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LEADERSHIP & BUSINESS PODCAST

EPISODE 53: CHRIS SMITH – THE CRAFT BREWERY BUSINESS

Ken White

From the College of William & Mary in Williamsburg, Virginia. This is Leadership & Business. The weekly podcast that brings you the latest and best thinking from today's business leaders from across the world. We share the strategies, tactics, and information that can make you a more effective leader, communicator, and professional. I'm your host Ken White. Thanks for listening. Well back in the day, when beer drinkers visited their favorite bars or restaurants, their choices were limited to a few national brands and maybe a regional brand. But times have changed. In 2008 craft breweries made up about 3 percent of total beer sales. Today the number of local craft breweries around the country has grown dramatically. And these small breweries are taking a bigger share of the market. Last year over 12 percent of all the beer purchased in the United States was produced and sold by local craft breweries. It's a 106 billion dollar market that's not only changed market share and sales but also the way people think about and consume beer in America. Chris Smith is the co-owner of the Virginia Beer Company, a craft brewery in Williamsburg, Virginia. He joins us on the podcast today to discuss the ins and outs of the craft brewery, the challenges of the business, and what lies ahead as America's taste for beer grows and changes. Here's our conversation with Chris Smith of the Virginia Beer Company.

Ken White

Chris, thank you for taking the time to join us.

Chris Smith

Thanks for having me, Ken. Appreciate it.

Ken White

I really wish we had a camera. This is the first time we've done podcasts in the past year that I said wow, because we're right here in the middle of Virginia Beer. Our audience might be able to hear the echo. You've got a tall ceiling in here and right through the glass. Tell us what we see actually through the glass.

Chris Smith

Okay, so we're looking through the windows in the taproom. We're looking into our production brewery. We're looking at a lot of stainless steel. We have 19 different stainless steel vessels. We're looking at a bunch of pallets of kegs. We do all the manufacturing work back there for all the beer we serve here and at restaurants.

Ken White

Wow. And this is the tap room where you and I are sitting, meaning more or less the bar area, right?

Chris Smith

It is, yeah. We have a 25 hundred-square-foot tap room, lots of tables, a bar. We serve eight beers here, have rotating food trucks. The days we're open live music a lot of different activities.

Ken White

So tell us about craft breweries. What is it? How do you define it?

Chris Smith

So craft breweries first came about in the 1970s. At that point in the U.S., we'd gotten down to very few open breweries, independent breweries about 25. And it started on the West Coast and grew pretty steadily. They're small, independently owned have the highest standards in terms of the ingredients that they use and the processes in the manufacturing. And today, we're actually at forty-five hundred breweries in United States craft breweries which is in pretty incredible number. It's the most breweries we've ever had in the United States. And so we all pride ourselves on all those things I mentioned.

Ken White

Yeah.

Chris Smith

Really working hard at what we do and being local and independent.

Ken White

How did you get into the field?

Chris Smith

So this was not my first career.

Ken White

Right.

Chris Smith

I worked at JP Morgan in New York City after graduating from William & Mary. I spent six years there, and my first day was on July 13th, 2007, and that was the day I knew I wanted to open a brewery. So I did a lot of research. I'd been talking about it with my co-founder here, Robby Willey, also a William & Mary alum. And it was kind of a vague idea, but at that, by that time, we really decided it was something we wanted to do. Did a lot of research, many, many years of research, and finally, in 2012, we decided that this was definitely going to happen, and it was going to happen in Williamsburg.

Ken White

And it looks it's just a fascinating place. It's really fun. Right before we started to record, we were talking about the customers you serve. It's not a millennial-only business. It's not a boomer-only business. You're seeing everybody here.

Chris Smith

Yeah, we see a very wide range of people from all different walks of life, all different ages, and something we're really happy about. We envisioned our space here as a community gathering spot, something we have some in Williamsburg. We didn't think we had enough. We thought we could be that kind of place, and we see families. We have tons of kids that run through here. We see couples, we see, we literally see everybody. We could set up a playground. I'm sure we have kids all the time.

