Blog 4

CATEGORY ARCHIVES: FINANCIAL

The jobs involved in opening a brewery …

2 Replies

There are many things to do in starting a business, that much is for sure. But let me be the first to say that there are about twice as many jobs to get done as you first anticipate, when you are conjuring up your business plan months and years before actually taking that leap of faith. With the help of this post, you can plan ahead, learn some skills, mentor from someone who has experience, take a few classes, or just meet someone with a complimentary skill set to yours.

In no particular order, here are the things you need to be good at:

Salesperson: Maybe I put this first because I feel like there is so much of this process that you need to get buy-in on. Whether it be your spouse and why they should support you in opening a craft brewery, investors to see a bright future in your business, or even possible partners to believe in what you are doing, you are always pitching an idea to someone it seems. Not a lot of people have sales experience, so I would recommend Spin Selling by Neil Rackham

Janitor: Get really good at sweeping. This means finding a messy floor somewhere and getting a good broom and going to town. A couple techniques. There is the long stroke or the short stroke. I seem to prefer long strokes on smooth surfaces and short strokes on rough surfaces

Accounting: There is no way you want to get behind on this one. From the start, have a good idea of your plan for taking care of the books and reporting this information. We use an accountant and they have set us up on a system that works with their office. Essentially, we track everything in quickbooks, pay every bill and invoice, and then push this to them at the end of the year. Easy enough, but it was a long road to get here. My recommendation is to use Quickbooks, which is available online for $250.00 or so.

Digger: Another really important skill to have. I suggest you head to the beach, and try digging a couple holes and a trench. Do this a couple times a week, so that when it comes time to dig up floors, or shovel dirt, you are in prime shape to make this happen. A key here is to manage your shovel loads. Not too much dirt now …

Marketing: I have always kept marketing separate from sales as I think they are 2 very different things. In short, marketing is the long term plan and vision for your brand, and sales is the day-to-day activity. Read some books, look at other companies, brands and marketing whenever you can, and learn from others who specialize in this to get a better understanding of what you should (and shouldn’t) do. My book recommendation here is Permission Marketing by Seth Godin.

Steelworker: My hands don’t lie, you will need to get good installing and tying rebar and wire. I suggest you go get a job tying rebar for a week at a local construction site. Make a B-Line for the site super and tell them how your baby soft hands are in need of toughening up. Don’t forget to strengthen your lower back as well, as you will be bending over for most of the day. Just find your happy place, and try to think about how great it will be to serve your beer to the world when you are finished.

Decision Maker: You will need to to learn how to make decisions based on the advice of others. It will often involve a complex set of parameters with varying opinions, the exact answer you must decide on your own. Good examples is whether to lease that warehouse that is empty or what floor plan to use for your brewery. You will get opinions from realtors, bankers, lawyers, engineers, accountants, architects, and even your friends and family, but at the end of the day, you make the decisions, so don’t overlook or underestimate what is important to you and how this decision will play out long term. My book recommendation is Crucial Conversations by Kerry Patterson, a must read.

Painter: Up, down, up, down, repeat. Think of Mr Muyagi in the Karate Kid, and practice for painting with painting. This process should actually start with power washing, so find a dirty piece of concrete and let loose about 1,000 PSI to see what it feels like. When you have mastered use of the wand, you can move to painting. This involves a lot of cutting plastic poly, taping, and scraping. So get ready for the time of your life! Remember patience is the key to getting a good paint job.

Social Media: There are some breweries that open and they have put nothing out there, while there are others who tell everyone what they are doing every step of the way. I wouldn’t say one approach is right and the other is wrong, I would just say if you aren’t active in social media, at least understand what is happening and how you will take part in that down the road. My book recommendation here is Guerrilla Marketing

Psychologist: When you are dealing with trades people, construction workers, and general labourers you are going to hear stories that will make you cringe and make you smile all at the same time. Time to talk some sanity into these people!

Human Resources: you are going to hire people down the road, so its important that you understand what skills your team has, and what skills you would like to add to the mix. Without question, every person you hire is important, but the first couple out of the gate will truly make or break you. Hiring for Attitude is my book recommendation for this bucket

Bathroom Cleaner: Thats right! Get down on your hands and knees and scrub. Great preparation would be to head into your local Frat house and start cleaning the toilets. You see, trades people have the aim of a 3 year old boy, and the cleanliness of …. well a construction worker. So rubber gloves and eye protection are mandatory, while hazmat suit and respirator are optional.

Copywriter: A bit of sales and a bit of marketing in here, but that is not the point. You need to be able to convey information to others in written word. Whether it is your brand statement to consumers, a letter to your architects expressing your desire for changes to a plan, or the content on your website, you need to be able to write in concise terms. Personally, I am not the best at this, as those who read my blog with regularity can attest, but it sure is something you can work on … like I do in writing this blog. My book recommendation is Writing that Works.

