

BrewDog wants to be as expert at selling to on-trade as it is at courting controversy, writes James Hurley

Brewer seeks UK pub profile after export success

CASE STUDY: SALES

BREWDOG co-founders James Watt and Martin Dickie recently completed filming for a TV pilot. The proposed series, for an American network, would see them acting as "evangelists" for beer produced by independent brewers from all over the US. In the four-minute pilot, their meetings with eccentric artisan producers are punctuated by shots of the pair smashing bottles of famous lager brands with golf clubs, shooting one with a shotgun, clay pigeon-style, and flattening the rest with a bowling ball.

As Scottish craft brewers producing cash ale, their admiration for independent American brewers "making adventurous beer with a range of ingredients and flavours" is understandable. But why the violent antipathy towards the lager bottles? "We've got the same attitude to the incumbents of the beer market as the punks had to pop culture. We're rebelling against bland, corporate, industrially produced beer," says Watt.

If the show is given the green light, it will see them taking a series of four-week breaks from their brewing company - established in 2007, with the aim of bringing independently produced ales to a younger, more mainstream audience - to continue their American adventure. "The advantages of getting our name out there in the industry will definitely outweigh the time out of the business."

The Scottish company, which is on target to post revenues of £3.5m at the end of this year, has become synonymous with irreverent marketing and controversy. In 2008, it had a run-in with the Portman Group when the drinks industry watchdog claimed the brewery's labels breached its code of practice because of "aggressive marketing", and it incited further

indignation over the strength of its drinks; a 2009 product that had a 32pc volume was trumped in February by the 41pc Sink the Bismark, currently the world's strongest beer, Watt claims.

Alcohol Focus Scotland and, once again, the Portman Group, expressed their disapproval, accusing the company of "promoting excess". Watt clearly enjoys the media coverage the products engender - as a small company, how else do you get your name out there? - but argues that "responsible consumption is fundamental to what we do". "We want to elevate the status of beer away from being something cold, fizzy and full of chemicals that you drink 10 pints of on a Friday night." He adds that BrewDog's premium strength products are limited editions, expensive and designed to be consumed like spirits, and that his company supports proposals to introduce minimum alcohol pricing.

In addition to high-profile detractors, BrewDog has won notable supporters, too. It started life when Michael Jackson, the renowned beer and whisky writer, tasted one of the pair's home brews and told them to quit their jobs and establish a brewery. Armed with £50,000 of savings, £30,000 from the bank and a small loan from the Prince's Scottish Young Business Trust, Watt and Dickie bought some second-hand brewing equipment and set up a two-man operation in their home town of Fraserburgh, a coastal fishing town north of Aberdeen.

The first six months weren't promising. "We were barely selling enough to pay the interest on the bank loan. Customers wanted us to make something cheaper and with less flavour. That was the antithesis of what we were about but we were going out of business." Deciding that the conservative pallets and price-sensitive nature of beer consumers in north-east Scotland made their domestic position hopeless, they turned to export markets, and the beer enthusiasts of Scandinavia and North America in particular.



Ale fellows: Martin Dickie, left, and James Watt at the BrewDog brewery in their home town, Fraserburgh

Before approaching potential partners, they sent samples to the most influential beer writers in each market. "We got fantastic coverage. When we went to the distributors, we said, 'We've done the marketing for you, all you've got to do is sell it.'" Through distinct distribution partners in each territory, BrewDog's products are now on sale in 17 countries.

International sales represent 65pc of its revenues, with Sweden being its largest export market.

The company has also enjoyed successes at home. When it won the top four prizes in a Tesco beer competition, the retail giant asked to list the beers nationally. Lacking the necessary production and bottling capacity, BrewDog asked its bank for £150,000 for new tanks

and a bottling machine. "We were laughed out of the door," Watt recalls. Instead, it secured asset finance from a rival on the basis that it would consider moving all of its banking to the new backer. "It's a line we've used again and again. We've got asset finance facilities with four different banks. If we'd accepted the answer from the first bank, we would have stalled."

American drinks industry veterans Keith Gregor and Tony Foglio, who sold Skyy Vodka to Campari in 2007, invested \$600,000 for a 12.5pc stake in the business last October, and Watt says they're helping the founders professionalise the business.

