

Southern Tier Brewing: Family-ownership of a high growth brewery

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ABSTRACT

Southern Tier Brewing Company is a decade old success story in the high growth craft brewing industry in the U.S. The case study highlights strategies the family business has used to realize bold goals including family ownership, high quality and innovative products, pioneering and inexpensive Internet marketing strategies to build their brand and building strong relationships with distributors.

Keywords: case study, business case, craft brewing, small business case



INTRODUCTION

Sara DeMink smiles when asked if any of her three sons – a 9 year old and 7 year old twins – have expressed an interest in taking over the successful 10 year old Southern Tier Brewery that she and her husband Phin have built. She responds: “When they have Career Day in school, our boys announce that they want to grow up to be brewers. The rest of the class doesn’t even know what that means.” But she does. Her dream of building a family enterprise opportunity that her boys can enjoy, if they so desire, might be realized. Sara and Phin have enjoyed every day of their work and hope their children will know that experience.

HISTORY OF SOUTHERN TIER

The “Southern Tier” of New York includes the counties that border Pennsylvania west of the Catskills. Southern Tier Brewing Company is located in Lakewood, New York, near Jamestown and Chautauqua Lake (in Chautauqua County). The area is known for tourism and a variety of industries including manufacturing, farming, education and wineries. Of most significance for the firm’s location, the region is the hometown of Sara DeMink, who along with her husband Phineas “Phin”, co-own the successful brewery and the adjoining Empty Pint Pub – a popular destination for Chautauqua Lake tourists and residents alike. Phil serves as president and brewer and Sara is vice president with responsibilities for the financials. Like most family firms, Sara and Phin started the brewery with financial and entrepreneurial support from family, in this case, Sara’s Dad Allen “Skip” Yahn, who owned nearby Holiday Valley Resort in Ellicottville, New York. Consistently rated a top 10 Northeastern USA ski resort (even referred to as the “Aspen of the East”), Skip’s experience, networks and determination all set the stage for the family members to realize their vision of reviving small batch brewing to a region rich in brewing tradition.

Phin’s contribution was his high quality brewing skills. He earned a degree from the Seibal Institute of Technology - the nation’s oldest brewing school. After graduation, he was a head brewer with Goose Isle in Chicago – arguable the region’s favorite brewer. Phil and Sara wanted to start their own brewery and knew that they needed a different strategy to build the craft beer market in different regions rather than trying to compete against the Goose Isle brand in Chicago where start-up and distribution expenses were barriers for new competitors. Sara provided the financial expertise for the enterprise.

In 2002, with equipment gained from the purchase of the Old Saddleback Brewing Co. in Pittsfield, Massachusetts, the Southern Tier Brewing Company (STB) began production in the Stoneman Business Park just outside of Lakewood, New York, near Sara’s childhood home. By 2003, select varieties of small batch ales were locally distributed, and by 2005, sales covered the majority of New York State and Pennsylvania. Before launching a successful roster of seasonal beers, the brewery produced Pilsner, Mild Ale, and India Pale Ale.

STB immediately garnered regional attention and demand for the product quickly outgrew what their modest facility could handle. In 2009, a new 20,000 square foot building was built for the purpose of brewing innovative, high-quality beer to accommodate an expanding customer base. In this new facility, the small brewery was able to grow and offer the product both nationally and internationally, while still satisfying its loyal fans.

Steadily growing, throughout 2010 it became clear that more beer needed to be produced to satisfy a growing customer base. The company added 800 barrels of fermentation vessels and

a 7500 square foot addition was added for use as a conditioning room. The constantly running brew house was expanded and updated from 20 BBL to a 50BBL system. In keeping pace with the expanded brewing capacity, the company replaced its bottling system. In keeping pace with the expanded brewing capacity, the company replaced its bottling line with the most high-tech, state of the art bottling line of its size in North America. The line fills, caps and labels an impressive 10,000 bottles per hour at full speed. The cellar has been expanded to allow for more than 3200 BBL of fermentation space as of late 2011. There were 38,000 BBL produced in 2011. In 2012 expansion continued with the purchase of a 110 BBL brew house from Germany as well as 6- 600 Barrel Fomenters from Germany which will in total increase production capabilities to 150,000 barrels for future growth. Production in 2012 will close at 72,000 barrels. The product is distributed to more than half the United States and several foreign countries.