Phone Hanger Upper: You will get good at hanging up the phone. This is a product of having a lot of phone calls, but also a lot of telemarketers call. I find the best way to get out of the conversation is to cut yourself off mid-sentence, that way the other person will think the line was disconnected. Don’t hang up while they are talking, as it is a giveaway you did the dirty.

Retail Manager: A huge portion of a new breweries sales take place at the tasting room and growler fill area. For a company like Brassneck, the experience they gained from their previous experiences only helped to make their retail experience what it is …. amazing. Same goes for Bomber and others, as their retail experience only helped them to make sure they got the retail area perfect. For us, we need to find help on that front. We need someone who will understand what we are doing, and help us to nail it. We are looking for this person and hopefully they can come on board at the right time.

Mechanic: We have yet to experience this one for the most part, but it would be wise to learn some basic skills around fixing things. I have heard the horror stories of things breaking down and needing repair in a brewhouse are too numerous to mention, so knowing what to do, or who to call is a very important component of keeping operations smooth. Remember, red is positive and black is negative.

Delivery Person: When the production gets going, we know that a good portion of time will be driving around and dropping off product. We view this interaction as very important, and something that we need to do in person.

Production: Maybe I put this last because it is the most important on this list. I still maintain that we can get everything else on this wrong, or not have any skills in those areas, but as long as you make a quality product that is consistent, you will do well. Maybe I am a little naive, but having good beer will make everything else easier. So this is where you need to make a choice: Either find someone who knows and wants to handle production, or learn the skills necessary yourself. Guys like Ben Coli are a good example of someone who wanted to handle production themselves. I would be antithesis of this, as I always knew there would be someone else handling this part of operations. I think at the end of the day, you need to decide what role in the business you want to have, and go for it. Book recommendation here is any and every book that has to do with brewing or production.

The most interesting thing about this list is that you will be doing all of these things on a daily basis. There are days I go from item to item to item, and then I repeat a few of them. That makes the job interesting, but also means you have to get really good at prioritizing, multi tasking, and working in several silos all at the same time. For instance, as I write this post I am also answering emails, texting my partner and yelling at my kids!

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General Contractors and Sub-contractors

Leave a reply

One of the most important decisions you can make is around construction of your brewery. Do you want to have a general contractor guide the process, or do you feel like you have enough time and energy to take the lead on piecing together the build-out? Depending on your skills, the amount of time you have, your preference for this kind of thing and most importantly your budget, your decision may already be made for you.

We decided to work with a general contractor, Graham Disher of Disher Contracting. The process for looking to team with a contractor was relatively painless, as at the end of the day, we decided to work with someone that was willing to work with our constraints. In other words, we are able to offer some ownership shares in lieu of having to raise the money and then pay it as a fee. In fact, because craft beer is growing so much right now, you could take this approach with many of the different trades that come through your space, and you would be able to do well for yourself in foregoing fees.

At any rate, Graham was also a good choice for more than just his willingness to work with us. He had the time to dedicate towards our project, he has good experience that will serve us well in various aspects of the buildout, he was trustworthy (and he has continued to show us that), and what he doesn’t know, he goes about learning in a quick and positive manner. When you add all these things up, we felt good about teaming with Graham Disher, and we would not hesitate to recommend him for your brewery (once he is finished ours of course). Get in touch with me if you want to be connected, as he is one of those contractors who is too busy to worry about a website and all that. In other words, he is hard to find online.

Back to the process of looking for a general contractor. We met with 4 different GC’s after tossing around the names of about 12 or 15 that were passed our way or in our “rolodex”. The 4 we met with all had experience, but were all at different stages of their business life cycle. One company had been around for about 30 years, another just a couple years. When you meet with these companies you take a list of questions, usually around the process of working with them, budgeting, who is on job, costs, estimates for work, their ideas for your job, experience in this field, etc. When you start asking questions you will clearly see that there is a big difference in how each of these guys run their business. Everything from their presentation, to how they budget, when they invoice, what jobs they sub-out, and so on.

What we came to was a list of pro’s and con’s for each contractor, which you then weigh against all the other factors. Big ones for us include: What is their mark-up, when could they start, who is going to be site supervisor, how much time are they going to dedicate, how many other jobs do they have, what is their crew like, what is their vision for the project, what is their timeframe, what are the biggest challenges and how will they overcome, how are they with change … you get the drift.

As for subcontractors, this is really a 2 step process. The first is to meet with various sub trades that are going to be important to your job. Likely you will meet with electrical and mechanical trades people. You will also do this with the help of your general contractor. The first objective of meeting with them is to understand what changes you can make to your plans to save money, while at the same time meeting with them to understand who is going to be the best fit for your project. We met with 4 or 5 electrical and 4 or 5 mechanical contractors. That allowed us to get some feedback and gauge who was going to work within our constraints the best. Usually you are basing discussions off a set of drawings that aren’t yet complete.

