

ALSLJ Consulting

Hastings County Micro-Brewery

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EXECUTIVE SUMMARY

There is great potential for a micro-brewery to enter the market for beer in Hastings County. The brewery could market its product to smaller, local pubs and restaurants, a market with an estimated size of \$5.15 million. As the brewery matures, it will have the opportunity to expand its distribution network to larger scale operations, such as restaurant chains and the LCBO. There are currently two local brewers in the area, both of whom focus on the brewing experience rather than distributing their final product. In addition to the low degree of competition in the industry and Hastings County, there is an important level of demand to be met. Residents of Hastings County and tourists passing through the area will constitute the brewery's main target market. This segment is large, growing, and contains a wealthy demographic group known as "zoomers". The product will appeal to individuals seeking a unique, locally-crafted beer, as well as those consumers wishing to support local economic activity. To reach these segments, the micro-brewery should focus its marketing efforts on both distributors and end-users.

Four main ingredients are required to produce beer, and they must be individually purchased from suppliers. The brew-master will determine which sources he or she wishes to purchase from, given the list of regional and national providers. Local hops farmers will provide the hops, an essential beer ingredient. Due to the high volatility of hops prices, hedging mechanisms should be incorporated into the brewery's supply chain.

An entrepreneur must also take into account the legal factors and regulations concerning opening a micro-brewery. One must obtain a license from the Alcohol and Gaming Commission of Ontario in order to distribute alcohol to the public. Furthermore, a brew pub Endorsement will be required to sell alcohol on the production premises.

A pro-forma financial statement presents the micro-brewery's start-up costs and operational costs for two years. These estimations cover both capital costs and operating expenses, and lie within the \$850,000 to \$1,450,000 range.

OVERVIEW

Hastings County, located in Eastern Ontario, has been entertaining the idea of opening a micro-brewery in response to the growing interest from potential suppliers, distributors and customers. There are several local farmers who will be able to supply the hops used for brewing beer. Visitors travelling to the numerous hotels, bed and breakfasts, and cottages in the area form a potentially attractive market. The detailed environmental analysis for Hastings County can be found in **Exhibit 1: Hastings County Analysis**. The Department has recognized the success of small businesses and micro-breweries in other Ontario counties, and hopes to communicate the feasibility and opportunity to potential investors interested in Hastings County. Micro-brewing is part of the overall proposal to stimulate the County's economy by promoting tourism and re-generating downtown areas. This in turn will drive agriculture and attract knowledge workers with highly portable skills.

This report will provide an analysis of the beer market and industry in Hastings County, and an overview of the potential suppliers, distribution channels, and regulations to consider. Moreover, a financial analysis for Hastings County's prospective micro-brewery will be put forth.

MARKET ANALYSIS

The market for micro-brewed beer in Hastings County is currently under-penetrated. There are only two competitors in the area: Loyalist Brewers Ltd. and Bancroft Just Wine and Beer (see **Exhibit 2: Competitors in Hastings County**). Neither of these operations have a strong market presence, or a distribution chain that extends past its brewing location. They both focus on the experience of beer and wine-making as opposed to the final product they sell. As a result, these establishments will not compete directly with a new commercial micro-brewery in Hastings County. Although they address some of the same underlying market needs, such as buying locally produced beer, they appeal to a segment that corresponds to seeking tourism and entertainment rather than food and drink.

In the surrounding counties there are seven other competitors, however many of these establishments also focus on beer-making to attract customers. The most important competitor in the surrounding area is Barley Days Brewery (see **Exhibit 3: Competitors in Surrounding Counties**). This brewery has a strong marketing strategy and brand recognition. Their distribution channel is focused on pushing through the LCBO. Their beer is available throughout South-Eastern Ontario, yet they have only recently begun supplying their product to local restaurants.

Overall Beer Market

In Ontario, 7 million tera-litres of beer were sold in 2007, making the province the largest market for beer in Canada. There was also a 3% increase in consumption over 2006 (see **Exhibit 4: Beer Sales by Province**). Given strong market growth, as well as an increased interest in the “1000 mile diet” and other buy-local movements, there is certainly a market opportunity for a new microbrewery.

