

Anything But Beer¹

Co-founders Logan Bonney and Brittany Berry sat together at the end of the bar, following yet another long day. The good news was that they received another round of positive feedback from customers about their newest beverage from their company, Anything But Beer (ABB). But despite the good news, Logan and Brittany knew that they needed to do more. They were once again discussing the main challenge that was on their mind – how could ABB sustain their upwards growth trajectory in an increasingly difficult industry? They knew this was going to be a challenge as sustainable growth was a complex task, and included challenges related to marketing, supply chain, competition, staffing and finance. One of the more notable constraints Logan and Brittany were facing was growing profitably, rather than just growing at any cost. Their entire business model had been set up to serve their niche market. But as scaling up seemed like a feasible and attractive option, they recognized that the financial aspects of their business model would also likely need to change. Even though the end of the year financials were improving compared to the early few months, ABB still had some work to do before they were financially stable. And, perhaps the more attractive and fun part of their challenge was that there were multiple options to allow ABB to expand – perhaps into new product lines, methods of operating, across different markets, and even geographies.

Company background

Anything But Beer launched in early 2018 in Syracuse, New York, as a response to what Logan and Brittany saw was a “gaping hole” in the craft beverage marketplace. At the intersection of beer, hard cider, and alternative drinks, ABB’s products are based on vegetables or fruit for fermentation. This is in contrast to beer, which uses grains such as malted barley or wheat. ABB then adds herbs, spices, fruits, nuts etc. to give each product its own flavor. The drinks are carbonated like beer, but stronger – most of the time in the six to eight percent alcohol by volume range. The brewing process they use is similar to beer production, so the end result is different in flavor than hard ciders. “It’s like beer in how you consume it, in the social way people drink beer” Bonney said. “But, really, it’s not beer.”

Originally, the idea was to create a beverage for individuals who “want to grab a can of something or go to a bar and have a pint like you do with beer,” Berry said. “But this is for those who can’t drink beer or just don’t like beer.” One important aspect of their product is that it is gluten free, allowing them to tap into the growing population of individuals that elected to avoid gluten for dietary or health reasons. This was one of the motivations for Brittany to become involved as she also wanted to participate in the beer drinking “experience”, but wasn’t able to drink beer due her gluten sensitivities. And, the number of gluten free beers on the market just didn’t taste particularly good, she felt.

When examining beer-drinking trends, they found that 28% of beer drinkers would like to try something different and that one in five members of any group doesn’t drink beer. As a result, groups of friends will steer away from craft bars or breweries, and if they do go, they will spend less time and money there. Unfortunately, alternative options were limited.

¹ Prepared by Alex McKelvie as a basis for discussion rather than to illustrate either effective or ineffective handling of an entrepreneurial situation.

ABB sources local ingredients from the Central New York area. They self-distribute the five gallon kegs to local area bars and breweries. They also participate in local retail pop up events and beer fairs, such as the Central New York Brewfest. They have a limited number of bottles available for purchase as well from select retail outlets, bottle stores, and farmers markets – although getting into larger grocery chains was a nut they still had not cracked.

Founding team

Logan, CEO of ABB, has been brewing fruit wines and meads since 2011. He had learned this process as part of renaissance festivals and through acquaintances. Oddly enough, he had never brewed beer. Logan had previous military experience (eight years in Air National Guard), as well as degrees in Business Administration (Bachelor's) and Entrepreneurship (Master's). He also had entrepreneurial experience from a residential property company he ran in 2011.

Brittany, CMO of ABB, had specialized expertise in market research, strategy, sales, and design. She had a Bachelor's degree in industrial and interaction design. She has previous work experience in operations and design consultation. Both Brittany and Logan are the only owners, with Logan having the majority ownership stake (72% vs. 28%).

ABB also has a few employees, most of whom are marketing assistants and interns. They also rely on others to work at events around the state. ABB also hosts 'bottling parties' almost every week, where the compensation is generally a few fresh bottles to bring home. ABB are currently looking to hire on additional employees to help.

Products offered

Anything But Beer offers over 15 different flavored beverages. One of the pleasures of being a startup business in this arena is that they get to develop catchy names that show some playfulness – these help to reflect the ABB brand as well as the owners' personality.