Hopefully soon after this you will get some IFC drawings for the build-out, and then you can distribute to the 2 or 3 sub-trades that you think would be the best fit. Once you get the estimates back, you can play them however you like, to try and get a better deal and position the job in the best position for your interests. For us, number one was not money believe it or not … it was time. Who could get started and complete the job (in other words, who could dedicate the most manpower to this job) in a fair period of time. Second was money for us. Of course all the companies we met with had the proper experience and were keen to be a part of this … that was just standard.

We picked our Electrical Contractor – Clear Energy Solutions. They have solution in their name for a reason. They offered us great advice on what to change and what could be streamlined to save money and time. I would highly recommend these guys to be at least a part of the bidding process.

We picked our Mechanical Contractor – Nathan from Meridian. They are a great outfit that has experience in residential and commercial work, they were willing to work with our timeline and they were excellent on price. I would also recommend these guys to anyone else for all their mechanical needs.

If you want more information on any of this stuff, let me know and I would be happy to add to the information I have put out there. Bottom line, there are lots of great companies and lots of bad companies and general contractors to work with, just make sure you take your time to make the right choice. Saving a little money won’t seem worth it if you have to spend extra time on a project.

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A Crushing Day for Us ….

1 Reply

Well, the last 36 hours has been full of angst on behalf of both Iain and myself. We finally received a detailed budget from our general contractor, and to put it bluntly, we are going to be way over budget on building our brewery. It is an extremely bitter pill to swallow, especially after the increases we have made throughout this process to our budget. At the end of the day, we are building a much larger brewery than we anticipated, and with a larger brewery comes bigger costs.

When I look back at my old copies of the business plan, I have to chuckle to myself as I once thought the retrofit of a warehouse, not including equipment, was going to cost about $400,000. I look at that number and can’t help but think how naive I was. That is both a good thing and a bad thing. If I knew how much this endeavour was really going to cost I might have passed on following this particular dream. I thought the $400,000 was enough to put up some walls, trenches, upgrade power, and put all the equipment in. Boy was I wrong. This was about 2012 when I was really starting to get into planning this brewery

Fast forward to late 2012, and after much encouragement from other brewery owners that I met with, we increased this amount to about $550,000. In my mind, this was an increased of about 30% over my initial budget, and I thought this would be plenty. But as you learn more about what is required to retrofit a warehouse, the number keeps getting chipped away. All of a sudden, the additional money that came with a bigger budget seemed to have disappeared.

Fast forward again to early 2013, and it was time to increase the retrofit budget again. It just seemed impossible that with tasting rooms and their pending approval, along with the realization of additional costs with most spaces, that we could retrofit a space for any less than about $650,000. At the time, this seemed like a good number, and even included a sprinkler upgrade and water line upgrade. We figure we would be free and clear, so we charged ahead with this number in our mind.

It was at this time we started to inquire with investors about financing our brewery. We based many assumptions on this cost, including how much we needed to raise from angel investors. $650,000 seemed like our golden ticket to get everything we wanted. So we charged on and hoped that we could what we wanted for this amount.

Then in the summer of 2013 we found what would eventually become our warehouse. It was bigger than we really needed, but it gave us an excellent location, and most importantly a great landlord that wanted a brewery in his building. We had our architect in, a couple contractors, some sub trades, engineers, etc and they all pointed to a retrofit cost of about $725,000, depending on a lot of things, such as electrical upgrade and flooring. I have written about these items in the past, and they were huge uncertainties with out space. So we moved forward with a newly increased budget of about $725,000 for a retrofit.

So fast forward to this week. We met with our architect and general contractor to discuss the quotes they have received from sub trades (like mechanical contractor, electrical contractor, concrete slab specialist, etc) and also the budget from our general contractor on all the little things that make up our brewery. All of this information, along with our wishes and desires, was put into a spreadsheet and at the very bottom of a huge excel file, there sat what was the anticipated retrofit cost of our brewhouse. The total estimated cost for our retrofit was (drum roll) …. $925,000.

It is hard to put into words what was going through my mind when this was presented. It was like someone kicked me in the stomach …. and then kicked me again. It was awkward for our architect and our contractor, as they could see that what I had believed and what I had assumed was wrong. I must have looked like a deer in headlights. Even now, I am fully consumed by frustration and anger that I just can’t seem to shake. How is it possible that I ever thought $400,000 was enough? It just seems plain old absurd!

We are so deep into this process, so far down the road, that there is no option but to find solutions. For starters, it is very likely that the tasting room will have picnic tables and used chairs, be lacking any real artwork and design aesthetic, and have very little “extras” that other tasting rooms might have. We have also had to dial back a few optional pieces of equipment that we hoped to have for the brewery. Essentially, there will be a cascade of changes that are mostly out of our control, in addition to some extra cash that we need to raise from investors.

