



Manitoba Lagers Keeping Up with The Times



Manitoba Lagers was owned by three friends. The brewer was Tony Scheifele, Mike Connor as the business manager and William Hellenbuyck for the promotion and events. In 2017 they established a successful pub near Brandon University in a vacant lot in downtown Brandon where an old International Harvester warehouse once stood. With the changing liquor laws in the province Manitoba Lager has established an active craft brewing establishment. On the other hand, it is not surprising Manitoba Lager has very stiff competition from other brewing companies especially in the first few years of operation. This competition has led to continued growth from sheer management determination. This growth has led to the hiring of three other regular employees. David Appleton was the perfect candidate as the assistant brewer and Colin Copp jumped at the chance to become the pub manager. Gabriel Dubois was the man to tackle any odd job as well as work along side a list of other people who would bartend a shift or two each week. Business was good but at the start of 2018 the co-owners had been wrestling with several questions. Should they consider different pricing strategies? Should they invest in the machinery and labor to start bottling their beer on site? And what other ways could they look at for giving back to their community through social responsibility and philanthropy efforts.

The Best of The Craft Brewing

The pub and brewery shared the same space, was a little crowded, but had an overall capacity of 600 barrels of beer a year. At present they sold beer in 3 ways. The first was through the pub which has always been the most profitable. The brewery created ½ barrels to sell at restaurants and other pubs in the area. The final and third method was to sell half-litre bottles to bottle shops. These bottle shops located around Manitoba catered to a growing customer base always looking for an interesting beer or searching for a special taste. With the continued growth and success, Scheifele, Connor, and Hellenbuyck often wondered what their next step would and should be in the future. (See Exhibit 1)

Pub Pours the Pints

In the pub, a 12- or 16-ounce glass of beer sold for \$5 to \$6 depending on the beer variety. The biggest seller was MB Wheat IPA which sold for \$5.50 for 16 ounces, the Double Row Ale was \$5.25 for the 16-ouncer. High alcohol beers and specially beers were often sold at a higher price in the smaller glass, so the brewery's strong MB Stout was \$6 for 16- ounces. The pub usually eight or more of its own beers and one or two guest beers from other breweries on tap. Bottle cider was a limited selection of wine and various other drinks were also sold, some of the non-alcohol variety. Snacks of chips and nuts was the only food that was sold, however Manitoba laws allowed food from outside the establishment to be consumed. The brewery location did not have a kitchen, so they started to partner with some local food trucks. A

weeknight special would include a dollar off a pizza from the food truck parked nearby only if they bought a beer. They opened the pub at 4pm on Monday through to Wednesday, at 2pm on Thursday and Friday and at noon on Saturday and Sunday. There was seating for 55 inside and a shaded patio out front that say about 35. Winter days were very frigid in the dead of winter, but the patio was often crowded in September and October when the University session went back in for the fall.

The Restaurants and Specialty Beers in Bottle Shops.

The business of selling ½ barrels to the restaurants and pubs is a lot more difficult than expected by most people. There are only so many taps in any area; if someone added a new beer someone else's beer had to be eliminated. Many local establishments had a "rotating tap" that featured different beers at different times. If a brewery sold a ½ barrel to be featured in rotation it could sell to that place only occasionally. On the other hand, filling and delivering ½ barrels was easy, and breweries could rent empty barrels for almost nothing. MB Lager charged \$190 for a ½ barrel of their beers. MB Wheat IPA was the beer most often sold in ½ barrels.

The specialty beer that MB Lager bottled were aimed at beer enthusiasts searching for a variety. The brewery bottle sour beers, beers with fruit flavor and beers aged for many months in used wooden wine or bourbon barrels. These were bottled using a home-made rig of lumber tubing. MB Lager sold these bottle shops at a high price, often over \$75 for a case of 12 ½ liter bottles. On the shelf, these bottles retailed for \$8 or more. While profitable, putting these beers in bottles using this homemade bottling rig was slow and labor-intensive, and the market for beer at such high prices was limited.