In a highly unusual step for a start-up, BrewDog secured further funding in exchange for capacity from its customers, through Europe's first "online IPO". It raised £700,000 last year by selling just over 3,000 shares, at £230 each, offering its new shareholders a 20pc lifetime discount in the company's online shop - its largest single source of revenues - and the right to influence marketing and product development. "This was a way for us to raise finance at a time of economic strife but also involve our customers in what we do."

The brewer currently produces 500,000 bottles a month, and is stocked in Asda, J Sainsbury, Odbins and Tesco, with the off-trade representing 75pc of its UK sales. Last year's turnover of £1.8m produced pre-tax profits of just £147, with Watt citing the short-term influence of larger, longer-term contracts and attendant lower margins, noting that he expects profits of £350,000 from this year's sales. The first six months of 2010 have seen revenues increase some £20pc compared with the same period last year, so increased capacity remains a priority.

Planning permission for a new sustainable brewery in Aberdeen has been secured, which will boost its current capacity of 8m bottles a year to 30m by the end of 2012, providing room to grow revenues to around £15m.

Now BrewDog wants a bigger slice of the on-trade for its bottles and casks. "It's the best place to develop the brand and get people trying things for the first time," says Watt. Against a backdrop of declining pub revenues (down 5.2pc last year), placing its core products - which include four ales, a stout and even a lager - in brewery-owned pubs is a hard sell. The company has spent £250,000 on buying and renovating

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- The value of social networks to business and why Google wants a piece of the action.
- Industry experts explain why small British-based manufacturers can profit from shifting production back from the Far East - saving money and providing a better service to customers in the process.
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a site in Aberdeen that will become a BrewDog bar later this year, stocking the company's beers on tap as well as "interesting bottled beer" from around the world. Further sites are planned in Glasgow and Edinburgh.

A small chain of branded brewery bars will form part of the solution, but Watt, who has just added two sales people to focus on growing the on-trade, is aware that the company needs to beef-up its sales activities to improve penetration across the UK. "The sales team needs more structure, things have been done on an ad hoc basis almost across the company."

EXPERT VIEW

John Hosking
Partner, Cognosis

THE on-trade can be a graveyard for new brands, but there are steps the company can take to mitigate the risk. The founders must be clear about their objective: is it about building the brand, or developing scale and profit? Brand building will require significant investment behind brand and outlet support; scale requires compromise on price and margin.



Distinctive: the two-part pour

The company should select outlets where they can build meaningful relationships and brand advocacy. These relationships will help ensure a brand gains visibility in the bar which will help drive sales. Don't expect clients to be as passionate about the brand as you are without offering a clear incentive - in financial terms or experience. A unique, distinctive serve, aligned to the brand's proposition can be a powerful platform: think the

two-part pour for Guinness underpinning the brand's obsession with draught quality. I would recommend building a meaningful partnership with a good distributor or wholesaler with a proven track record. However much you try, whatever resource you throw at it, you're unlikely to do it better than them. Finally, don't be tempted to prositute the essence of your brand's success in the pursuit of on-trade glory.

Steve Nuttall
Managing director, Jolies Brewery

FOR now, BrewDog is an off-trade and export success but it has not as yet yielded a real profit. It's a very competitive market with a lot of small brewers investigating opportunities and that, coupled with notoriously experimental drinkers, means sales should not be taken for granted. The boys need to keep the



Aberdeen: new brewery pending

PR machine oiled and keep the brand in the press at least until it has a loyal band of followers in all its markets. I think it is too early to launch a sustained push in the on-trade - the two channels are like chalk and cheese. By all means trial the Aberdeen idea but keep a clear focus on the core business, which is not yet stable. I would also hold on the new brewery - brewers measure the desirability of plants not by their capacity but by their

usage. Better a small plant bursting at the seams than a big, half-full plant - if BrewDog makes a few calls it will soon find plenty of ready space to be sold at marginal costing which will improve margin. They will then be in a better position to build a new plant with sales already proven. I have a feeling this may all be a little too cautious for this maverick brand and it may well turn up in my local - if it does I will buy a pint and raise it to them.