If I could pass some information onto others, I would make note of the following costs you might be looking at:

Electrical Upgrade – $75,000 and up

Mechanical – $125,000 and up

Tasting Room – $50,000 and up

Labour costs – $100,000

Development and Building Permits – $10,000

Concrete – $25,000 and up

Boiler and Installation – $35,000

Contingency – Easy 10% of your budget

Architect Fees – $25,00 and up

Engineer Fees – $20,000 and up

Management Fee (from General Contractor) – Cost plus 10%

Epoxy Flooring – $15,000 and up

Of course there is a long list of other small items, and they have all creeped up in cost, as we have a 9,000 square foot space.

In another few months, I will be sure to post all of our business plan online, so you can see for yourself what all the details in starting a brewery are. For now, just know that what you think things will cost, will likely double from your initial estimates. Just hope and pray that you have way more money than you need, or at least a network of people who would be able to offer some financial support to your business.

I hope to have some answers to our dilemma early next week, and I will pass along any notes I have on how to find savings in a budget that doesn’t seem to have a lot of wiggle room.

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Marketing Update – Website, Blog, Social Media, etc

1 Reply

It seems there have been 2 buckets that I have been working in lately: Fixing the warehouse and building our brand. I love the physical aspect of working in the brewery, and I am sure you would too. What I have found is that when you build a company, its hard to see progress and win the little battles that make up the war. For instance, when it came to picking a name, it took literally hundreds of hours of work and effort, and you don’t see any milestones along the way. One day you just have a name. But when you have a physical project like constructing a brewery, its easy to see progress along the way, and I like that.

We have been busy painting the warehouse lately. The amount of time and energy this has taken astounds both of us. We have had great help from family and friends who are incredibly supportive of our journey. Without their help from the get-go, none of this would be possible, and I am sure this is going to continue onwards in the future as well. Even with this help, we have spent 2 weeks preparing the space for painting and first coat of primer. I guess that is what happens when you have a 9,000 square foot space, with 19 foot ceilings.

inside brewery pre paint

So when we are not going up and down the forklift preparing walls for paint, and applying paint, we have been busy with organizing what our brand will look like. That means meetings, meeting and more meetings. I have come to realize that it is incredibly important to express how you feel in a positive and straight forward manner. When it comes to the way I feel about something, I owe to my partner and the business to say what I need to say, all the while improving the relationship with my partner and leaving my influence on the business.

We have picked a logo, and it may not be finalized, it will look similar to this.

SF-logo#8-max-res

Online I can understand why people are torn between the 2 logos we had everyone vote on, but when you see them on a bottle printed out, the decision was quite easy. The text on the other option seemed too small, and didn’t stand out on the bottle like this logo. So thank you to everyone for your feedback and input into our decision. The results were virtually even on our blog and also the Vancity Buzz poll, so at the end of the day, we had to make the decision. There might be people who strongly dislike our image and brand, and we have quickly come to realize that we are ok with that. But we have also come to realize that our brand is so much more than a logo.

All of our social media is now live:

Twitter: Strange\_Fellows

Instagram: strangefellowsbrewing

facebook: strangefellowsbrewing

We are busy working on our landing page for the website, and it will likely be another couple weeks before we have something up and running. Until then, the main contact points are the above …. and of course this blog. As Iain so shrewdly put the other day, he is the one doing all the work in starting a brewery, and I am the one telling everyone about all the work he is doing in starting a brewery. Seems like a good set-up to me!

Your feedback is always welcome and helps us to know what we are doing well and what we can work on. Should you think of anything we can do to make this company better, we would love to hear from you.

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Another general update on progress and happenings at the Brewery!

1 Reply

It seems like I have been knee deep in the process of starting a brewery, that I have neglected to update the readers on our progress. From the brewhouse to tanks, and forklifts to logos, there is a lot happening at the brewery, and the level of activity seems to have picked up. In addition to the office and administrative items that have kept us busy for the past 6 months, you can add in the retrofit of our space to things to do.

For starters, Iain Hill has officially left his position at Yaletown Brewing Company to join operations full time. For several months Iain has been burning the midnight oil after a long day at the office, and he now has the ability to focus on starting our brewery, which is amazing on many levels. Finding a brewery (and in my case a business partner and equal) is a huge step in the process of starting a brewery. Its one thing to be a home brewer like many of you. You understand some of the components of brewing beer, and you have experience with the lingo and terminology, but its entirely another thing to be in charge of a commercial brewery. With a qualified partner, the beer we make will be of good enough quality that it will offer us a chance to have success. If you want to follow Iain Hill on twitter, his account can be found here.