Some of their products include:

- Root Less Traveled, a spiced sweet potato based beverage. "It tastes like a sweet potato pie or a sweet potato casserole in that it tastes like sweet potatoes and cinnamon and vanilla and it has some caramel nose to it," Bonney explained.
- Chai Your Luck, a ginger chai drink. This one reflects a spiked ginger ale taste, but with the addition of some chai tea spices. At 8% alcohol, it's also stronger than most beers or ciders.
- Midnight Hike: the color of cranberry juice, but with a strong, tart and sweet berry flavor that is reflective of the blueberry and black currant combination. Has a strong oak barrel presence at the end, and a strong (8.4%) alcohol content.
- Fired Up, which is a spiced apple ale served hot. Includes flavoring from apple, orange, cinnamon, and clove.
- Son of James: has a strong whiskey presence, has a golden color, but with a sweetness from the apples. Some drinkers state that it reminds them of Jack Daniels, but with a 7.4% alcohol content.

"There's been a lot of experimentation in the flavors we create," Bonney said. "It's been fun to see what works. We will launch three new flavors this coming year."

Industry factors

Based on these products, ABB recognized that they were, at best, operating at the intersection of the craft beer and cider industries. At worst, they had created an alternative industry that was heavily reliant on some of the same factors for success as these more established industries, although with the need to educate customers about the products and benefits. Legally speaking, ABB's products were classified as beer. This is an important aspect as it allowed ABB to be sold in grocery and bottle stores in New York State, whereas drinks classified as wine or liquor needed to be sold in specialized liquor stores that had less favorable opening hours and greater everyday accessibility for customers. The actual and expected sales levels for both of these industries had experienced notable growth over the past few years and showed strong predictions for continued growth in the future (see Exhibit 1).

There are a number of key success factors in common for both the craft brewing and cider industries. Even for smaller startups like ABB, these factors still applied to their future success.

- Access to the distribution chain: A limited number of distributors control access to major customers and retailers. Many bars had reserved taps for drinks from select distributors. Not having an established distribution chain locks out many smaller players.
- Developing a brand and market position: As the market for alcoholic beverages is highly saturated, new brands need to distinguish their product from competitors while also emphasizing the attractiveness of their product through shroud campaigns, labels, and advertising. Customers expect new and novel approaches to keep them engaged over time, or there is a risk that they switch to other producers.
- Operational control: producers require consistent access to high quality raw produce at stable prices as well as the quality control mechanisms to ensure that each batch is consistent. Shifts in quality will damage the brand and varying raw production costs constitute challenges to profitability.

The trajectory that ABB was following was similar to other companies in these industries. Most of these local or regional players focused on higher quality ingredients and more local outreach as compared to the larger industry players. These smaller firms focused more on the community aspects and fought the pressures to grow to levels where their quality would be reduced or where they would have the feel of a "mass produced" brewery. Customers tended not to be as price sensitive for local, niched products.

Target market

Logan and Brittany recognized that they were focused on a niche market of consumers. But, at the same time, they acknowledged that there was growing demand in a few different areas. For instance, the noticed the 30% of Americans who wanted to avoid gluten in their diets -- and the forecasted growth of 13.5% per year in the gluten free beer market supported that this was an important part of the market. These trends were in line with consumers' push to lower cholesterol levels and ease digestive issues, among more health-conscious consumers.

Fruit-flavored beers and non-apple flavored ciders were also increasing in favor among millennial drinkers. Approximately 3% of revenues in the craft beer market were spent on fruit beers. This was especially true among younger demographics (i.e. under 35) that made up about 40% of the sales in the market. The 35-44 age group enjoyed craft beers more as well as ciders, and started to shift their drinking preferences towards wines as well. They made up a bit more than 21% of the sales in the

market. Older drinkers, in comparison, tended to enjoy more traditional drinks, such as domestic beer, wine, and liquor – and made up less than 18% of the market. Beer drinkers were historically male heavy (at 60% or more of the market), but the share of women drinking beer had been increasing over the past five years – especially when it came to seasonal and fruit-based beverages.

