewing Company**

107 W Main Street

Knoxville, Iowa 50138

641-842-2739

www.peacetreebrewing.com

[megan@peacetreebrewing.com](mailto:someone@example.com)

**Overview**

Peace Tree Brewing Company was developed to create an economic spark in the small town of Knoxville, Iowa and provide a space to build community in the small town. They produce a wide variety of high quality, full flavored craft beers that appeal to the seasoned craft beer drinker as well as those new to craft beer.

The craft beer industry is has been growing at a double digit pace for the past 5 years and is not showing signs of stopping. There are many new entrants to the marketplace which is creating more consumer awareness of craft beer creating a bigger potential market but also making for a crowded market place. Peace Tree is fortunate to have gained a foothold in the industry just as the boom was happening and have developed a good following based on our reputation for consistent quality beer. We were also able to secure good distribution partners who help us grow in our current markets.

**Company history**

Peace Tree was started in 2009 by Megan McKay, Dan McKay and Scott Ziller, who had been in business together since 2001 as the three owners of McKay Insurance, a fourth generation local insurance agency. They purchased a run down Nash Rambler car dealership building across the street from the insurance agency to help redevelop Main Street in Knoxville. Due to a lack of viable tenants, the partners decided to start second business to develop the space. Peace Tree was incorporated in March of 2009 and quick journey to full production ensued:

* April 2009-Building clean up commences including 24 large dumpsters of debris
* June 2009-Business plan complete and financing is approved by local bank
* July 2009-Brewmaster Joe Kesteloot was hired
* August 2009-All equipment was ordered
* September 2009-Taproom opens each Thursday night with small batch brews to great response with owners and Joe bartending each week.
* December 2009-Brewhouse equipment is delivered
* March 2010-First batch is brewed on the full size brewhouse and the Grand Opening party is a huge success
* April 2010-The first kegs and bottles make their way to retailers distributed directly by Peace Tree.
* April 2010-First batch of Blonde Fatale is brewed in honor of the passing of the lift the limit legislation allowing Iowa brewer’s to produce beer over the previous 6.25% limit.

Peace Tree continued to self distribute for one year until contracting with distributors in the two largest Iowa markets. Production and distribution have steadily grown allowing Peace Tree to market to the entire states of Iowa and Nebraska. Blonde Fatale was awarded a gold medal at the 2014 World Beer Cup, one of the most prestigious awards in the brewing industry providing instant lift to the brewery’s reputation and growth. Additions of fermenters in late 2010 and 2011 as well as the purchase of a centrifuge in 2014 allowed continued production growth. The brewery will produce about 3600 barrels of beer in 2015 with three core brands and a dozen seasonal or specialty beers.

During the first 5-year period, the three owners were active in the business with Megan handling financial and operational oversight, Scott overseeing branding and creative development and Dan providing expertise on financing activities and sales. However, all were still working full time in their primary business, which was unsustainable if the brewery was to be successful. In 2015, Megan McKay transitioned out of the insurance business and purchased Dan and Scott’s shares making Peace Tree the only 100% female owned brewery in Iowa and part of a 3% minority of female brewery owners nationally.

As we look forward, our goal is to increase production to 7500 barrels by the end of 2019 and have a positive balance sheet by 2018. This production level will allow us to balance costs and revenues in a sustainable manner to either remain at this level or have a foundation on which to build to the next level expansion plan for 2020 and beyond. The positive balance sheet will also give us flexibility to obtain financing for the next expansion or begin working on a feasible long-term exit strategy. This will require reinvestment in capital assets.

To aid growth, we are also planning to expand with a second location in a larger metro area. This is the highest margin sector of our business and it makes sense to maximize this revenue stream with a taproom in a more populous area. This will give us better brand exposure in the metro market to drive additional wholesale sales. Finally, the secondary location allows us to differentiate ourselves by producing more unique sour and barrel aged beers that are not feasible in our current production facility for risk of infecting our production brewery with unwanted inputs. Producing cutting edge beers keeps the brewery relevant and exciting to consumers as well as provides artistic inspiration to our brewmaster that spills into product development.