We have sent out tenders for our warehouse to electrical and mechanical contractors. This has been a bit of a process for us. When you apply for building permit, you have a sense of where things are going to go, and this is reflected in the drawings your architect prepares for you. However, when it comes to the technical details of these aspects of the brewery, you engage with mechanical and electrical engineers to complete these drawings. Getting the details correct on these drawings is critical to getting accurate quotes from trades people that will be doing the work. If you hand over a set of drawings for tender and they change immensely, you will get dinged for additional expenses throughout the build-out phase. My advice would be to push ahead with these drawings at every opportunity, so that when you get your building permit, you are not at a standstill like we were. We will literally lose a month from our possible start-date as we were not ready the next step.

Doing things in the brewery that don’t need a permit is also something that is very important. We have decided to paint the inside walls of the brewery with a marine grade paint, to keep mould from becoming a problem. Well painting a house is a job, but painting 6 metre high walls in a brewhouse that is 9,000 square feet is a little bigger of a job. This is something that we really should have started earlier as well, but given the delays in getting started with the rest of the work, we will have this finished within the week. Once the walls are painted we can move forward with cutting floors open, and getting our brewery ready for building.

If you ever need advice on buying a forklift, I can tell you that we had a great experience and I would love to share it with you. At the end of the day, when you are spending so much money on everything at a brewery, trying to save money on items like forklifts can go a long way. We managed to save about $5,000 against our budget, and while that will get sucked up quickly elsewhere, the point is you need to save money when and where you can. We had a budget of $10,000 for a forklift, charger, and man cage (for doing work on the ceiling of the brewery). After about 30 hours of work, research and seeing what the options were, we purchased an electric forklift that will hopefully meet all our needs for now and into the future. Sure we might have to spend money on repairs, but we are not going to lose much money on this machine as it already has depreciated to nothing. If you are looking; side shift, electric drive, 40 inch forks, 180 inch lift height, and a smart charger that is compatible with your machine are all must haves.

In terms of the voting on our logo, it looks the voting has ended up at 50-50! After all that, we have a divided opinion on what we should be going ahead with! As such, Iain and I are going to meet and make a decision on what we should move forward with. We look forward to making a decision so that we can move forward with other aspects of our marketing.

Our landing page for the website should be up and running in about a week. I know there has been delays (like everything it seems), but we hope to have an interesting landing page that will continue with giving everyone a sneak peak into starting a brewery and our operations. More to come on that front shortly.

I have found an individual that has helped me with odd jobs at the brewery so far, and I would recommend to anyone else who is looking at starting a brewery, to find someone with some technical background in general labour … what I mean is find someone to help you that can do some electrical, plumbing, painting, heavy lifting, etc. We have found a man to help us, and he has been a saviour for us.

From an equipment standpoint, we have ordered our brewhouse and we are very close to ordering our packaging equipment and conditioning/fermenting tanks. We are trying to determine exactly packaging equipment we want, as the choice we make will help determine our entry point into the market. If you go cans, you come across as more of a middle of the road company. If you go with bigger bottles (650ml) then you come across as more of a craft operation. So we are wrestling with what exactly to do, and I hope we can make a decision in the next week. As for the tanks, we are grinding the suppliers on their price, and hope to get our ideal package within our budget. We think it is better to go a little bit smaller on the tank farm, knowing that you may run out of capacity quickly, than spend all your money on equipment and have very little left over for everything else.

Thats it for now. Should there be anything else you want an update on, as always, let me know and I will include it for my next blog.

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Those costs keep on Creeping Up

5 Replies

Being a salesperson for the past 15 years has ingrained in my head the need to make everyone happy. I always seem to take the middle of the road, and that seems to always be a good win-win situation. However the last 5 years in residential real estate has changed that somewhat. In fact, my opinion has somewhat swung the other way. It can probably be summed up by a real estate ‘saying’ that goes something like this: When a buyer and seller are both unhappy about the price, its probably a good deal.

You see, selling real estate has made me realize not everyone needs to be happy all the time. In fact, some people look for things to make them even more unhappy. I guess you could say some people will always see the glass as half full or half empty, and normally these people like to put themselves in situations that reinforce their own personal beliefs. Anyhow, I will get to the point.

If you are a contractor and you are called about working on our brewery, I am sorry in advance for grinding you on your price. I feel better about saying this, as in my former life I would have rarely done this. But the new me is a lot different as every time we can save $1, I feel like I am earning $1. As one of my recent posts on asbestos eluded to, the costs of our brewery have been steadily going up and up.

I would pass on this advice to anyone else starting a brewery: The cost to retrofit a 2,000 sq ft space versus a 5,000 sq ft space versus a 9,000 sq ft space is totally different, while at the same time very similar. They are very similar in the sense that you likely have the same expenses regardless of what size space you have. I’m talking trade water interceptor, waterline upgrade, sprinkler installation, sewer upgrade, new overhead door, power upgrade, etc. The difference comes in the amount each of these items costs you.