Customer Profile

Micro-brewed beer would appeal to baby-boomers and recent retirees, a demographic group referred to as “Zoomers.” The Zoomer population is large, wealthy, and growing (see **Exhibit 5: Customer Profiles**). Customers can be split into two broad categories:

1. Residents of Hastings County
2. Tourists visiting and passing through Hastings County

A Hasting County craft beer would appeal to residents because they would appreciate the idea of buying locally produced goods. More specifically, they would be motivated by a desire to support their local economy and to drink a beer brewed “just down the street.” A craft beer would appeal to tourists for two reasons: they would enjoy the idea of drinking the “local brew” to enhance their tourist experience, and they would be motivated by the perceived scarcity of the beer only being available in Hastings County.

Buying process

Primary research shows that small and large operations have different buying processes. Having an in-house delivery service, a strong sales pitch and specific delivery schedule will help ensure that distributors are comfortable taking on the micro-brewery as a supplier.

1. Small Operations

These operations should be the focus of a start-up micro-brewery's efforts. Typically, the owner or General Manager is the sole party to choose which beers are offered at their restaurant or pub. The decision process can range from a simple analysis to a complete examination of how a new beer might fit into the establishment's product offering. The complexity of the decision process is dependent on the importance of beer to the establishment.

Pubs, especially those focused on the breadth of their offering, have a more complicated buying process. They must consider who their beer targets, why their customers might want to try new products, how much it will cost to expand their offering, their delivery process and their supply limitations. These issues must all be addressed by the micro-brewery in order to ensure a sale. Owners want as much information as possible so that they can assess how the beer's appeal is congruent with their business. The pubs and restaurants in question use both push and pull distribution strategies – by seeking out different beers as well as entertaining proposals from micro-breweries. Owners use word of mouth, the Ontario Craft Brewers Association, and reviews to understand what products are available in the market. Both the LCBO and micro-breweries directly supply this segment.

Restaurants' processes are typically less complex, and those that serve beer are most concerned with customers' expectations. These establishments usually order brands that their clients specifically ask for, which tend to be big-name beers. When approached by local micro-breweries, however, many smaller restaurants agree to consider adding new products to their selection. It is important for micro-breweries to pursue a push strategy in order to approach this group of customers, who otherwise look to the LCBO as a main supply source.

It is important to streamline the overall buying process in order to facilitate it for customers. The micro-brewery must understand its selling points and effectively communicate them to restaurants and pubs in order to best expand on its distribution channels.

2. Chains & Larger Operations

These establishments are much more difficult to sell to. Many of them have specific formal or informal agreements with major beer companies (e.g. Molson) that exchange cost-sharing of marketing efforts for some level of exclusivity in terms of brands offered. Owners may have some leeway to offer micro-brews, but barriers to entry remain daunting for larger establishments. It is more difficult for micro-breweries to prove that customers will in fact desire their beer in restaurants. Micro-breweries should therefore not consider approaching larger operations until later in their life cycle.

Some large establishments buy solely from the LCBO. Large restaurants, especially those that do not currently offer any micro-brews, are less likely to be willing to meet with micro-brewery representatives. This segment is mainly concerned with supplier risk – a larger operation requires larger orders that a small brewery might not be able to meet, especially if demand increases quickly as a result of the success of the beer. The chains and larger operations segment presents a strong growth opportunity should the micro-brewery decide to expand, but as a start-up it should not focus its efforts on these distributors.

Restaurant and Pub Market-Sizing

There are 152 pubs and restaurants in Hastings County that could be potential customers for the new micro-brewery. They sell an estimated aggregate \$5.15 million in beer each year (**see attached Excel spreadsheet: Hastings County Market Size**)

Overall Results: Marketing is Key

The micro-brewery should market to two distinct groups: supply chain distributors and end consumers. For young micro-breweries, building a supply chain by marketing to business owners is important. The benefit of marketing to end consumers is lost if the supply chain is not strong. A direct sales effort is the most effective way of selling to businesses. This function is crucial to building the restaurant client base, and should be undertaken by the micro-brewery owner. The owner should communicate his or her extensive knowledge of the beer, its target market and its brand image.

