

MODERN Brewery Age



Modern Brewery Age Weekly E-Newsletter • Volume 61, No. 42 • October 22, 2010



Hawaiian spirit guide blesses Kona Brewing's new solar array

Kona Brewing Company recently installed a 228 kW solar energy generating system at its Kailua-Kona brewery and pub on Hawaii's Big Island. The brewery held a private blessing of the system with partner solar energy contractor Sunetric on Monday, October 18. Kumu (a Hawaiian title meaning "teacher" or "spiritual guide") Keala Ching (**far right**) provided the blessing, and guests tasted one of Kona's first batches of solar-energy-produced beer, Suncharged Pale Ale. "It was an exciting day when we flipped the switch," said Kona Brewing Co. president and CEO Mattson Davis. "The install went smooth, thanks to the expert guidance provided by Sunetric. Now, we are the first brewery in Hawaii making sun-powered beer, and our system is among the largest in the craft beer industry nationwide. It's a great feeling!" The system is a roof-mounted grid-tied photovoltaic (PV) made up of 990 Trina Solar 230-watt modules, producing an average of 922 kWh of electricity each day, allowing Kona nearly 60 percent offset of its current electricity usage. At the entrance to the restaurant, Kona guests can check out a real-time monitor that shows how much energy the solar system is generating. At the current commercial retail electricity rate, the company reports the system will offset more than \$100,000 in electricity expenditures per year. **In photo, from left to right:** VP of brewery operations/brewmaster Rich Tucciarone, Kona Brewing Co. founder Cameron Healy, Sunetric CEO Alex Tiller; Sunetric Founder and President Sean Mullen, Big Island Deputy Managing Director Wally Lau, Kona Brewing Co. President & CEO Mattson Davis, Big Island Mayor Billy Kenoi, Craft Brewers Alliance CEO Terry Michaelson, and Kumu Keala Ching.

Domestic beer shipments drop back in September

The Beer Institute reports that U.S. domestic beer shipment volumes fell -4.8% year-on-year in September (see *Beer Institute shipment chart, page 5*).

According to UBS analyst Kaumil S. Gajrawala, "the timing of the September price increases led to a buy in August, pulling forward volumes and driving +4.6% year-on-year growth [in August]. Looking at the two months together shows flat volumes vs the easy -4.5% y/y comparable. For third quarter 2010, volumes only fell -0.6% y/y, which is a sharp improvement from declines of -4.7% in first quarter 2010 and -2.0% in second quarter 2010. Easy

(Continued on Page 10)

Saratoga Eagle buys A & M

Saratoga Eagle Sales & Service in Saratoga Springs has announced that it has acquired A&M Beverages Inc. of Malone, NY, an Anheuser-Busch InBev wholesaler in Franklin County in northern New York state.

The acquisition is the second for Saratoga Springs-based Saratoga Eagle this year.

President Jeff Vukelic said his company has purchased A&M, but details of the sale were not disclosed.

Saratoga Eagle acquired Ruch Distributors in Albany, NY, another Anheuser-Busch distributor in May.

Mr. Vukelic's company is a subsidiary of Try-It Distributing Inc. in Depew, NY.

SABMiller provides trading update; U.S. STRs down 3.2%

This past week, SABMiller plc provided an update regarding trading during the six-month period ended September 30th 2010, the first half of its financial year.

The company reported that lager volumes for the first six months, on an organic basis, grew by 1% compared to the prior year, with volume performance remaining mixed in markets around the world.

"Results benefited from this volume growth, prior year net price increases and some raw material cost reductions," the company said in a statement, "while we continued to invest in marketing. The strengthening of key currencies against the US dollar also assisted results for the half year. Overall, financial performance for the half year was in line with our expectations."

In the U.S., the company said that, in the six months to September 30, 2010, MillerCoors' domestic sales to retailers (STRs) were down 3.2%.

MillerCoors reported that the U.S. beer market "continued to be impacted by economic uncertainty and high levels of unemployment."

(Continued on page 2)

Wisconsin brewer makes beer using only local hops

The brewers at Furthermore Brewing Co. of Spring Green, WI, have teamed up with the farmers at Gorst Valley Hops to brew an IPA with a uniquely Wisconsin accent, called Hopperobic India Pale Ale. This beer, scheduled for late October release, uses only hops that have been grown within 20 miles of the brewery.

Wisconsin's Gorst Valley Hops has provided the brewers with a selection of Nugget, Cascade and Mount Hood hops in a pelletized form.