Sure some of these items like a new trade waste interceptor or new overhead door are the same regardless of the size of your space. However, upgrades like electrical, sprinkler, waterline and mechanical and their associated cost are dependent on 2 main variables. First, how much change you need to make from the current layout of the warehouse you lease to the finished layout. Do you even need sprinklers? We didn’t, so we knew the only cost would be to retrofit the existing system to fit within our layout (in other words putting new heads on). Second, and something not to underestimate, is the size of your space. For instance. to run a pipe from end to end of a 5,000 sq ft warehouse costs a $1 per linear foot. Well if you double the size of your warehouse, the cost per foot doesn’t change, but the length sure as heck does.

This is where we are at. We leased a warehouse that is bigger than originally planned for (we planned for 6,000 and we ended up with 9,000 sq ft), and while we increased the costs associated with a bigger space, we are now realizing that we may not have increased the costs enough. To bring this full circle, we are going to try and grind some savings in different ways, and one of these is through our contractors who will do various jobs for us. More importantly, I would expect that our tasting room will have picnic tables and be pretty plain when we are finished, as we will surely run out of cash.

This entry was posted in Financial on February 7, 2014.

The Biggest day in this Process – Lease Signing Day

1 Reply

It looks like the day might finally be upon us. This is the day that seems like it should be the first step in the process, but realistically is more like the 500,000th of 1,000,000 steps in starting a brewery. I have thought about this day for years. It’s like I need to pinch myself to make sure this isn’t a dream. We have signed subject removal for leasing our space. After a 12 month courtship, and months of negotiating, feeling elated, feeling depressed, and most importantly uncertainty, we have done it.

I know what you are thinking: Whats the big deal? You found a place to brew your beer. Thousands of other breweries across North America have found a suitable place to brew their beer, what makes your accomplishment any different? When I think about it that way, it doesn’t seem like that big of a deal. But when you consider that we live in Vancouver, where land and warehouses are at a premium, it feels like a huge accomplishment.

I would say the key learnings from this process would be as follows:

Don’t even consider buying a space, unless you are rich. And that begs the question, if you are rich, why are you starting a brewery?

Dilemna: You can only have a one of the following: A good landlord, a good location, a good space. Which will you choose?

Get ready for a personal guarantee. Unless you have a brewery already, and if so why the heck are you reading this blog, get ready to lay whatever personal wealth you have on the line with your landlord.

Expect to spend a lot of money fixing this space up. Our bill is going to be huge, because we have a larger space, but even for small spaces, expect to spend $300,000 minimum.

Use a good commercial realtor, who works exclusively in an area. Don’t use a friend or family member who doesn’t know a lot about what they are doing. We used Matt Smith from Colliers, and were very happy with our choice

If you are ordering new equipment, don’t order any until you get your space secured. I’ve heard too many horror stories to go down that road.

Expect the unexpected. There will be a fundamental problem with your space that you didn’t anticipate, so budget some contingency for your build out.

Engage with architects, engineers and other professionals from the get-go. They will help you understand what is needed and what is to come.

Don’t lock yourself into a size of brewery, type of brewery or anything else until you find your space. We totally changed our strategy based on the space we found. Committing to a space is important to do before you commit to a type of brewery you are creating.

Last and most importantly, PRAY. Thats right, because when you find a space that seems really good, I can guarantee that there will be someone else who also finds the space really good, brewery or otherwise. There is a lack of good space, and expect landlords hold all the power to pick who they work with.

So now, the process of starting a brewery truly begins. It is hard to believe that from the time I started to write a business plan to this point in my life has been 5 years. So patience, if not a inherent characteristic you have, will definitely be something that you develop. If you don’t, I would say that your journey into the world of starting a brewery might be a short one.

Today will be my last shave, and I can start officially telling people that we have a space to brew our beer. Many thanks to all those people who helped encourage and support us in getting to this point. Without all that you have given to this process, I am afraid I wouldn’t have been able to do it.

This entry was posted in Business Side of Things, Financial and tagged City of Vancouver, craft beer BC, East Vancouver, Follow Your Dreams, How to start a Craft Brewery, Microbrewery, signing a lease, Starting a brewery, Tasting Room on January 31, 2014.

Damn Exchange rate!

1 Reply

Well what a bad surprise we received today about purchasing our equipment. Instead of our equipment costing us about $550,000, we just got a 10% surcharge! I blame myself, and I would recommend to anyone else who plans on starting a brewery to take note. Watch the exchange rates and know the forecasts! When a business needs to order equipment, fluctuations in the exchange rate can have a massive impact on costs.

Let me give you an example, from the time that we wrote our business plan about 4 years ago to today, the Canadian dollar has gone from about $0.95 Canadian for $1 American to what it is today $1.09 Canadian for $1 American. As you can imagine this is crushing, and seeing the Canadian dollar lose $0.03 in one week, has become too much for us to handle. We are purchasing some US dollars.