To effectively market the new beer, the micro-brewery must develop a proposal that appeals to the end target market. The restaurants and pubs that serve the beer want to ensure that the product will appeal to their customers, and understand how they can sell it most effectively. The micro-brewery must ensure that their target segment, message and differentiating factors are congruent.

Once the micro-brewery develops a restaurant and pub customer base, it should develop an in-store marketing effort to appeal to end customers. Marketing materials for a beer brand are usually provided by the brewery to the establishment, therefore the development of these materials should be taken into consideration in the selling process to pubs and restaurants.

SUPPLIERS

There are four basic ingredients required to make beer: malted barley, hops, water and yeast. This portion of the report will discuss each ingredient and look into issues to consider at the moment and once production begins.

Barley

There are a number of farmers in Hastings County that currently grow barley for personal use (i.e. food for livestock). Buying raw barley is not recommended, since the malting process is tedious, expensive and difficult to perfect. Thus, we focused on seeking out Canadian suppliers of malted barley. In Ontario there are three major suppliers of malted barley: United Canadian Malted Ltd. located in Peterborough; Canada Malting Co. Limited located in Thunder Bay, Toronto, and Montreal; and Gilbertson and Page located in Fergus. A number of other malted barley suppliers are located in Saskatchewan, but due to the greater distance and higher transportation costs, our research is limited to Ontario. Contact information for the Ontario malted barley suppliers can be found in **Exhibit 6: Suppliers Contact Information**.

Hops

It is our understanding that a network of local hops farmers exists within Hastings County, and that part of the initial purpose of creating the micro-brewery was to stimulate demand for local hops farmers' products. There are a number of individuals who are currently using their own hops to brew on a smaller scale, but a micro-brewery of our anticipated size will likely require management to establish relationships with other local suppliers. Our main concern regarding hops is the volatility of prices. In recent years, increases in the price of hops due to crop shortages and market fluctuations have forced brewers and distributors to raise product prices. The beer industry's smaller operations were hit harder than major brewers, since larger corporations were more likely to have established futures contracts with farmers to hedge against unanticipated price increases.¹ Some brewers have suffered from tremendous price volatility, going from paying approximately \$3/pound of hops three years ago, to \$25/pound today.²

Water

When selecting a location for the brewery, Hastings County should consider whether the area has access to municipally treated water and facilities, as this will provide access to sewage treatment. An additional long-term consideration is what type of water the brewery will use to make its beer. Some Ontario breweries, like Steamwhistle and Creemore, use spring water in their beer. This provides their products with a differentiating factor, since the type of water used in beer affects its taste and texture.

¹ <http://www.npr.org/templates/story/story.php?storyId=16245024>

² <http://www.allbusiness.com/marketing-advertising/price-management-price/12016098-1.html>

Yeast

There are a few options for obtaining suppliers of fermented yeast. During the test process and initial stages of beer production, small brewers recommend purchasing a small quantity of yeast from a local make-your-own-wine store. Yeast is a living organism, so it can be re-used to produce several batches of beer, as long as it is maintained under the right conditions.

For long-term production, fermented-yeast suppliers should be contacted. Within Canada, Gilbertson and Page offers dry yeast. Outside of Canada, yeast can be purchased from White Labs located in Boulder, Colorado and Wyeast Laboratories Inc. located in Ordell, Oregon. These two suppliers, although not quite local, supply other Ontario breweries (i.e. Scottish Irish Brewery). Contact information for these companies can be found in **Exhibit 6: Suppliers Contact Information**.

LEGALITIES AND REGULATIONS

Anyone can brew and consume their own beer at home, but numerous licences are required to sell alcohol and distribute it to retailers. These licences can be acquired through the Alcohol and Gaming Commission of Ontario and the Liquor Control Board of Ontario.