In Manitoba small brewers could deliver packaged beer to stores directly; however, larger brewers, like all brewers in many provinces had to use a distributor-a middleman. This law allowed MB Lager to sell its ½ barrels and specialty beers directly to restaurant and retailers in the area and get to know the customers directly – a competitive advantage in a market where knowing the target audience was key. Give the active craft brew scene in Manitoba and surrounding area of Brandon. MB Lager were interested in the best way to capitalize on local customer to pay a premium price for a good craft beer. In the end MB Lager sold about 350 barrels of beer through these three channels. The brewery was profitable, but excess capacity was intriguing to the three partners. All the partners simply enjoy making beer, so if they could sell the extra, they would certainly brew the extra. They also saw it as a business opportunity. More and more breweries were putting their beers into 12-ounce bottles and cans- the size most customers were used to with all other beers. These smaller contains were then sold in four or six packs, just like the mass produce beer, though at higher prices.

All to the partners were sure they could sell the beer from their excess capacity by packaging their best-selling in 12-ounce 4 or 6 packs, but would it be profitable? MB Wheat was incredibly popular and was expected to bring in a higher than usual premium in any bottle shop, retailing for 13.99 per 6 pack. The Double Row was expected to sell for 11.99 the bottle shop. Wholesale price was just under 75% of the retail price for craft beer sold to bottle shops.

For example, the wholesale price for a case of 24 bottle would be \$41 for MB Wheat and \$35 for Double Row. The partners also planned to sell some seasonal beers in 4 packs of bottle or cans, with a wholesale price of \$38 per case.

There was a lot involved in bottling. Buying a canning or bottling machine, developing and getting labels, 6 pack carriers, choosing the can or bottle, and getting a loan were a few of the items that came to mind. They had decided to look into it and Connor, the business manager, had stated making calls and talking to other small brewers.

The first task on hand was to figure out how many cases (12-ounce bottles or cans of 24) could be made if they put all of their excess capacity into making packaged beer. A beer barrel was about 3968 ounces so enough for around 315 bottle or cans considering there is approximately 5% waste. Scheifele figures it would cost about \$1 100 for each batch of the beers they expect to sell in 4 or 6 packs of 12 ounces. The specialty brews they often made for the ½ liter bottles cost a little more.

With a lot of research Scheifele found a bottle machine that would certainly work for MB Lager. The machine had 2 filling heads, and once it was up and running filled about 8 bottles per minute. Starting and getting everything adjusted took about a ½ hour, and after the pour the cleanup would take at least the other ½ hour. The operation of the bottle machine would take 2 people to effectively keep everything adjusted, feed empty container, and then take full ones off the machine and into cases. The machine marketing department estimated it would take 50-60 hours for two people to setup, cleanup and bottle 50 to 60 cases. It was proven best if the empty containers were labelled before they entered the bottling machine. The bottling machine would cost MB Lager \$41 952 delivered, with training, setup and other costs.

Packaging materials were more expensive considering customers either recycled or threw out the empty ones without much consideration of their cost. The shorter bottle, which worked well in the Scheifele bottling machine, cost 0.25 cents each. Each label was 0.04 including the application of the label and the crown or top for the bottle is a penny each. The carries for the 4 or 6 packs came to about \$2 per case with all the corrugated cardboard in the package. The partners would then have to buy a labelling machine at a cost of \$1 750 and those full cases would have to be delivered to the bottle shop shelves or other coolers. If MB Lager packaged 50-60 cases per week, the distribution would take 10 hours. The company had been using cars to deliver the ½ barrels for the taps so a van would be needed at a cost of \$450 per month. The van gas and driver wages would cost about \$150 per week.

Social Responsibility

Social responsibility was very important to the MB Lager company and the respective partners. The partners have spent money in the past engaging in various social responsibility initiatives. The company paid all its workers at least the local minimum wage of \$12.00 an hour for any who might receive tips and \$13 dollars for the others. The spent grain, the left over after the brewing process, was picked up by a local firm for composting. The company held multiple fundraising events in the brewery and the surrounding area. The company would participate

every year in the Wheat City days to raise funds for the downtown beatification projects. MB Lager was a member of the local Chamber of Commerce and would renew its membership each year. The company looks forward to ways in participating in other social responsibility the same way it sold its beer.