Unfortunately, this means that the cost of every dollar in equipment we buy, will now cost us about $0.10 more. Just so you know, here are the costs for our equipment, at least what we have budgeted in our plan:

Brewhouse $250,000

Bottler $100,000

Fermenters and Conditioning Tanks $150,000

Misc Equipment $50,000

So all the costs of this equipment just went from $550,000 to about $605,000, as the suppliers we are working with accept American money only. That sucks so hard I can’t even begin to tell you. I feel so stupid for not thinking ahead to this possibility and changing some money over months ago. If we had done this even just 2 months ago we would have saved about $25,000 in costs.

So this leads us to a point that we must now consider. Do we raise more money to pay for this cost overrun? Do we look to purchase our equipment locally? Or do we reduce the size of our equipment and shave some costs off that way? Maybe there is a combination of a couple of these to make it work.

At the end of the day, there isn’t much that we can do about this. All we can do is manage our actions from here on out. It is a tough lesson for us to learn, and while there isn’t a lot that I can do about this, I can at least help someone else out to save some money.

This entry was posted in Financial and tagged #F&%$, BC, Brewhouse, Craft beer, East Vancouver, Exchange Rate, Microbrewery, name my brewery, Purchasing Equipment, Starting a brewery, Vancouver on January 11, 2014.

General Update on Things

5 Replies

I have received some feedback lately around wanting a general update on our progress. There seems to be genuine interest in how the overall project is going versus what we are encountering on a daily basis. As such, this post is a little more of a general update on our progress rather than a general rant about this process, or a specific detail of things.

So as you likely know, we have submitted a development permit to the City of Vancouver for a space in East Vancouver. On Thursday of last week, we were told we’ll be given an answer on this permit in the next couple weeks. We are waiting for this permit, as we can’t lease the space we are interested in without first getting approval to brew there by the City. In Vancouver, the only buildings that you can outright lease and know with certainty you can brew is M2. The trick is that there isn’t a lot of M2 zones, and the buildings we were looking at in M2 just weren’t right for us. So we ended up in an I2 zone, which is one where brewing beer is conditional upon submitting a development permit. Any potential for us to use this space hinges on getting this permit, so we are waiting with fingers crossed to get good news. As of Nov 18th, no news!

Another big process is collecting and securing money from investors. Luckily, an investment in our brewery is eligible for the eBC tax credit, which basically means that 30% of each investors money is returned to them in the form of a credit from the government of BC. It looks like we need to raise over $1,100,000 so everything we can do to help secure “financial partners” is welcomed with open arms. We are going to be collecting money in the next 2 weeks from our investors, so I hope that what people have committed is what they are going to offer us. If not, I am sure I will post something around my frustration with this.

Financing is another part of the business that is really important. We will need both an operating loan and a line of credit in order to make the business float during the crucial first couple years. Opening a brewery can be a recipe for financial hardship, as the line between profit and loss on a monthly basis is razor thin. If sales fall behind a little bit, and costs are a little higher than expected, money can go out the window very quickly. Luckily for us we were approved for a loan and line of credit to make our finances come together. These will total about $450,000, and when added to the money we are raising we feel like we should be in a good position to make things work.

The layout of our space and submission for building permits is something we have been working very hard towards. In fact, this has taken the majority of our time of late. With the arrival of our Development permit by the end of November <fingers crossed>, we would like to have our building permit submission ready to go. This means that we need to have the layout of the space virtually complete, have the work needed by engineers complete, have all the drawings and work from our architect complete, and to have all other inputs ready to go. It seems really easy when I sit here and type this, but the reality is that there are so many moving parts to this, that it is incredibly complicated and difficult to carry out. Finalizing the layout of our space has taken us over 8 weeks, as there are SO MANY variables to consider. For example: Needs now versus in the future when we grow, tasting room connection to brewing space, retail area, production flow and functionality, the location of existing services, proximity of different spaces that need to be connected, etc, etc.

Equipment is something that we need to have ready to go, so that we can be sure it is ready in time for production. We have looked to China, Europe, Canada and the USA for our brewhouse and tanks. To be honest, I can see why this step can be either really easy, or one of the most difficult steps. No two quotes seem to be alike, and the unknown factors of quality, timeliness of delivery, and follow-up support make these intangibles even harder to gauge in terms of importance. A big hurdle to buying Canadian is the price. Companies like Newlands and Specific Mechanical are local and have a good reputation in the business, but their prices are among the highest. Moreover, it sounds as though some of the other start-up breweries have experienced some trouble with them. Then there are the systems from Europe, where the quality is top notch, and the price matches. Moving East to China, the land of cheap equipment, but one where the after sale service is poor, and other local breweries have experienced trouble with having to repair brand new equipment. All of these things make choosing one company to work with very difficult. At the end of the day, it is a balance between all these things, and hopefully one company stands out as the best. At this point, we have no idea which one it will be.