Liquor Sales Licence

In order to sell beer to the general public directly or indirectly, the micro-brewery would need to apply to the Alcohol and Gaming Commission of Ontario and obtain a Liquor Sales Licence. This licence will allow the micro-brewery to sell its products where light meals are available. Every restaurant or pub must have a Liquor Sales Licence in order to offer alcoholic beverages to their customers. The submitted forms require an estimated four to eight weeks for review by the Alcohol and Gaming Commission of Ontario (ACGO).

Brew Pub Endorsement

Another opportunity that the micro-brewery should explore is applying for an endorsement. Endorsements provide facilities with a different set of regulations than Licenses. Someone looking to open a craft brewery could apply for a Brew Pub Endorsement, which allows the facility to sell alcohol that is produced on-site. This endorsement would only allow the micro-brewery to sell alcohol on the premise where it is produced. In order to obtain this endorsement, the applicant needs to provide written notice from the Council of the Municipality where the applicant's manufacturing site is located, confirming that it has passed a resolution in support of the issuance of the license.

New Item Submission Form

Another option is for the micro-brewery to sell its products through the LCBO. To sell through the LCBO, a New Item Submission Form (NISF) must be filed online. The LCBO will then review it and decide whether or not to carry the product. In order to go through with this process, the micro-brewery would also need to apply for a Manufacturer's license, which would give them the authority to manufacture and sell a product to the LCBO.

Smart Serve Training

The final legal formality for the micro-brewery to consider is the Smart Serve Training program. If the micro-brewery wishes to serve alcohol on its premise, servers must obtain Smart Serve Certification, and training can be completed online.

Forms and Applications

The applications for the Liquor Sales Licence, the Liquor Sales Licence Endorsement, the New Item Submission Form, and Smart Serve Training can be found in **Exhibit 7: Legal Forms**.

FINANCIAL ANALYSIS

It is important to understand the nature of the costs that will be incurred while starting up a business. This section will elaborate on the various components that drive start-up costs during the micro-brewery's first two years of operation.

Start-Up Costs

Expenses will accumulate before operations begin. The first year of the start-up costs pro-forma statement is the pre-launch year, during which the micro-brewery owner must heavily invest in property, plant and equipment. No revenue will be recognized in this period since operations will have not yet begun. The following year, during which production will begin, includes variable costs but capital costs will be lower.

The start-up costs pro-forma covers two years and presents semi-annual figures. It provides predictions under two scenarios: an aggressive scenario and a conservative scenario. The aggressive scenario assumes that the entrepreneur will personally undertake more tasks using existing assets. In this case, total cost will be lower because some of the infrastructure required might already exist, or equipment might be purchased second-hand. Transaction costs might be reduced thanks to bargain-hunting, negotiations or being locked into long-term contracts. Under the conservative circumstances, the total cost will be higher. The assumption is that the micro-brewery owner has less experience, so he or she must seek external professional help.

The pro-forma statement does not take revenue into consideration since it cannot be accurately predicted without going through a detailed cost and pricing analysis. The figures also exclude the effects of capitalization and depreciation of certain costs. Actual costs will lie somewhere between the aggressive and conservative predictions.

The pro-forma statement emphasizes the components, timing and structure of costs. The statement can be referred to in **Exhibit 8: Pro-Forma Start-Up Costs**, and contains detailed notes regarding individual cost components.

CONCLUSION

Before opening a micro-brewery in Hastings County, several operational components must be researched. This report provides a broad overview of the County's market for craft beer, and covers target customer segments, competitors, potential suppliers, regulatory considerations and start-up costs. Before soliciting investors, however, several other areas should be explored. At the outset, specific suppliers and customers need to be identified. Even a few conversations with local restaurant and pub-owners will give the entrepreneur a better sense of the demand for a Hastings County craft beer. Subsequently, the specifics of the micro-brewery's location and product characteristics must be defined. Finally, the financial projections must be refined. In order to attract investors, Hastings County should estimate a revenue component to add to the existing financial statement provided. Once these three issues have been addressed, Hastings County will be in an ideal position to begin soliciting investors.