MARKETING

Word of mouth is a primary marketing strategy. STB strategy of brewing the highest quality beer has created a loyal group of customers similar to that in the organic, local and non-gmo food movement.

The growth of STB has relied on the use of social networking, especially Facebook and Twitter. There is little effort made to advertise such as by participating in competitions or via traditional media, other than an occasional ad in BeerAdvocate magazine. Marketing is really reserved to new media, mainly our website, Facebook and Twitter.

When viewing Facebook, it is evident that there is a cult following for the site and beer that is hard to describe, even by the owner!!

STB veers from the rest of the industry in terms of aggressive marketing campaigns, and more interestingly in implementing their unwritten rule: No gender exploitation, and no discrimination (age or otherwise). Advertising by Labatt's, Coors, etc., includes women in bikinis and men fully dressed. Who are they marketing to? STB philosophy suggests that is a misogynistic and pandering to a mentality that belies the craft beer aesthetic. There's no need to market-down to broaden our customer base. Any given night at the STB pub is an indicator of the wide demographic attracted, from early 20s to late 80s.

DISTRIBUTOR PARTNERSHIP

Consumers can indeed purchase beer directly from Southern Tier at the brewery and pub location. For consumers not in the region, the only way to purchase the beer is through their robust network of distributors located throughout more than half of the US, parts of Canada, Europe, Asia and Australia. They order the beer from Southern Tier Brewery (through the sales team, Elite Beverages in Warsaw, NY). Southern Tier make the beer, packages and ship it. Once the beer leaves the brewery, it is the responsibility of the distributor to sell it as they own it. One of the ongoing issues for Southern Tier is inventory management. When beer sales outstrip inventory, distributors have no choice but to replace the brand with a competitor to hold their shelf space.

Southern Tier's Marketing Director Nathan Arnone reflected on the importance of distributors in marketing STB:

"Our distributors use cap and t-shirt giveaway promotions in retail shops or special events. We sell hundreds of neon signs every year, as well as flags and other POS items, like tin

signs. This is really our only budget for advertising. I spend an hour or so every day reading through posts on Facebook and Twitter and emails that come in through our website. I try to answer every question or comment if it warrants a response. Even those that are giving us kudos, I'll say "thanks and cheers!" or something along those lines. I believe the word of mouth, grassroots-style marketing has helped us get to where we are. Our customers are loyal, we can see that in our depletions.

We send brewers or Phin out to some markets to do in-restaurant or at retail tastings and beer dinners once in a while. In the last year or so we've been doing more and more of these via Skype. They've been easy for us, cost effective and entertaining for customers. We have two scheduled for this week. Another thing we've done is produced beers specifically for certain markets, NYC for example, for their "beer week". Typically these are in major cities, for a certain week of the year. We'll produce small batches that are draft-only, branded with something localized (5 Boroughs Belgian ale for NYC). These are fun for us in that we can experiment, and fun for customers because they're getting something that very few people have the opportunity to taste."

ALL IN THE FAMILY

Many family firms are in fact, family enterprises with several businesses belonging to the family. STB is no exception. In addition to initial financing and expertise provided by Sara's Dad, Skip Yahn, who owns nearby Holiday Valley Resort, Sara's sister Christine is also married to a brewer and brewery owner: Peter who owns the Ellicottville Brewing Company. Unlike Sara, Christine is not involved in the business.

The Ellicottville Brewing Company (EBC), is considered one of the finest American craft brewers, and has won no less than three International World Beer Championship Awards. It was started in 1995 and located in Ellicottville, NY, a ski destination in Western New York. It is primarily a restaurant with a brewery vs. STB, which is a brewery that has a popular pub, The Empty Pint. A large portion of the beer sold at EBC is made at the STB.

Skip's ownership interests in STB were completely sold to Sara and Phin in 2008 including releasing the firm's debt to them. They are now the only co-owners. They have continued the tradition they started with Skip of reinvesting in themselves through leverage and profits.

Skip is credited by the next generation for bringing an entrepreneurial, opportunistic mindset to their businesses. He is credited for building a fledging Resort in the Southern Tier, not far from the breweries he helped start. His dedicated work and understanding of the importance in hiring, developing and retaining non-family members as if they were his own, helped establish an organizational culture for the breweries that the children define as a key contributor to their success. As they grew and hired more employees, the next generation fully understood the significance of their willingness to do any task needed to be done as key to getting buy-in from their employees. It was easy to establish such a deep trust and commitment because they love what they do. Their employees are extended family members.