Although ABB didn't necessarily focus on a particular gender or age group for their products, they felt that their marketing and positioning in the market – as well as the taps of bars they sold to – tended to be for audiences that were younger than 40. Women in particular liked the variety of fruit flavors. More important to them was that ABB really felt that their product resonated with people who liked to experiment and try new innovations, as well as those who valued locally-produced goods.

Although they had a target market of end consumers in mind, they also recognized that their main customers came in the form of breweries and restaurants. This effectively made ABB a B2B company. These primarily come in the form of the almost 400 breweries in New York State. New York craft brewers were popular, selling over 1.2 million gallons per year, or approximately 2.5 gallons per legal drinking age individual. Given their innovative focus, ABB recognized that the larger taprooms (i.e. those with 15 or more taps) would have the highest likelihood for diversifying their products beyond mainstream beers. Their market research showed that those with 30 or more taps would be optimal as they would have the highest likelihood to have ciders and alternative beverages on tap. The smaller taprooms carried 90-100% beer on taps, and therefore were less likely to try innovative new products.

Initial sales of kegs were quite steady, with at least 1-2 kegs per month per location, with some select locations purchasing up to five kegs per month. This essentially required all of ABB's brewing capacity in their first year of operations. Each five gallon keg was sold to the taprooms for an average price of \$120, leaving the taprooms to charge customers by the pint with sizable margins. This fit well as part of ABB's business model – they were a high margin, low value premium beverage. With a contribution margin of approximately 75% per keg, and a breakeven point of 15 kegs due to their low fixed costs, their new startup was a relatively low risk and flexible enterprise that had the opportunity to grow along with sales, rather than be bogged down by the shackles of vast amounts of fixed assets such as machinery.

Sales through bottle shops and retailers had potential but still made up a small portion of their overall sales; selling as a wholesaler also meant smaller margins on bottles to ensure that the retailers also earned money. Selling as a retailer themselves, such as at farmers markets and popups shops, had an overall positive effect on the top line for ABB. It also came with additional fees and costs, thereby hurting the profitability of that line of sales. It was also time consuming – and there was great variability to the quality of (and number of customers at) certain farmers markets.

Competition

ABB considers itself to act outside of defined industry categories, acting as a one-of-a-kind product. It therefore views itself as being complimentary to a few different competitive sectors.

- Hard ciders: competes mostly against relatively local ciders such as 1911, Angry Orchard, and Truly Hard Seltzer.
- Gluten free beers: major players in this sector include Doehler, DSM, and New Planet Beer. Other major breweries, such as Anheuser-Busch and Coors have also launched their own gluten-free products.

- Craft beer breweries: there are a large and growing number of relatively local craft breweries in Central New York. These offer a number of flavors, including some with strong fruit flavoring and Pale Ales.

Marketing strategy

ABB's current marketing strategy has a few components. The first is to do personal selling and tasting directly at bars, taprooms and bottle shops. This leverages their strong interpersonal skills but also allows them to get to know the bar and taproom owners and their customers. The second is attending beer events and farmer's markets. ABB attended over 150 such events over the last year. These events are time-intensive, have strong seasonality (winter is generally quiet), and oftentimes does not lead directly to substantial sales. The positive is that it allows beer lovers (or haters) to try ABB's products, with the hope that they will remember them when they get to bars or see the product where it is sold. It also helps to build word-of-mouth attention and create some initial brand loyalty. The third is to use traditional marketing methods such as radio advertising and having media stories (such as in Syracuse's local newspaper) and online profiles and tasting notes. The benefit of this is that it creates exposure to broader audiences, but without a specific call to action for customers. Their final component is that ABB relies quite heavily on a social media presence, with a heavier emphasis on Facebook and Instagram.