"Some come from fairly young plants, so the flavors will change as they mature," noted James Altwies of Gorst Valley Hops.

"Don't expect next year's beer to taste exactly the same as this one," said Chris Staples from Furthermore. "We'll release this beer annually and expect it will evolve over time as the hops mature...we wanted to serve up Gorst Valley's crop in the best way to assess the hops themselves. We're just really trying to let the harvest shine through. Maybe you'll like the changes from one batch to the next, maybe you won't, that's cool."

Kegs of Hopperobic will be distributed in the Spring Green, Madison and Milwaukee, WI market areas.

Rate Beer web-site names "worst beers in America"

Rate beer, the on-line consumer beer rating site, recently posted a list of the fifty "worst" beers in America. The "worst beer" list is based on an aggregate of the consumer ratings for each beer.

Top 20 "worst" Ratebeer list below:

1. Olde English 800
2. Natural Ice
3. Natural Light
4. Milwaukee's Best
5. Michelob Ultra
6. Sleeman Clear
7. Budweiser Select 55
8. Coors Aspen Edge
9. Bud Light Chelada
10. Busch Ice
11. Busch Light
12. Bud Light
13. Milwaukee's Best Light
14. Camo Genuine Ale
15. Miller Genuine Draft Light 64
16. Keystone Light
17. Budweiser Chelada
18. Busch Beer
19. General Generic Beer
20. Old Milwaukee Ice

Courtesy of ratebeer.com



A talk with 'Gansett CEO Mark Hellendrung

Mark Hellendrung, former president of Nantucket Nectars, bought the virtually defunct Narragansett brand from Pabst in 2005. Since then the brand has expanded into all the New England states, and is performing strongly enough to start to popping up in "Top 20" SIG scan data. We talk with Mark about the brand's current performance, and plans for the future.

Modern Brewery Age: Narragansett is certainly recolonizing its old markets...

We've had another banner year. In the Rhode Island area, we have over 2%

share, and we're growing at 20%. There continue to be awesome opportunities here. We rolled into Vermont three weeks ago, so we're now back in all six New England states. We're building the brand from the ski slopes to the beaches to the bars in Boston. We recently rolled into Philly, on the 4th of July, because we had a ton of interest from a wholesaler there.

We're also excited about breathing life into the great old craft styles that Narragansett used to do. We sold out on our [fall seasonal] Fest, and now we're

(Continued on page 10)

A talk with 'Gansett's CEO, Mark Hellendrung

(Continued from Page 1)

doing an American-style Porter, and then it will be Bock for the spring. That will be our seasonal rotation. We're doing our craft styles in cooperation with Sean Larkin of the Trinity Brewhouse in Providence, RI, a really great brewmaster. Fest got great reviews, and we were out of stock by the end of September.

The 16-ounce can seems to be your trademark package...

The 16-ounce can is clearly our power package, together with draft. I think Oskar Blues has proved that craft styles can be sold in a can. For our consumers, the 16-ounce can provides a great beer and a great package and a good value.

What about upping the ante with a 24?