EXHIBIT 1: HASTINGS COUNTY ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ▪ The cost of living in HC is inexpensive compared to competitors like larger cities and touristic rural areas ▪ Located close enough to Toronto, Ottawa and Montreal, to attract tourists from all three cities ▪ Situated off Hwy. 401, a major highway ▪ HC is located near a popular cottaging area, and could attract tourists visiting the area ▪ Access to locally produced organic foods and goods ▪ HC is the cheese capital of Canada ▪ HC has the necessary infrastructure in place to support tourism (hotels, B&B's, restaurants) 	<ul style="list-style-type: none"> ▪ HC suffers from a lack of exposure and awareness, when compared to its main competitors
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▪ HC has the potential to become a popular tourist destination, thanks to its infrastructure that is able to accommodate more tourism and local businesses ▪ HC has the ability to tap into the “zoomers” market segment, composed of both residents and tourists ▪ The organic/local food and beer industry can successfully capitalize on trends such as the “100 mile diet”, and current popularity of buying and eating local produce 	<ul style="list-style-type: none"> ▪ The agricultural industry, an important quality and basis of competitive advantage for HC, (e.g. for hops) is volatile and dependent on external factors (weather, market fluctuations) ▪ The close proximity to similar, popular tourist destinations (Niagara, Prince Edward County) increases the degree of competition

EXHIBIT 2: COMPETITORS IN HASTINGS COUNTY

<i>Loyalist Brewers Ltd.</i>	
City	Trenton
Estimated Revenue	\$190,000
Estimated Employees	2
Main Selling Points	<ul style="list-style-type: none"> •Focus on quality of ingredients •Only sell through their brewery; no distribution channels •Main business is “custom orders” where clients bring in bottles, choose a type of beer and buy a bulk amount of the fresh brew in 48 litre batches

<i>Bancroft Just Wine & Beer</i>	
City	Bancroft
Estimated Revenue	\$190,000
Estimated Employees	2
Years in Operation	6
Main Selling Points	<ul style="list-style-type: none"> •Only sell through their brewery; no distribution channels •Main business consists of customers bringing in their own bottles and making their own beer or wine on-site •Differentiates using high quality and brand name suppliers •Targets customers who want to be involved in the beer-making process •Targets retirees by running tours in partnership with other breweries and wineries

EXHIBIT 3: COMPETITORS IN SURROUNDING COUNTIES³

<i>Barley Days Brewery</i>	
City	Picton (Prince Edward County)
Estimated Revenue	\$480,000
Estimated Employees	5
Years in Operation	4
Main Selling Points	<ul style="list-style-type: none"> •Main value proposition is quality ingredients combined with small batch sizes •Brand built around the heritage of Prince Edward County •Product line consists of 3 beers: Harvest Gold Pale Ale, Wind & Sail Dark Ale and Yuletide Cherry Porter •Member of the Craft Brewers of Ontario Association •Distribution solely through LCBO locations in Ottawa, Toronto, Peterborough, Trenton and other Eastern Ontario towns •Offers tourist events on-site; involved in the “Taste Trail” County event

<i>Wine Works</i>	
City	Peterborough
Estimated Revenue	\$630,000
Estimated Employees	4
Years in Operation	14
Main Selling Points	<ul style="list-style-type: none"> •Serves mainly Peterborough area •Customers can buy pre-made beer, but the marketing focus is on the make-your-own process •Compete, in part, on price •No distribution channels •No branded product

³ Haliburton, Peterborough, Northumberland, Prince Edward, Frontenac, Lennox & Addington, Renfrew

<i>Brewsky's Brewing Co.</i>	
City	North Bay
Estimated Revenue	\$430,000
Estimated Employees	3
Main Selling Points	<ul style="list-style-type: none"> •Serves primarily North Bay •Customers brew their own beer •Differentiation based on the experience of brewing

<i>Brewers' Edge Hands On Brewery</i>	
City	Pembroke
Estimated Revenue	\$400,000
Estimated Employees	4
Years in Operation	17
Main Selling Points	<ul style="list-style-type: none"> •Customers brew their own beer •Rents their beer-brewing equipment •Customers must buy in large batches •Targets large parties and weddings