Peace Tree’s competitive advantage is our unwavering focus on quality. Everything we do starts with brewing and packaging quality beer, and then we build from there to create inviting packaging and experiences that are reflective of the liquid in the bottle. Our second competitive advantage is that we hire creative, talented people who love the brewing industry encourage them to grow personally and professionally. Third, we have developed strong relationships with our vendors and distributors to ensure our supply chain and distribution channels flow freely.

**Significant challenges the company faces now and in the near future**:

Peace Tree is challenged by growing fast enough to stay ahead of high fixed costs and rising input costs. Margins in the beer manufacturing business can be slim which it makes it difficult to generate cash quickly for growth. Additional investment in brewing capacity is needed to keep the company growing and spreading out the high fixed costs and increase purchasing economies of scale. To keep the company nimble and ready for the next steps it is important to also reduce the high debt load which is currently holding us back from financing expansion. We are attacking this from both angles: cost reduction for better profitability and revenue growth.

Investments from the InnovateHer competition into the company will help us reduce costs by allowing us to contract expertise in efficient beer making processes as well as our overall inventory and production management. Historically we have have not had staff with experience to manage this important aspect of the company. We have had high level discussions with the Centers for Industrial Research and Service at Iowa State University and looked into consulting with the Siebel Institute of Technology to aid in this area but have not pursued these opportunities yet as we felt our resources were best spent building capacity and growing revenues.

InnovateHer investments will also assist us in increasing revenues by providing marketing support, both for our current products as well as new projects such as a second taproom location. While our distributors handle the selling of our beer to retailers, it important for us to create consumer pull through effective marketing. As a start up company, we have done this with a shoestring budget and only internal resources, however putting some dollars toward marketing help can make gains. Additionally, as we look to launch a retail taproom in a new market we will need assistance to make sure this venture is successful and adding to our bottom line immediately.

**Products**

Peace Tree Brewing Company has three core craft beer brands:

Blonde Fatale-Accounts for 55% of our production

Red Rambler-Stable brand

No Coast IPA-Growing brand in a growing category

We also produce a wide range of seasonal and specialty beers including:

Sound Check Session IPA

Cornucopia

Saison Blanche

Hop Wrangler IPA

Hop Sutra

Imperial Stout

Rye Porter

Royale 41

All of our brands are available in draft and most are available in 6 packs or 22oz bomber bottles. We are constantly improving our line up to meet customer demand and aid our retailers in moving product.

Our beers have a distinct place in the market due to their consistent high quality and the unique take on each style. Our labels and branding stand out and give a visual cue to the substance of the beers. Our range of brews are appealing craft beer experts but also approachable to new drinkers and we focus on offering products that fit unique niches.

Our pricing tends to be at the higher end of the spectrum for craft beer brands due to the higher costs associated with producing our beers as well as the fact that we are using premium ingredients and brewing everything on site.

**Marketing**

**Economics**

Over the past 6 years, the beer industry has been flat, however the shining star has been craft beer with growth of 12-17 percent per year each of those years. The overall beer market has $101.5 billion dollars in sales with craft beer making up 22% of sales at $19.6 billion. Over 197 million barrels of beer is produced each year, with craft accounting for only 21 million barrels or 11% of volume volume share with imports making up the balance. Craft beer is defined as small, independent traditional breweries ranging from the largest micro brewery, Boston Beer Company, best known for Sam Adams who produces about $2million barrels per year to regional breweries like Boulevard producing upwards of 15,000 barrels to small microbreweries like Peace Tree and the smallest nano breweries producing just hundreds of barrels each year. There are nearly 3,000 craft breweries in the US today, double what there was 5 years ago. Iowa has also seen great growth going from 25 breweries in 2009 to over 50 in 2015. Average production for a craft brewery is about 3,000 barrels.