Ken White

So you said in the taproom in the bar, you've got eight different beers going, so how does it work? That's a lot of different types of beers coming out of a relatively small brewery compared to a major facility. How do you decide what's on tap and what you sell?

Chris Smith

Yes, it is a little bit different. It's a lot of beers. We have a we have somewhat of a unique model. We decided that we would invest in two brewing systems of two different sizes. So the way to grow your brewery over time is have a big brewery system and produce a lot of beer. We wanted that for our brewery, but we also wanted to present a lot of variety to our customers. So we bought a smaller brewing system, and that gives us the ability to have a new beer on tap in the tap room almost every single week. It is a little different. We were always doing new recipes new things for people to try. It keeps people coming back to our tap room over and over and over instead of just having the same four beers on tap, and people getting bored of those over time.

Ken White

Yeah, people really appreciate the variety, don't they?

Chris Smith

They do. I think it's what they really come for. We make a big deal of releasing each new beer because it gets the same people back in the door every single time. People love seeing we have a sampler of all eight beers. People love looking at the different colors and tasting all the different beers.

Ken White

What happens when you brew something and it is a major hit? People just love it, and you were intending to have a short run.

Chris Smith

Yeah, so we're obviously very happy about it at first and then and then we just scale it up to our bigger brewing system. It's the perfect R&D lab, that little system that we have in the back. The little system produces about ten kegs at a time. On the bigger system, we can do 60. So it's easy for us to scale it up and bring it back, and a lot of people already excited for it.

Ken White

And you have a brewmaster.

Chris Smith

We do. Yeah. Robby and I are both home brewers. One thing I'll give us credit for we are smart enough to know that no one would actually want to pay for our homebrew. Not that it was terrible, but it's probably not worth that much money. So we, one of the first things we did when we decided to open the brewery was go out and look for a brewmaster, and we found someone very qualified to do this. He brewed at Sweetwater brewing in Atlanta before he joined us. So he's had a lot of experience large production. His name is Jonathan Newman, and we're very lucky to have him here.

Ken White

What about ingredients? How do you choose that? How does that work?

Chris Smith

So we order a lot of different ingredients. It depends on the recipe, and everything changes. But we basically have four main components of all of our beers. Standard for everybody a cereal grain, so usually barley we use wheat, we use rye as well. A few other grains, spelt, hops which are the hardest ingredients to get your hands on and sort of the

most complicated. Yeast which we source locally from a yeast lab up in Richmond, RVA yeast labs, and then water which we're lucky to get from the city of Williamsburg.

Ken White

Yeah, so much of it is local and regional in terms of the ingredients.

Chris Smith

We try to do as much as we can. Most of our barley comes from Canada. Just you know where it's grown. We do get some local malts. Actually, we have a new distillery here in town called Copper Fox distillery. They're less than a mile up the road from us, and they malt their own barley and wheat and rye. So we actually really enjoy starting to use some of their Virginia-grown crop, and then our hops are grown in Virginia. It's definitely coming on pretty strong, a lot of farms planting, but the vast majority of hops are grown in the Pacific Northwest. So that's where we get most of our hops.

Ken White

Sure before we started to record, you were talking about some of the unique qualities of the business. This is not a retail outlet. It's not a manufacturing. It's not wholesale. It's everything. Can you talk us through that process?

Chris Smith

Yeah. So we do all three, and I think, as I mentioned, I didn't appreciate the complexity of how they all are interwoven until we actually got into this business and started running it. So we have our entire manufacturing business, and we have our own staff that works in the brewery. We have all the ordering, all the inventory, all the packaging that goes along with that process. We have a tap room up here, which is our retail operation. We have a staff that runs our tap room. We're open five days a week right now. There's a lot to do up here. We run a lot of events here. We do charity events. We do live music. We schedule food trucks for every single day. So there's a lot that goes into managing up here as well. And then some of the beer we make in the back. If it's not sold through our tap room, we sell it to local restaurants and bars, and that's obviously an entire sales operation.

Ken White

Right.