Financial situation

The two co-founders have put in approximately \$30,000 of their own money into ABB so far; this covered most of the initial startup costs. They have also won a few thousand dollars at local business plan competitions in New York State. They had decided that bringing on additional debt was not an attractive option for them, and they were very hesitant to bring in additional owners since that would also imply giving up some level of control. Even though their business model was working in the short-term, with respectable profitability, their overall revenue streams and total profits were limited. The financial statements they kept (Exhibit 2) showed their different revenue streams and costs incurred. These statements did not show the positive progress they made at the end of the year -- the best four months of sales occurred then. In addition, these statements failed to show the lack of sales over their first few months of existence. This was not uncommon for startups and certainly not where the time between starting production and achieving sales was over a month. Further, their hope was the initial startup costs would be one-time-only; this would make the current financial position be more fruitful once these expenses were out of the way -- such as initial licensing, organizational formation fees, and purchasing initial materials. Overall, while there were glimmers of positivity financially speaking, part of the challenge of ABB scaling their business was clearly on the financial side where profitability and cash flow would matter.

Looking ahead

Their first year of operations had gone well, in their minds. ABB was now located in 17 different breweries and restaurants in and around Syracuse, and they had sales accounts with 65 wholesalers total. They have also set up their own distribution system to allow their kegs and bottles to be found in many locations within an hour's drive in every direction of Syracuse. They were in the process of opening up a taproom in downtown Syracuse, which would allow them to sell directly to the end user -- thereby keeping the profit margins for themselves, but also increasing their fixed costs and risk.

They are currently their own manufacturer and distributor. They are operating out of an 800 square foot facility in Syracuse. As part of this current setup, it takes at least one month for the product to be made and at a max of 55 gallons (11 kegs) – meaning that they run on pretty strict schedules and can only offer a limited number of flavors at a time. They are considering partnering with contractors to produce higher volumes. This might also allow them to expand to new geographies; they already have pretty strong coverage in the Syracuse market. Distributors in this industry currently have a profit margin of about 30%, which was one reason why they self-distributed. If there were to continue to grow, they would need to consider the use of outside distributors. This ran the risk of losing the personal touch in their sales efforts, as well as becoming out of touch with their most loyal (local) customers. Contract brewing and using outsider distributors would also increase the supply chain and coordination needs of the business if they want to retain quality and become reliant on the efforts of others. Also, if they extended beyond New York State, they would need to learn the different laws involved for the sale and distribution of alcohol.

As Brittany and Logan considered their future plans for growth, they were motivated by the positive support they have received from their niche set of customers. "Our local following has grown and has been extremely supportive. People are saying, yeah this is what this industry needs, I've wanted to participate in the craft brew industry and haven't had the opportunity to because I don't like beer or I can't drink beer. People want what we have and we want to give it to them," Berry said. Brittany and Logan weren't willing to risk their loyal set of customers, but they also recognized that they had the desire, traction, and feedback to support the growth of their young business. The question was – how should they grow, how quickly over time, and how could they maintain profitability while doing it?

Exhibit 1. Past sales and expected growth in cider and craft beer industries

	<i>Cider</i>		<i>Craft Beer</i>	
	<i>Revenue (\$M)</i>	<i>Growth %</i>	<i>Revenue (\$M)</i>	<i>Growth %</i>
2014	357.1	72.3	5,207.0	34.7
2015	563.4	57.8	5,859.6	12.5
2016	487.8	-13.4	6,097.4	4.1
2017	489.4	0.3	6,629.0	8.7
2018	510.5	4.3	6,759.4	2.0
2019	521.1	2.1	6,867.2	1.6
2020	531.5	2.0	6,963.3	1.4
2021	541.7	1.9	7,062.8	1.4
2022	552.1	1.9	7,153.1	1.3
2023	563.3	2.0	7,279.9	1.8
2024	574.8	2.0	7,408.5	1.8

Source: IBIS World

Exhibit 2. Financial performance 2018 (dollars)

Revenues	
Sales (bars, taprooms, restaurants)	23,479
Sales retailers	9,786
Sales direct (Farmer's Market, Popup, etc.)	20,447
Discounts, etc.	-5,901
Grants and prizes	8,500
Total net revenue	56,311
Expenses	
Supplies	31,070
Salaries, wages & contractors	21,669
Advertising & marketing	2,730
Rent	
Facility	2,039
Production facility	2,492
Farmers market	8,450
Utilities	703
Repair & maintenance	450
Shipping	1,251
Car, truck & travel	376
Insurance	2,481
Legal & professional	1,366
Taxes & licenses	5,472
Other miscellaneous & fees	418
Total expenses	80,965
Net Income	(24,654)