**Customers**

The demographic for craft beer drinkers is rapidly changing as more breweries come on the scene and create a more educated population. According the Brewer’s Association, in 2001, the craft beer drinker was an average age of 39, white, male, higher socioeconomic status and education. Today, the age is skewing lower as the millenials arrive on the scene. Women are rapidly growing craft consumers as the brands offer more variety and marketing is more female friend. While our demographic still skew toward higher socioeconomic status, nearly 40% of craft beer is consumed by people with income brackets in the lower 60%. Urban areas used to account for most craft beer drinkers, but now 70% of all households live within 10 miles of a craft brewery bringing access to more rural populations who are responding well to locally made beverages.

**Competition**

Peace Tree Brewing’s competition ranges from large macro brews, national and regional craft brewers and other Iowa breweries as well as drift to wine and spirits. Currently craft beer has only a 3% market volume share of the beer business in Iowa compared to 11% nationally. Iowa brewed beer accounts for less that 1% of beer volume sold in the state. We try to focus on converting more beer drinkers to local craft rather than compete directly with other local brewers, as there is plenty of room in the market for growth. We have seen more competition for space on draft towers and grocery shelves with all the new entrants and are constantly working to keep and expand our current foothold.

**Marketing Strategy**

Peace Tree has always worked hard to develop relationships with its end consumers through active social media, interaction at festivals and events and an open door policy at the brewery for tours. Our distinctive branding has set us apart on the store shelves and allowed us to gain a following even before people taste the products. We use point of sale materials such as tap handles, coasters and signage to remind people of our brands at the purchase point. We also sell fun and stylish merchandise, which helps us get our brands out in front of a wide range of consumers. Because we spend most of our capital on production growth, we do not spend much on traditional advertising, as alternative methods have been more cost effective.

Additional marketing efforts are in cooperation with our distribution partners. They provide marketing support at events and festival as well as provide signage for retailers. Our distributors also aid in securing points of distribution at festivals and events through sponsorships and exclusive arrangements. Finally, they provide the valuable point of contact for the brewery at retailers making sure product is stocked, marked and provide education on our brands.

**Distribution Channels**

Peace Tree has two channels for distribution. The first is direct to consumer through retail sales in our taproom for on or off premise consumption. We can control the experience for the customer and let the get to know us best through this channel. This is our most profitable channel however we can only reach a limited number of customers in at our brewery location. We are investigating options for a second retail location to expand this channel.

The second is mass distribution through beer wholesalers. In Iowa we have 6 distribution partners and one in Nebraska. Our distributors assist us with marketing and selling our product in addition to delivering it to retail stores, bars and restaurants. These are very important relationships because once entered, they are not easily reversed.

**Operational Plan**

Peace Tree operates from their Main Street location in Knoxville, Iowa with a 60-seat taproom and production brewery. The brewery building is rented from D&M Partnership, a friendly company that is owned by the original owners of the brewery. The stylish but comfortable taproom is open Wednesday through Sunday for public to enjoy beers on site or take beer to go. The taproom provides a wonderful community gathering space and often hosts live music, corporate outings and unique events such as trivia and vinyl nights. The taproom stays busy with locals and visitors from near and far. It offers the standard line up of brews as well as rare taproom only small batch, experimental, and barrel aged beers. While we do not serve meals, we offer snack items from local cheese, meat and popcorn producers and encourage patrons to order in from one of the local restaurants and enjoy in our taproom. In 2014, we also added a modest outdoor space for customers. Twice a year we host larger music and beer fests that attract an average of 400 people to enjoy rare beers, live music and unique food trucks.

The proposed metro taproom would seat 100 people and focus on specialty beers by the glass as well as merchandise and to go sales. In this market we will have many more options partnering with restaurants and food trucks to be able to have food offerings without taking on the risk. If the location is right, we may also sublease out part of the space to a coffee shop to generate revenue in the hours we do not typically have customers. We may brew small, 20 gallon, batches of beer at the taproom but most of the product would be produced in Knoxville. The specialty beers that require unique yeast strains or bacteria would be transported to the metro taproom production area for finishing or aging. Joe would travel there on a weekly basis to manage this production.