Chris Smith

So we don't have a sales team yet, but Robby and I are out on the street from Williamsburg to Virginia Beach as often as we can be, hand-selling our product.

Ken White

We'll continue our discussion with Chris Smith in just a minute. Our podcast is brought to you by the Center for Corporate Education at the College of William & Mary's Raymond A. Mason School of Business. The Center for Corporate Education can help you get to the next level with its certificate in business management program coming up in late October. It's a five-day program for the professional who lacks an MBA, has been out of the classroom for some time or wants to improve on critical business and leadership skills. Each day is devoted to one topic, including communication, leadership, strategy, managerial accounting, and organizational effectiveness. For more information on the certificate in business management program, visit our website at wmleadership.com. Now back to our conversation with Chris Smith on the craft brewery landscape.

Ken White

In terms of selling directly to restaurants to grocery stores, there are some regulations and issues that you have to be aware of and deal with. Can you tell us about that?

Chris Smith

So distribution across the country is actually challenging. It's different state by state, but in Virginia, the way it works is that you're required to sell your beer to a restaurant bar through a wholesaler. It's basically a middleman. So you have to sign a contract with that wholesaler. And once you sign that contract, you're in it for life. You're never getting out of that contract. They're called franchise laws, and they're very strong in Virginia. And I don't think single brewery's ever actually gotten out of one of those contracts. So it presents a challenge for us. It does for us on to doing good work here because we have to make great beer. We need to make sure that that wholesaler wants to sell it, and we'll make them money.

Ken White

Right.

Chris Smith

So in some ways, you can look at it as a positive, and other ways, you can look at it as a negative.

Ken White

What about regulations in addition to the franchise laws? Are there other regulations?

Chris Smith

Yes, we're very highly regulated. Within Virginia, we're regulated by the Virginia ABC. They oversee everything we do on the retail side, on the wholesale side, on the

production side. We submit a lot of reports to them. On the federal level, we are regulated by the Alcohol and Tobacco Tax and Trade Bureau. They also have a lot of oversight. The FDA is also involved with us. So we're dealing with a lot of agencies.

Ken White

Absolutely. I can imagine you didn't even know what you didn't know when you first started.

Chris Smith

No, I'm happy we didn't cause I'm not sure we'd be sitting here today.

Ken White

Yeah. So it has been a tremendous growth, as you said earlier in the last, maybe even less than the decade where up to forty-five hundred craft breweries. What's the future looking like? How is it competitive-wise and just the marketplace?

Chris Smith

It's changing very rapidly. Where last year, they're about two new breweries open every single week of the year, and only 70 closed in the entire country. So you can see kind of what's happening right now. This year we're on pace for about three every single week. So its breweries are becoming more localized. That's one thing that's definitely happening. Most of these new breweries that are opening are very small. In terms of startups, we're actually on the bigger side. We have beers measured in barrels. Thirty-one gallons is a barrel. We have sixty-five hundred barrels of annual capacity here. Most startups are below a thousand.

Ken White

Where are the growth opportunities?

Chris Smith

So the growth opportunities are first within your home market. That's a big thing for us. We're really working hard to make sure that we are the brewery for Williamsburg and the Tidewater area. But beyond that, it's getting harder all the time to sell your beer. Especially with the localization happening when we go to Maryland, we're not a local brewery in Maryland. Whereas ten years ago, we might have been considered a local brewery. So one of the things we're looking at and strongly considering its kind of direction we want to go is export. There are great growth opportunities outside the United States. Canada is a very big market. Western Europe, a lot of Asia, a lot of craft beer exported in that direction but only 200 of those 4,500 breweries export. So hopefully us, in the future, for the Virginia Beer Company.

Ken White

When anyone listening to the podcast has traveled abroad, beer is very different. So do you change it, or is it your recipe? Is it sort of an American craft beer from Virginia going over to whatever happened to be that country?

Chris Smith

The appeal for the consumers in those areas is that it's our beer. Those countries are also changing their beers changing but slowly, and they're well behind the curve based on what's happening in America. So Germany is seeing new craft breweries where it has been very traditional in the past. Same in England. Same in Italy. So they have this. The consumers there have this craving for what they perceive as the craziness of American craft beer, all these new recipes, and new ways of producing great beers. So we'll definitely be sending what we make here.