<i>Brew Kettle</i>	
City	Peterborough
Estimated Revenue	\$290,000
Estimated Employees	3
Years in Operation	17
Main Selling Points	<ul style="list-style-type: none"> •Customers brew their own beer •Has custom brews available for sale, but they are unbranded •Serves mainly local community

<i>North Burleigh Just Wine and Beer</i>	
City	Woodview
Estimated Revenue	\$95,000
Estimated Employees	1
Years in Operation	17
Main Selling Points	<ul style="list-style-type: none"> •Customers brew their own beer •Business owner is looking to sell the establishment for \$49,900

<http://www.bancroftjustwineandbeer.com/>
<http://www.loyalistbrewers.ca/>
 Canadian Brewer's Association
 Million Dollar Database
http://goliath.ecnext.com/coms2/gi_0199-7129300/Adding-value-beverage-alcohol-s.html
 Statistics Canada
<http://www.barleydaysbrewery.com/>
<http://peterborough.kijiji.ca/c-housing-commercial-North-Burleigh-Just-Wine-and-Beer-Price-Reduction-W0QQAldZ148546605>

EXHIBIT 4: BEER SALES BY PROVINCE

	2002	2003	2004	2005	2006(r)	2007	% Change Over Previous Year
Canadian Beer Sales							
Newfoundland	404,021	416,866	408,207	395,220	396,425	395,334	-0.3
Prince Edward Island	86,070	87,146	87,493	88,374	88,460	90,156	1.9
Nova Scotia	591,104	600,116	608,459	607,959	617,989	614,324	-0.6
New Brunswick	489,776	495,731	498,047	495,780	501,178	490,231	-2.2
Québec	5,462,922	5,358,888	5,395,035	5,446,167	5,418,032	5,297,416	-2.2
Ontario	6,838,931	6,838,363	6,762,146	6,884,108	6,854,767	7,061,722	3.0
Manitoba	665,717	680,490	671,987	653,788	688,337	706,829	2.7
Saskatchewan	587,905	601,246	572,815	568,421	587,106	611,836	4.2
Alberta	2,046,481	2,052,137	2,042,559	2,055,989	2,254,645	2,303,841	2.2
British Columbia	2,342,914	2,342,737	2,362,002	2,342,199	2,308,455	2,249,612	-2.5
Yukon Territory	33,643	34,302	36,414	34,713	33,856	35,216	4.0
N.W.T. & Nunavut	36,173	35,466	33,428	32,859	33,424	33,848	1.3
Canada	19,585,657	19,543,488	19,478,592	19,605,577	19,782,674	19,890,365	0.5

EXHIBIT 5: CUSTOMER PROFILES

<i>Retirees ("Zoomers")</i>	
Age	45-69
Income (ages 45-65, 2007 numbers) (Source: Statistics Canada, E-Stat)	Median: \$35,800 Average: \$48,900
Key Selling Points	"Buy-local" to support the local economy Unique beer High beer quality
Where They Buy	Pubs Restaurants LCBO
Hastings County Market Size (Source: Statistics Canada, 2006 Census)	Male: 21,285 Female: 22,260 Total: 43,545

EXHIBIT 6: SUPPLIERS CONTACT INFORMATION

Malted Barley

Company	Contact Information	Additional Information
United Canadian Malted Ltd.	(T): 705-876-9110 (www): www.unitedcanadianmalt.ca	<ul style="list-style-type: none"> ▪ Located in Peterborough, Ontario ▪ Cost varies depending on the type of barley, but roughly \$175/keg
Canada Malting Co. Limited	(T): 1-800-522-6258 (www): www.northamericanmalt.com (E): AllCMCSales@CanadaMalting.com	<ul style="list-style-type: none"> ▪ Located in Thunder Bay, Montreal, and Toronto ▪ Offers a wide variety of malted barley
Gilbertson and Page Inc.	(T): 1-(800)-234-8191 (www): http://www.gilbertsonandpage.com (E) : helen@gilbertsonandpage.com	<ul style="list-style-type: none"> ▪ Located in Fergus, Ontario (north of Guelph) ▪ Offers a variety of products including malt, hops, yeast, and brewing treatment ▪ Premium Canadian Two Row cost \$28.75/25-kg bag