The production brewery consists of a 20-barrel brew house, malt silo, hot liquor tank, two 20-barrel fermenters, 6 40-barrel fermenters, a centrifuge, two brite tanks, a six-head bottle filler and keg washer/filler. Two additional 40-barrel fermenters have been ordered for an early October delivery date to increase the annual capacity to nearly 5,000 barrels. All finished goods are stored cold in the onsite cold storage area. Fortunately we have dry storage in a building next door for the large shipments of bottles. In 2014 we expanded into an adjacent building, allowing us to expand our barrel-aging program and have a staging area for packaging. The 2014 addition of the centrifuge increased our operational capacity by nearly 20% by shaving production time by nearly a week and reducing volume loss, with an added benefit of increasing quality due to lower levels of sediment in our bottles.

Joe and his team brew an average of 280 barrels per month or about 14 single brews. We currently package an average of 3 days a week with off days used for packaging preparation, additional brewing and managing inventory. It takes three staff to run the current packaging line and we are investigating automation options to allow us to deploy more staff to making beer rather than manual labor.

Finished beer is picked up by our local distributors truck and taken their warehouse or we ship on a freight carrier to our outlying distributors. We have alley access to the street to loading and unloading via forklift.

Joe has a small lab to test for different quality measures and the processes are monitored daily to ensure quality throughout the process. We have also instituted a beer library to store beer both cold and warm to test for shelf life and have a control specimen to test later if needed.

In 2012 we were able to secure production management software to aid in tracking ingredients, packaging materials, work in progress, purchasing and sales invoices. The software also aids in preparing state and federal tax filings that are complicated and time consuming. We are currently upgrading to a new provider to give us more data on inventory as well as beer process control.

New products are developed on our 20-gallon pilot system and tested for consumer acceptance. We will often introduce new brands as a seasonal beer to gauge success as a full time brand. The craft beer consumer is always thirsty for new brews so this is something we work hard on while maintaining production of our current lineup

**Legal Environment**

The brewing industry is regulated federally by the Tobacco, Tax and Trade Bureau and at the state level by the Iowa Alcoholic Beverages division. We must obtain a federal brewer’s notice to operate, have all labels approved by the TTB and pay barrel tax of $7.50 per barrel quarterly. The State of Iowa required multiple annual licenses and bonds to operate as a beer manufacturer, wholesaler and retailer. We also pay a monthly gallon tax of $.19 per gallon on beer we sell in our taproom or self distribute. Additionally, we must have local approval of our state liquor license. Our taproom is also required to have a restaurant license through the State Health Department.

Trademarks have become more and more important in the brewing industry due to the increasing number of breweries, each producing an increasing number of beers leading to name overlaps. We have applied for trademark protection for our brewery and main brands.

**Personnel**

Peace Tree has been fortunate to have a fairly stable workforce. We have hired people into roles that had many functions but as we grow are able to place staff in roles that best fit their talents and skills. We pay at market wages for the brewing industry and provide a comprehensive benefit package including health insurance, life insurance, disability and retirement plan with 3% match. Additionally, we provide 2 weeks paid vacation, 8 personal days and schedule flexibility as much as possible. Education and professional development is encouraged and we foster a very open communication environment focused on continuous improvement.

**Inventory**

Peace Tree manages inventory as best possible for a small manufacturing business by balancing reduced costs for quantity orders with cost of holding inventory. As we grow it has become easier to order larger quantities and reduce per unit costs. Our main inventory items are the ingredients for beer, hops and malted barley and packaging materials. Packaging materials make up the bulk of inventory due to the need to order a truckload of bottles at a time and do large runs of printed and cut items such as six pack carriers.

**Suppliers**

We have fairly stable suppliers for all of our ingredients and packaging materials but have some vulnerability with hops and bottles. As with any industry there is always concern about rising supply costs and we have been working to make sure we have secondary sources for all of our items. One of the more significant concerns can be with hop supplies as we have so many breweries entering the market and creating demand. We have worked hard to stay ahead of the issue by carefully contracting future crop years to ensure we have the varieties and quantities we need. Bottles have been a concern as our bottling line is not flexible to allow variation in bottle size. We currently have only one supplier of our unique bottle but plans are in the works for a second option.