Ken White

Yeah, it seems. And please correct me if I'm wrong. A great way to promote is through festivals.

Chris Smith

Yes.

Ken White

Right. Tell us about those.

Chris Smith

We're always at festivals. We have one this weekend. So beer festivals have kind of sprung up everywhere in the last few years, typically anywhere from 10 to 100 breweries in one spot.

Ken White

Wow.

Chris Smith

And you know you buy your ticket, you come and sample everything people like variety. That's really what we see from our research. The numbers that we look at here in the brewery people will always want something new. So they'll come to that festival, they get to try 50 beers in one place, and it's a great way for us to tell our story to people face to face people we can't necessarily get to our tap room. That's the best way for us to sell our business and how we do business.

Ken White

You know, back in the day, I tended bar in college, and nobody wanted different. Right. That they had their brand, and that was it. And God forbid you didn't have it and have it cold that night, or you were going to hear about it. So now the customer wants variety they want to what is it. What happened? What is it about the customer?

Chris Smith

I think it's just the changing tastes of America in general. A lot of what we're seeing in the alcoholic beverage sphere is also being applied to food. It's presenting a huge challenge actually for us because talking going back to the distribution side when we're trying to sell to a restaurant or bar, it used to be that there were eight beers on tap, and there were always the same eight, and if you happen to have one of those draft lines it's a great account for you.

Ken White

Yup.

Chris Smith

Now it's all rotation. So we can go into a bar. We can taste the beer with them. They can buy it. Two weeks later, we go back. They ran through that keg, and there's a different brewery on tap because people want something new.

Ken White

Yeah.

Chris Smith

So definitely presents a huge challenge.

Ken White

Awards. How important is that? You just won one would you tell us about that?

Chris Smith

We did. Yes. Thank you. We received a Silver Medal for one of our Belgian-style Saisons at the Virginia craft brewers cup awards earlier this week. We're open five months, and we're pretty pleased that we nabbed one in the first year. They're a big deal. Probably more so within the industry and with the people who are really loving craft beer and are really involved. We love being able to say it. So we're very pleased. The big awards are in October every year. There's great American beer festival is held in Denver every single year, and those are the major awards. So we're hopeful that we'll get one then.

Ken White

If someone has not been to a craft brewery which is kind of hard to believe because they are so popular. What do you tell them? Why should they experience it?

Chris Smith

Most breweries try to create a different experience from the bars and restaurants that you might frequent. That was a big goal for us. We focused entirely on the experience of the consumer that walks into our brewery. We want it to feel like we get a lot of feedback that it feels like a big house party, especially when we have live music and there are people everywhere and that people do seem to have a great time. It's familiar. They run into people they know. It's not intimidating. We do hear that people think craft beer is intimidating. It's really not meant to be. We try to create a very welcoming place for people that love craft beer have been drinking it for 20 years and for people who have never had anything but a Bud Light.

Ken White

For people for craft breweries who would like to expand bottling, canning are those options for those?

Chris Smith

Those that are draft beers are virtuous on-premise, and cans and bottles are virtuous off-premise. Off-premise is 80 percent of the beer market. So that's really where the growth is. We'll never know with the rotation happening in bars, and restaurants will never be able to sell enough draft beer to grow our business. So we'll be canning in hopefully early October. We have four year-round core brands those will all be in cans, and we'll distribute those through the area.

Ken White

That's our conversation with Chris Smith. And that's our podcast for this week. Leadership & Business is brought to you by the Center for Corporate Education at the College of William & Mary's Raymond A. Mason School of Business. The Center for Corporate Education can help you, and your organization get to the next level with a business and leadership development program that specifically fits your needs. If you are interested in learning more about the opportunities at the Center for Corporate Education for you or your organization, visit our website at wmleadership.com. Thanks to our guest this week, Chris Smith, and thanks to you for joining us. I'm Ken White. Until next time have a safe, happy, and productive week.