Yeast

Company	Contact Information	Additional Information
White Labs	(T): 303-530-0469 (www): www.whitelabs.com (E) : info@whitelabs.com	<ul style="list-style-type: none"> ▪ Located in Boulder, Colorado ▪ Currently supplying Scottish Irish Brewery
Wyeast Laboratories	(www): www.wyeastlab.com	<ul style="list-style-type: none"> ▪ Located in Ordell, Oregon ▪ Currently supplying Scottish Irish Brewery
Gilbertson and Page Inc.	(T): 1-(800)-234-8191 (www): www.fermentis.com (E) : helen@gilbertsonandpage.com	<ul style="list-style-type: none"> ▪ Located in Fergus, Ontario (north of Guelph) ▪ Offers yeast provided by Fermentis (www.fermentis.com)

EXHIBIT 7: LEGAL FORMS

Liquor Licence Application Form

<http://www.agco.on.ca/pdf/forms/1202B.e.pdf>

Brew Pub Endorsement

<http://www.agco.on.ca/pdf/forms/1212E.pdf>

New Item Submission Form

http://www.lcbotrade.com/selling_niss.htm

Manufacturer's Limited Sales Licence

<http://www.agco.on.ca/pdf/forms/1222E.pdf>

Smart Serve Training

https://smartserve.org/products_training_program.asp

EXHIBIT 8: PRO-FORMA START-UP COSTS

	End of Year 0		End of Year 1		Total	
	<i>Aggressive</i>	<i>Conservative</i>	<i>Aggressive</i>	<i>Conservative</i>	<i>Aggressive</i>	<i>Conservative</i>
Operating Costs						
<i>Rent</i>	\$100,000	\$150,000	\$100,000	\$150,000	\$200,000	\$300,000
<i>Plant</i>	\$150,000	\$300,000	\$0	\$10,000	\$150,000	\$310,000
<i>Equipment</i>	\$25,000	\$150,000	\$0	\$30,000	\$25,000	\$180,000
<i>Supplies</i>	\$0	\$0	\$200,000	\$250,000	\$200,000	\$250,000
<i>Utilities</i>	\$0	\$0	\$10,000	\$12,000	\$10,000	\$12,000
<i>Training</i>	\$0	\$0	\$0	\$10,000	\$0	\$10,000
<i>Insurance</i>	\$0	\$0	\$5,000	\$6,000	\$5,000	\$6,000
<i>Security</i>	\$0	\$0	\$3,000	\$4,000	\$3,000	\$4,000
<i>License</i>	\$1,000	\$3,000	\$0	\$0	\$1,000	\$3,000
<i>Sub-Total</i>	<i>\$276,000</i>	<i>\$603,000</i>	<i>\$318,000</i>	<i>\$472,000</i>	<i>\$594,000</i>	<i>\$1,075,000</i>
Administrative Costs						
<i>Marketing</i>	\$0	\$0	\$5,000	\$10,000	\$5,000	\$10,000
<i>Labour</i>	\$105,000	\$120,000	\$105,000	\$152,000	\$210,000	\$272,000
<i>Office Supplies</i>	\$0	\$0	\$2,000	\$5,000	\$2,000	\$5,000
<i>Phone & Internet</i>	\$0	\$0	\$1,000	\$2,000	\$1,000	\$2,000
<i>Banking Fees</i>	\$200	\$600	\$200	\$600	\$400	\$1,200
<i>Sub-Total</i>	<i>\$105,200</i>	<i>\$120,600</i>	<i>\$113,200</i>	<i>\$169,600</i>	<i>\$218,400</i>	<i>\$290,200</i>
Other Costs						
<i>Selling Costs</i>	\$0	\$0	\$5,000	\$7,000	\$5,000	\$7,000
<i>Interest Expense</i>	\$15,248	\$34,733	\$17,248	\$30,797	\$32,496	\$65,530
<i>Unexpected Costs</i>	\$0	\$5,000	\$3,000	\$8,000	\$3,000	\$13,000
<i>Sub-Total</i>	<i>\$15,248</i>	<i>\$39,733</i>	<i>\$25,248</i>	<i>\$45,797</i>	<i>\$40,496</i>	<i>\$85,530</i>
<u>Total</u>	<u>\$396,448</u>	<u>\$763,333</u>	<u>\$456,448</u>	<u>\$687,397</u>	<u>\$852,896</u>	<u>\$1,450,730</u>