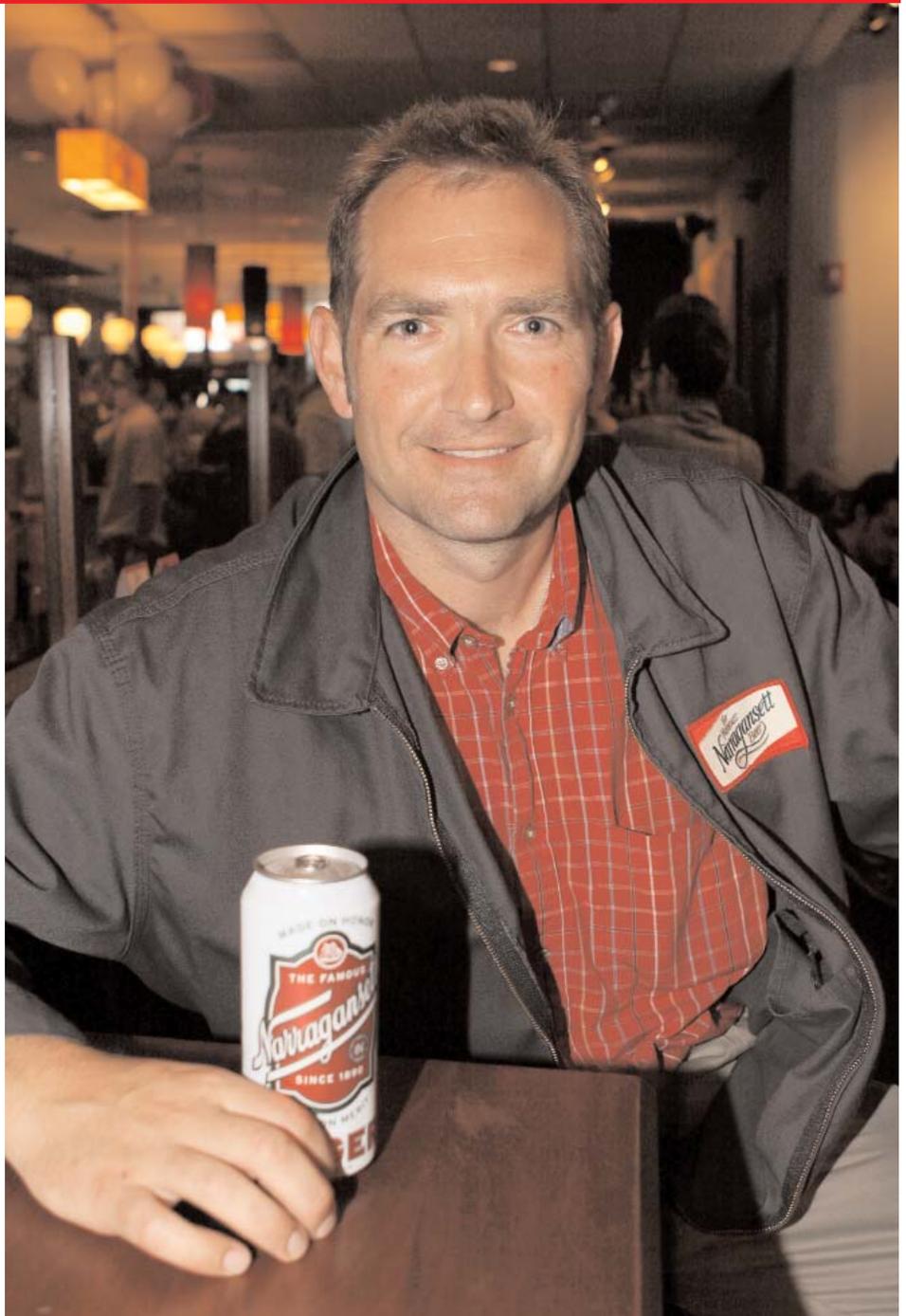
We're not in that yet, but now that Genny has a 24-ounce line, we're eyeing it. It hasn't been a big priority, because our focus has been on Massachusetts, Connecticut and Rhode Island, and that's more of a c-store package. But now that we're stronger in the northern Northeast, we'll want 24s. So we're moving forward on a design, and I think you can look for that package in the first quarter of next year.

Speaking of package designs, you have produced some great-looking cans...

We work with a company called Quaker City Mercantile in Philadelphia. It's a tremendous agency, and they are also helping us with social media and grass roots promotion, and basically keeping us on track with what we're doing with the brand.

Our 16-ounce can has received a lot of good notice. It's a new design but also a perfect compilation of the last 120 years of Narragansett branding, like taking a walk through history. So we have the slogan "sold on merit" on there from the '40s, and "Hi, neighbor" from the '50s, and the clipper ship image from the '70s. One of our best compliments has been from beer can collectors, who absolutely love these cans. I think the cans are a good representation of what we are doing, reviving elements of the past for today's consumer, bringing back this brand that once had 65% share in New England.

(Continued on page 10)



"I'm puzzled when people talk about the premium segment struggling, when the premium segment is not really struggling. Budweiser is struggling...Brands like Yuengling, Lone Star and Narragansett are doing very well."

Narragansett's Mark Hellendrung, continued...

(Continued from page 9)

The bulk of your volume is at premium levels, a segment that's been hit hard in this recession...

Yes, absolutely. But I'm puzzled when I hear people talking about the premium segment struggling, when premium is not really struggling. Budweiser is struggling. They have the biggest share of premium, so the segment looks bad, but brands like Yuengling, Lone Star and Narragansett are doing very well.

The premium brands you name are all older brands that are enjoying a second life, is that the key to success now?

Sure, revivalist, culturalist, whatever you want to call it. Our consumers are guys who are interested in something different. People are looking for a brand with a story, and that is fueling a lot of our growth.