The balance sheet shows the three partners do not have a great deal of extra capital for themselves after getting the brewery started for themselves. In consideration of all this the company has always paid its bills on time, including a bank loan to cover some of the cost of getting started, and the bottling machine could be used as collateral. The interest rates have remained low for several years and a soft economy. The future forecasts for 4 years Connor thought they could secure a bank loan at 5.9% for the full four years. All the thoughts, ideas, and future outlooks was a big undertaking the partners need to decide if they should start bottling MB Wheat, Double Row, and other beers for the season?

Exhibit 1 – MB LAGER FINANCIAL STATEMENTS
Profit and Loss – Year Ending October 1, 2017

Income	
Sales	
Bar	472 198.64
Kegs	54 432.74
Keg deposit and refunds	1 740.39
500 ml bottles	50 333.30
Other	20 608.59
Wheat City Days Income	24 349.70
Other Income	550.54
Total Income	624 213.90
Cost of Goods Sold	
Purchases	
Beer	23 714.00
Good	10 022.26
Glassware	6 173.64
Clothing	4 111.93
Wine	5 783.94
Cost of other goods sold	40 860.86
Bottles	15 803.03
Malt and hops	33 761.76
Yeast	5 720.03
Total	145 951.45
Gross Profit	478 262.45
Expenses	
Barrels	3681.45
Keg rentals	8580.59
Other brewery supplies	4375.20
Draft line cleaning	214.50
Advertising and promotion	5 159.58
Bar Equipment	87.00
Automobile Expense	5 569.97
Amortization Expense	823.91
Bank Fees	389.00
Computer and Internet	583.50
Software	645.90
Continuing Education	234.00

Depreciation	39 925.68
Donations	10 313.02
Permits	260.00
Dues and Subscriptions	2 189.53
Meals and entertainment	2 533.26
Hotel	502.16
Insurance	13 197.77
Bar Supplies	13 787.19
Office Supplies	1 132.45
Miscellaneous	990.00
Uncategorized	10.00
Payroll Taxes	13 487.69
Postage and delivery	2 883.15
Professional fees	24 283.05
Performer fees	7 983.30
Festival expenses	10 587.07
Festival advertising	500.00
Rent	74 503.68
Construction costs	17 662.53
Repairs and maintenance	3 939.71
Guaranteed payments to partners	12 300.00
Payroll – employees	130 912.66
Payroll fees	1 702.76
Taxes, Licenses, permits	33 274.15
Cable, Internet, and Phone	2 612.04
Travel expense	4 923.25
Utilities	17 046.04
Interest Expense	2 378.13
Total Expense	476 084.05
Net Ordinary Income	2 718.40
Other Income	734.64
Gain on Sale of Asset	16 000.00
Other Expense	8 000.00
Net Other Income	8 734.65
Net Income	10 913.05

Exhibit 1 – MB LAGER FINANCIAL STATEMENTS
Balance Sheet – Year Ending October 1, 2017

Assets	
Current Assets	
Checking	35 786.10
Money Market	-18 527.58
Petty Cash	1 200.00
Total	18 458.52
Account Receivable	4 601.37
Other Current Assets	
Undeposited funds	8 098.49
Inventory	6 574.25
Total	14 672.74
Total Current Assets	37 732.63
Fixed Assets	
Brewing Equipment	88 019.74
Bar and Furniture Equipment	212 628.76
Computer Equipment	1 824.22
Leasehold Improvements	184 561.64
Accumulated Depreciation	-292 928.00
Start-up Costs	12 358.70
Accumulated Amortization	-2 746.37
Total Fixed Assets	203 718.69
TOTAL ASSETS	241 451.32

Liabilities and Equity	
Liabilities	
Current Liabilities	
Accounts Payable	1 347.00
Credit Cards	9 016.90
Sales Tax Payable	3 232.00
Federal Tax Payable	2 211.92
Fed Withholding Tax Payable	2012.01
Provincial Withholding Payable	820.00
Fed use tax payable	381.83
Provincial use tax payable	684.45
Loans payable	26 275.11
Total Current Liabilities	45 981.22
Long-term Liabilities	
Member Loans	350 000.00
Bank Loans	160 967.21
Total	510 967.21
Total Liabilities	556 948.43
Equity	
Member Equality	-318 218.65
Retained Earnings	46 595.22
Member Distributions	-123 296.61
Net Income	79 422.93
Total Equity	-315 497.11
Total Liabilities and Equity	241 451.32