The following estimated costs reflect the frequent and significant material expenses incurred by start-up businesses similar to the micro-brewery, during their first two years of conception. Actual costs or extraordinary gains or losses might not be reflected in the figures.

Actual figures will depend on the actual scale and location of operation, as well as on the experience of the entrepreneur.

Operating Costs

Costs in this category are directly related to producing revenue-generating goods – in this case, beer will be the main revenue driver.

- **Rent:** Industrial spaces outside of Toronto cost approximately \$5/sqft⁴ to rent; assuming a 100ft by 200ft operating area, monthly rent would cost at least \$100,000.
- **Plant:** Prior to the beginning of operations, the plant must be renovated to fit a brewery's requirements. Some possible renovation costs include wiring, fixing and installing pipes and drainage, and re-designing the floor plan.
- **Equipment:** While a small set of used equipment can be purchased for as little as \$19,500⁵, larger sets can cost up to \$150,000 when delivery and installation costs are considered.
- **Supplies:** Barley and hops prices are highly volatile. Water's price will vary depending on whether treated or spring water is used, and the brew-master should consider how water-quality affects the beer's taste and texture.
- **Utilities:** Water, electricity, and waste disposal costs are necessary to keep the plant running; actual utilities expense will depend on the scale of the operation.
- **Training:** The aggressive figure assumes that no training is required, since the entrepreneur has prior experience brewing and operating the equipment.
- **Insurance:** Property, plant and equipment should be insured against damages.
- **Security:** Security systems should be installed by a professional company.
- **License:** Fees are regulated by the Province of Ontario⁶

⁴http://www.prop2go.com/SearchApartmentResults.aspx?type=Commercial_Property_For_Rent&city=Toronto&province=Ontario

⁵<http://www.nabrewing.com/complete.shtml>

⁶<http://www.agco.on.ca/en/e.fees/e.fees.html#>

Administrative Costs

Costs in this category are related to secondary, supporting activities that are crucial to the business but are not directly related to unit output. These costs will likely remain stable from year to year.

- **Marketing:** Promotional costs include building and maintaining a website, product labels, posters and other print materials, merchandise, and outsourcing costs.
- **Labour:** Wages for support staff in charge of ordering, scheduling, and invoicing.
- **Office Supplies:** Computers, stationary, furnishings and other necessary supplies.
- **Phone & Internet:** A monthly package suitable for small businesses costs approximately \$100/month with a major provider⁷.
- **Banking Fees:** Banks will charge an account maintenance fee, depending on the volume of transactions. Additional costs will be incurred if a credit card payment system is implemented.

Other Costs

This category contains miscellaneous expenses that do not belong in the previous two categories.

- **Selling Costs:** These costs will vary depending on distribution methods. The brewery might need truck drivers to deliver products, or contracted salespeople to negotiate deals with suppliers and distributors.
- **Interest Expense:** Rates range from approximately 8%-14%,⁸ so 10% was used as the interest rate in the aggressive scenario, and 12% was used for the conservative estimate. We assume that the entrepreneur will borrow approximately 40% of his or her start-up costs from a bank, and finance the remaining 60% of the operation using private capital.
- **Unexpected costs:** The entrepreneur must anticipate inevitable unexpected costs or cash-flow delays. For instance, accounts payable due before the receipt of accounts receivable could result in a cash shortage that commands additional interest payments. This figure is a buffer, or allowance to prevent this type of situation from occurring.

⁷ <http://www.rogers.com/web/content/for-small>

⁸ http://smallbusiness.yahoo.com/r-article-a-2014-m-1-sc-10-business_loans_buyers_guide-i