You have an unusual pricing model, more like a big brewer than a small one. Most of your volume is premium, but early-on you priced some packages at sub-premium levels, and now your craft-style beer is up there at craft prices...

Sure, our craft beers are up there. Our draft is at premium prices, and our 16-oz cans are priced at the 12-oz. premium level, so consumers are getting some extra value there.

So we play around a little. It's funny how it's evolved. When we took over the brand, Pabst was still doing a little bit of Narragansett volume in cheap-looking 16-ounce cans. When we started out we were actually nervous to walk away from that volume, even though it was tiny.

Pabst was selling it mostly in Rhode Island, a little in Massachusetts, and on the south shore, to old guys who had never stopped drinking it. I guess Pabst's strategy was to keep making it as long as a wholesaler kept ordering it. But they didn't do anything with the brand. The can design was the same vintage 1979 can, and the product...Well, we reformulated it immediately, and we moved pricing up. At the beginning, when we brought the brand back into the market, we had quite a few wholesalers who were a little apprehensive on the orders. They were looking at us funny, and asking, "So you really think you can price this up?"

But we started to get awards and get high ratings from *Beer Advocate*, and that kind of thing. And the success of the brand has blown a lot of people away.

And how about when you started pricing your craft-style beers up at the \$9.99 range for a six-pack of cans?

Yes, we got some pushback on the \$9.99 six-packs! I think people get conditioned with brands living within certain price points, so when they get something new, they're not sure how to deal with it. So we've taken things one step at a time, and we're taking another step up with our new porter. But we have seen what these brands can do. Our September depletions got a 10% incremental bump, and that was all from our seasonal Fest beer.

You also have an interesting production model, with large-scale contract production at Genesee and local production from small craft breweries...

We do all our cans at Genny, and all our draft locally, out of Cottrell Brewing Co. in Pawcatuck, CT, and Trinity Brewhouse in Providence, RI. We'll be offering Fest in bottles next fall, in 12-packs, and that beer will come out of Genny, and of course we're working to get our own brewery going.

How is that project coming along?

We're getting there. Our phase one goal will be to produce draft at our own Narragansett brewery. We're looking at 12 months from now. We have to pick a point in our growth trajectory, and that's the size we'll build to. We don't want to build it too big or too small. We're dealing with all those questions now. What size brewhouse do we need? What are the economics of it? Some of these things are hard to predict, since we've been growing by the seat of our pants. A lot of this stuff we're talking about, in 90 days, will have totally changed. Where will the brewery be? In all likelihood we'll build in Rhode Island.

What has been your biggest challenge in reviving the Narragansett brand?

Over the last five years, I think the hardest thing we've had to overcome has been the negative brand image for Narragansett. And a lot of our work has been focused on turning that around. You have to remember,

Narragansett went from holding 65% share in New England to nothing. For most of recent history, it was a brand sold at cheap prices, with changing recipes, in lousy packaging. Probably the biggest news in Narragansett's recent history was when the old brewery in Cranston was torn down in 1998. So the brand had a lot of negative baggage. Getting the beer right the first time was number one for us. I think we accomplished that. And now we have this great halo effect from the Narragansett craft-style beers we've been doing. People think, 'if Narragansett can make this great craft beer, then there's no way they can make a bad lager.'

What is your sense about what is going on in the market right now?

I was with Magic Hat for a couple of years, and I've been in the beer business for 7-8 years, so not for too long, but if you ask me there seems to be more turbulence in the market now. All this talk about the megabrands being dead; at the same time the crafts are doing great, and we're getting mixed signals from the imports. And you've got Metropolous taking over Pabst, and will he tinker with it? I don't have a crystal ball, and a lot of this will depend on the economy, but with change comes opportunity.

One opportunity is that the younger demographic really seems to be looking for new brands...

For sure. You know, a lot of our momentum in the last 12 months has come as all these old-time bars reinvent themselves for younger consumers, making a 180 degree turn. Maybe they have five handles, and they'll keep Bud Light on, but they're also putting in Dogfish and Allagash, and maybe they'll put on 'Gansett as well, because it has a little more cachet with the younger guys. And the old adage that on-premise trial builds brands has proven true. People have found our beer in the bars, and then younger legal drinkers have fallen in love with our 16-ounce cans. And maybe a few years from now, those consumers will have a little more money in their pockets, and they'll be drinking our craft beers. And then they'll go from cans to bottles, and we'll be in bottles by then as well.

Hey, Mark, thanks for your time.