Not surprisingly, Skip brought personal capital and leverage commitments along with the next generation to build successful breweries and pubs. Additionally, he brought his well-developed networks from his extensive business background in when useful.

When asked about additional values Sara and Phin attribute to being family-owned, Sara describes the financial strategies that Skip helped them to integrate. They included:

100% Family Ownership – they control all aspects of the business and it is their hope that the enterprises will stay family-owned.

Quality – the breweries products are of the highest quality and command a premium price. This has a direct result on marketing results and the fact that they do not need to promote their product as much as competitors do.

Frugality – a staple during start-up and tumultuous times, the family maintains a frugal approach even when they notice other brewers who have turned the corner financially begin to loosen up on this value.

Leverage – the family carefully borrows to grow the business, paying back debt quickly.

Reinvestment – the owners reinvest in themselves which has allowed them to double production and sales over the last two years.

Community Involvement and Investment – the breweries are in the hometowns of the sister-owners. They are involved in several charities and as profitable trends were clear, they began investing in community charities.

Legacy – perhaps the biggest sign of a promising success to the next generation of three young boys is when they report at school career days: “*I want to be a brewer when I grow up.*”

CONCLUSION

Southern Tier Brewing, located in Lakewood, New York, is one of the many successful craft breweries creating a high quality product and brand that has facilitated significant growth over the last decade. High quality and innovative products, inexpensive yet state-of-the art Internet Marketing and the resources that come inherently from being family-owned, have been the main strategies implemented to realize bold business goals.

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APPENDIX I - THE CRAFT BREWING INDUSTRY

The Brewers Association provides the following facts regarding craft brewing:

- Craft brewers currently provide an estimated 103,585 jobs in the U.S., including serving staff in brewpubs.
- Growth of the craft brewing industry in 2011 was 13% by volume and 15% by dollars compared to growth in 2010 of 12% by volume and 15% by dollars.
- Craft brewers sold an estimated 11,468,152 barrels* of beer in 2011, up from 10,133,571 in 2010.
- The craft brewing sales share in 2011 was 5.7% by volume and 9.1% by dollars.
- Craft brewer retail dollar value in 2011 was an estimated \$8.7 billion, up from \$7.6 billion in 2010.
- As of March 26, 2012, the Brewers Association is aware of 250 brewery openings in 2011 (174 microbreweries and 76 brewpubs) and 37 brewery closings (12 microbreweries and 25 brewpubs).
- 1,940 craft breweries operated for some or all of 2011, comprised of 1,063 brewpubs, 789 microbreweries and 88 regional craft breweries.

In comparison, other key facts of the industry include:

- Overall U.S. beer sales were down an estimated 1.3% by volume in 2011, 1.2% in 2010.
- Imported beer sales were up 1% in 2011 and up 5% in 2010.
- Overall U.S. beer sales were approximately 199,937,239 barrels and imported beer sales were 27,238,339 barrels in 2010.
- 1,989 total breweries operated for some or all of 2011, the highest total since the 1880s.
1 barrel = 31 US gallons
- Growth of the craft brewing industry in 2011 was 13% by volume and 15% by retail dollars.

2011 Craft Beer Industry Production Volume

Regional craft breweries	9,029,607 bbl
Contract brewing companies	228,504 bbl
Microbreweries	1,441,505 bbl
Brewpubs	768,536 bbl
Domestic Craft Beer Sales	
2011	11,468,152 barrels
2010	10,133,571 barrels

How big is the US beer market?

Overall US Beer Market in 2011:

- Down 1%
- Approximately \$96 billion
- Selling 199,937,239 barrels of beer.

Where:

- 1 barrel = 31 US gallons
- 31 US gallons = 2 half-barrels
- 2 half-barrels (15.5 gallon) kegs = 13.78 cases (of 24 12-ounce bottles).