Another huge part of this process is our name. For the time being we are letting this one go for a few weeks. While we don’t have an official name yet, the focus groups we ran were instrumental in getting us closer to making this choice. The only problem is that we are putting out other fires that are more important at this time. Things like financing, layout, legals, accounting, etc. We anticipate having our name by the end of the year, and that should give us 8 months to create a brand around this. I hope this is enough time and that we make decisions that are based on sound principles.

The legal side of things is something we kind of let slip and caused us a lot of grief and unnecessary stress. In order to raise money and run a proper incorporated company you need to have: A shareholders agreement (aka a partnership agreement), a subscription agreement, a set of articles for your company, and a share ownership agreement. All of these documents are tedious to create, and require the hard work of a legal team. Reviewing and revising take a lot of time and mean that you are continually working on getting these documents ready so that you can raise money, and provide a framework to investors on how your company will operate.

There are literally hundreds of other little things to do, some of which are major and some of which are minor pieces of major components. There seems to be nothing that isn’t important in some way to the overall picture of this brewery. To be honest, I would love to find the time to blog about all these things, but I just feel too much pressure to write about them, rather than working away at them.

This entry was posted in Brewhouse, Business Side of Things, Financial, Marketing, The Journey and tagged BC craft beer, British Columbia, Building Permits, Business, City of Vancouver, craft beer to do list, East Vancouver, Entrepreneurs to do list, Im Starting A Craft Brewery, Line of credit, Starting A Craft Brewery, Vancouver on November 18, 2013.

Lease versus Buy Equipment

Leave a reply

Well if needing to raise $1.2 million dollars isn’t enough of a mountain to climb in order to open a brewery, don’t forget the line of credit of about $250,000 you will need to keep your operations solvent until you break even on a monthly basis. For our operations, we are projecting about 16-18 months before we break even. When you really look at the reality of opening a brewery, you almost think it would be better to head down to the River Rock Casino and see if you couldn’t do better than owning a brewery.

There is one major way to mitigate the risk associated with starting a brewery: Lease your capital equipment. It is a novel idea that can amortize the capital cost of equipment over a longer period of time, and help ensure short term liquidity during the crucial first few years of owning a brewery.

My personality is not one that is geared towards leasing anything. I have never leased a car, as I think it is better to own something outright with a loan, than it is to just pay for use. In fact, throughout my career as a salesperson, I never leased a car. So leasing the brewhouse is not something that I ever thought was going to be an option. But I have been told by more than a few people that there are some benefits, so lets take a look at the Pro’s and Con’s of leasing:

Pro’s of Leasing Equipment:

Leases are tax deductible: The whole lease payment is a straight write-off, which is easy

You can afford a nicer/bigger/more reliable system as the cost will be amortized over a 5 year period (in our case it would be)

Few upfront costs associated with lease and the details of taxes, etc are handled by someone else

Don’t need a down payment, as all the actual payment of the equipment is handled by the leasing company

Spread the cost of the equipment from upfront when you have zero revenue, to a time period when (in theory) you have good revenue in order to pay for the equipment.

At the end of an equipment lease, you own the items you leased. There is no payment like with a car, you simply own the stuff you bought.

Con’s of Leasing Equipment:

If our business fails, we are still bound to pay for the lease until it is complete, and the equipment is owned by the bank, meaning our biggest asset is in the hands of someone else until we pay it off in full

With a lease, you may have additional cash during the first couple years, but it makes cash flow a little harder in years 3-5 as you have an extra charge on your cash flow

Once you sign a lease, you are bound to the lease

Over the course of a lease, you spend about 5% of the total amount owing per year in payments to someone else, which can add up quickly when you are looking at $500,000 in leasing.

I am sure there are other points for and against leasing equipment. When I spoke with my accountant, he said something that stuck with me, and I hope to keep in the forefront of my mind when it comes to this kind of thing: Do whatever makes your cash flow better. Simple enough right ….. well not so fast.

Like everything in this process, and I sound like a broken record, there is a decision to make. Sacrifice better cash flow in years 1 and 2 for worse cash flow in years 3 to 5. Or vice versa! It seems to be a universally known that a lack of cash sinks businesses. Cash Is KING! Well, under that scenario, a lease agreement seems to make logical sense.

So into my cash flow I went, and put in leasing equipment, and voila out popped the results! Enter dramatic music here …. It didn’t work out as well as I thought it would. In fact, it saddled operations down the line with those extra payments, when that cash (and lost money on interest) could be better allocated to other facets of the business. Help! I have a meeting on Monday with our accountant, and I hope to get his expert advice on what we should do. I wonder which way he will go? Do you have an opinion?

In my opinion, I think we will lease some of our equipment, but at this point I don’t believe leasing all of the equipment is worth it. The $10,000 per month in lease costs help in the short term, but not the long term. One thing is for sure …. its just another decision to make, and one that is crucial to ST and LT success of the brewery.

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