**Management and Organization**

The business operations are overseen by Megan McKay, who focuses her time on sales and marketing, financial management, and business strategy. Joe Kesteloot is the brewmaster and is in charge of all brewing operations. Other full time staff include Taylor Evans, the taproom and retail manager, Rene’ Gressely, office manager, Paul Stanley, Assistant Brewer, Justin Leahy, Assistant Brewer and Zach Crabtree, Packaging Production. We also have a wonderful group of part time bartenders who add hospitality and flavor to our operation.

In 2016, the plan is to add a full time sales position to manage distributor relationships and explore new market opportunities. One additional staff person will be needed in the production area as we expand our retail location and grow production.

Our organization is built on intersections of seemingly opposite ideas: art and science, business and fun, high end and blue collar. We value the opinions of all of our staff and it’s often their creative ideas that have made us stronger and more interesting as a company. As we grow our business it is also important that we grow our people so that they can find fulfillment in their work.

**Financial Projections**

**Projected Profit and Loss**

In Appendix 1 are current year financials along with the expected performance for the remainder of the year. Additionally, we have projected our business through our current 5-year goal phase of 7500 barrels by the end of 2019 in Appendix 2. To achieve this goal, we plan to add one 80-barrel fermenter, or about 1,000 barrels capacity per year. Appendix 4 is a schedule of capital additions that details the needed equipment and infrastructure to support this production growth.

The pro forma for the metro taproom is included separately in Appendix 3. The goal is to use 50% of the profits from the new location to pay down debt and 50% for expansion. However, in the first years this is tilted toward expansion projects so that we can build our base of production so the production brewery is more profitable.

**Revenues**

**Taproom**

We are projecting a 5% growth each year in our local taproom sales to be achieved by increasing volume with events and new products as well as price increases. It is difficult to increase taproom sales due to our limited space and distance from a population center.

**Wholesale**

Our wholesale sales projections are based on our past 5 years history with growth added in based on our expected capacity increases as follows:

2016=25%

2017=20%

2018=17%

2019=15%

Our goal is to grow our business within our current distribution network by increasing the percentage of accounts who carry our products, increasing the number of products each account carries and working to increase volume by brand in each account. We work closely with our distributors to match demand with availability and feel there is still more opportunity in our current markets for the next 2-3 years. Once we reach a saturation point we will carefully expand territory to match our production capacity.

**Metro Taproom**

We estimated the sales figures for the Metro taproom using our historical data from our current location, information on volumes in other local taprooms as well as data from the Brewer’s Association on average taproom volumes. We were very conservative in our revenue figures. We also used 5% growth per year.

**Expenses**

**Taproom**

We have increased expenses proportionally with revenue growth.

**Wholesale/Production**

We have increased variable expenses proportionally with production growth. Additionally, as shown on the capital investment appendix, we intend to add staff in 2016, 2018 and 2019 that is accounted for on the expense lines for payroll and associated taxes and benefits.

I have also increased rent in anticipation of taking over additional space in the adjacent building that is now rented to others.

**Metro taproom**

Again we have used estimates based on our experience in the original taproom as well as rent estimates based several listings in our target areas.

Payroll and related expenses have been estimated based on the open hours and staffing needs we anticipate.

We have added transportation expense to haul beer and supplies from our main brewery to the new taproom.

**Projected Balance Sheet**

We have included a pro forma assets liability sheet in Appendix 5. We have estimated additions to our assets and liabilities based on the Capital expenditure sheet in the appendix 4. Additionally, we have reflected the principal we plan to pay down with 50% of the profits from each year less any additional infrastructure expenditures. All other balances reflect increases in operations proportionally. The projected balance sheet does not included any capital expenditures for the new metro taproom as we are planning to pay for this addition out of operations and include build out in our lease agreement.