See [Craft Brewer Defined](#) for more details on industry definitions.**Update:** [Brewers Association Reports 2011 Mid-Year Growth For U.S. Craft Brewers](#)**Important Information****US Breweries operating for some or all of 2011**

Brewpubs				1,063
Microbreweries				789
Regional Craft Breweries				88
Total US Craft Breweries				1,938
Large Non-Craft Breweries				21
Other Breweries				30
Total US Breweries				1,989
US Breweries Operating in 2010		US Breweries Operating in 2009		
81	Regional Craft Breweries	71	Regional Craft Breweries	
615	Microbreweries	505	Microbreweries	
1,053	Brewpubs	1,020	Brewpubs	
1,749	Total Craft Breweries	1,596	Total Craft Breweries	
21	Large Breweries (Non-Craft)	21	Large Breweries	
23	Other Non-Craft Breweries	22	Other Non-Craft Breweries	
1,793	Total US Breweries	1,639	Total US Breweries	
2011 US Openings		2010 US Openings		
76	Brewpubs	57	Brewpubs	

174	Microbreweries	97	Microbreweries
		1	Regional Brewery
2011 US Closings		2010 US Closings	
25	Brewpubs	49	Brewpubs
12	Microbreweries	13	Microbreweries

The craft beer industry is defined by four distinct markets: brewpubs, microbreweries, regional craft breweries, and contract brewing companies.

Microbrewery: A brewery that produces less than 15,000 barrels (17,600 hectoliters) of beer per year with 75% or more of its beer sold off-site. Microbreweries sell to the public by one or more of the following methods: the traditional three-tier system (brewer to wholesaler to retailer to consumer); the two-tier system (brewer acting as wholesaler to retailer to consumer); and, directly to the consumer through carryouts and/or on-site tap-room or restaurant sales.

Brewpub: A restaurant-brewery that sells 25% or more of its beer on site. The beer is brewed primarily for sale in the restaurant and bar. The beer is often dispensed directly from the brewery's storage tanks. Where allowed by law, brewpubs often sell beer "to go" and /or distribute to off site accounts. Note: BA re-categorizes a company as a microbrewery if its off-site (distributed) beer sales exceed 75%.

Contract Brewing Company: A business that hires another brewery to produce its beer. It can also be a brewery that hires another brewery to produce additional beer. The contract brewing company handles marketing, sales, and distribution of its beer, while generally leaving the brewing and packaging to its producer-brewery (which, confusingly, is also sometimes referred to as a contract brewery).

Regional Brewery: A brewery with an annual beer production of between 15,000 and 6,000,000 barrels.

Regional Craft Brewery: An independent regional brewery who has either an all malt flagship or has at least 50% of its volume in either all malt beers or in beers which use adjuncts to enhance rather than lighten flavor.

Large Brewery: A brewery with an annual beer production over 6,000,000 barrels.

An American craft brewer is small, independent and traditional.

Small: Annual production of 6 million barrels of beer or less. Beer production is attributed to a brewer according to the rules of alternating proprietorships. Flavored malt beverages are not considered beer for purposes of this definition.

Independent: Less than 25% of the craft brewery is owned or controlled (or equivalent economic interest) by an alcoholic beverage industry member who is not themselves a craft brewer.

Traditional: A brewer who has either an all malt flagship (the beer which represents the greatest volume among that brewers brands) or has at least 50% of its volume in either all malt beers or in beers which use adjuncts to enhance rather than lighten flavor.

The following are some concepts related to craft beer and craft brewers:

- Craft brewers are small brewers.
- The hallmark of craft beer and craft brewers is innovation. Craft brewers interpret historic styles with unique twists and develop new styles that have no precedent.
- Craft beer is generally made with traditional ingredients like malted barley; interesting and sometimes non-traditional ingredients are often added for distinctiveness.
- Craft brewers tend to be very involved in their communities through philanthropy, product donations, volunteerism, and sponsorship of events.
- Craft brewers have distinctive, individualistic approaches to connecting with their customers.
- Craft brewers maintain integrity by what they brew and their general independence, free from a substantial interest by a non-craft brewer.
- The majority of Americans live within ten miles of a craft brewer.



TEACHING NOTES

This case can be used in a Family Business, Marketing or Strategy course.

Family Business analysis can include:

1. **Entrepreneurial Generations**
 1. Networks
 2. Highly Skilled
 3. Capital
2. **Family Values**
 1. Extended Family
 2. Hard Work
 3. Quality
 4. Financial Strategies
 1. 100% Ownership
 2. Frugality
 3. Leverage
 4. Reinvestment
 5. Patient Capital
3. **Community Involvement and Investment**
4. **Legacy** - *"I want to be a brewer when I grow up."*

General business analysis can include:

1. Generic Strategy & Porter's Forces
2. Value Chain
3. Distributorship
4. Innovation & Growth
5. Marketing

