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THE MAGAZINE FOR CRAFT DISTILLERS AND THEIR FANS

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Craft distilling *will survive* this pandemic.

Written by Colin Blake

Here is how...

In 2005, what some deem the “start” of the American craft distilling movement, there were less than 100 active craft distillers.

Today, that number has surpassed 2,000.

Over the years, I’ve watched in awe as the movement has grown exponentially, beating the odds time and time again.

For example, distilleries were once burdened by a steep federal excise tax prior to welcoming the Craft

Beverage Modernization and Tax Reform Act of 2017. Since then, they’ve succeeded in the ongoing fight to keep it, though permanency has still eluded them. Craft has conquered and thrived against almost every obstacle thrown its way and throughout it all has become a collective force among a lineup of long-established brands. Now craft faces its biggest challenge yet, and one that none of us saw coming — a global pandemic.

In times of crisis, consumers often look to spirits for comfort. Though the “tried and true” brands belonging to the industry’s largest producers have been getting most of the love lately, they cannot replace the sense of adventure that craft spirits create. Craft distilleries have always served as pioneers in a tradition-bound industry, by necessity becoming innovators of the next generation of spirits. During a

time when many experiences are being taken away from us, that’s something the craft world can *and should* leverage.

Undoubtedly, the appeal of craft remains strong — but as consumers continue to tighten their belts, how do distilleries ride out the storm? Well, it depends largely on where you’re at in your business: Are you already open and operating? Are you halfway through construction or in the midst of your product’s preparation for market? Maybe you have yet to launch, and you’re now in the early stages of researching the prospect. Wherever you might be in this process, there are measures you can take to set yourself up to keep moving forward.

*Open
and Operating*

Evolve Your Business for a Socially Distanced World.

According to the American Craft Spirits Association's 2017 annual report, nearly one-fifth of all craft spirits sales take place at the production facility. What happens when tasting rooms, tours, and on-site retail are forced to shut down? Or capacity is reduced to accommodate for social distancing and regular cleanings between guests? If your distillery is already open and operating, then obviously your goal is to keep it that way. Of course, that's going to rely on your ability to cut costs and boost sales within these limitations.

A good first step will be to audit your Cost of Goods Sold (COGS). Do you know how much it really costs to produce your spirit? If not, then there's no better time to find out. Knowing the true profit margins for your product allows you to make more informed decisions so you can optimize your business, maximize cash flow, and plan for the future.

Distribution is set to be a challenge for everyone in the industry right now, but particularly for craft distillers already in business. Craft spirits sales have slowed down in recent months and that's a reality that existing distilleries need to deal with. Right now, distributors are less likely to take on line extensions or new products — and in fact, most still have an embargo on in-person meetings which takes tastings out of the equation. Without traditional outlets for pitching product to distributors, bartenders, and the like, you're going to need to be thrifty and get creative.

Many existing distilleries have already had to furlough and lay off staff to stay open. That's part of the reason why we haven't seen an onslaught of distillery closures. So, what's next? Well, does your state allow for curbside pickup or shipping? Can you sell spirits directly to the consumer? What about offering to-go cocktails? As tasting rooms and tours begin to open back up, what challenges will you need to plan for to safely accommodate guests, still turn a profit, and do so with far less staff? You might have found ways to make up for lost spirits sales by producing hand sanitizer, but as demand wanes, you'll need to pivot back to promoting your spirits.

Now, more than ever, social media is going to be one of the most important platforms for you to engage consumers with your product. Pre-coronavirus, your distillery might have been exploring ways to expand and move into other states — put that idea to rest for now. Instead, go for a hyper-local approach. Focus on telling your story and engaging with your community. Maybe conduct a virtual tasting. Consumers are spending a lot of time online and they're eager to support local businesses right now. Leverage that.

Preparing to Open

Know When to Pump the Brakes.

For those of you in the midst of preparations, how you respond to the current environment really depends on how far along into your process you are.

If you already have your capital secured, then great! There's not a whole lot of adjustment necessary. Just stay the course. In the best of times, opening a distillery is a two-year process, so you have a while before you'd want to revisit the possibility of a slowdown. In the meantime, there are some opportunities to be explored here:

- As open and established craft distilleries are letting people go, there is now experienced and trained staff on the market. That might be something you want to consider taking advantage of, if you can afford it. If you already have staff on hand, maybe use this time to invest in training. By the time you're ready to open, you'll have a more efficient team.



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- Need equipment? Under normal circumstances, buying up used equipment comes with some substantial risks; however, if it was being utilized by a distiller who knew what they were doing but just couldn't survive the current climate, then that's a different scenario than a year ago when someone would close in a booming craft market.

Of course, if you're already close to opening your doors, then there are other factors to consider: You'll be opening in a rough environment, won't be able to depend on a distributor picking you up unless you already have a deal in place, and you'll need to build loyalty in communities where people are not going out as much to take tours or visit tasting rooms — and even if they do, you're still dealing with reduced capacity to accommodate social distancing and regular cleanings, likely with less staff.

Wherever you are in your preparations, think carefully and adjust accordingly. Your success will be determined by your ability to gauge when it's time to speed up and when to pump the brakes.

*Aspiring
Distillery Owner*

Pursue the Dream, But Plan Smarter.

If you haven't been deterred by the series of risks and hardships that you might face as a craft distillery owner, then it probably means you're serious about the dream. It also means that you are in an ideal position to observe how the industry is adapting to this new normal and educate yourself on what you'll need to do to prepare.

Securing capital is going to be the hardest it's been in the last decade. Invest your time developing a solid business plan. Consider how you might uniquely position yourself to justify attention from an investor. You'll need to think differently and make your business stand out against the rest if you're to be successful in this current climate.

If you're not tied to a specific community, then that's a benefit for you. As distilleries close, there's an opportunity to buy up a business, turn-key. That's not to say it comes completely without risks, but it might be easier for you than starting from scratch — if you have the capital for it.

Take Advantage of Community Resources.

As a member of the distilling community, there are a multitude of resources available to help you adapt your business to survive.

I say "community" because this is truly the friendliest, most open industry I've ever encountered — I say this all the time. There aren't too many fields where you can call up nearly anyone in the business, introduce yourself, ask a question, and get the answer. The coronavirus may have upset the balance in a lot of ways, but it has not changed that.

Yes, times are tough for distilleries everywhere — but if you're a part of this competitive industry, then chances are you've likely survived some difficult challenges already. In fact, thriving under seemingly impossible circumstances is the lifeblood of the craft distilling movement. It's part of what has allowed this incredible community of craft producers to create such innovative, stand-out spirits, and it is also the reason why even in the face of this unique challenge, we will continue to survive.

We're all in this together. Keep your spirits — and glasses — held high. 🍷

Colin Blake is the Director of Spirits Education at Moonshine University, the distilling industry's foremost education provider located in Louisville, Kentucky. Visit www.moonshineuniversity.com for more information.



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