

Good George Brewing

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Abstract

On 13 September 2012, the Good George Brewery and bar opened for business in the Hamilton, New Zealand suburb of Frankton. This case describes the start of the business, the environment that supported it and the resources and capabilities that were utilised. The case won the ANZAM award for best case study at the 2013 ANZAM Conference.

Keywords: entrepreneurship, strategy formulation and implementation, resources and capabilities, competitive strategy

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Jason Macklow was the founder of the Phoenix Group, owner of numerous restaurants and bars around Hamilton, New Zealand. In 2010, Jason started to get interested in the idea of brewing his own beer. 'I was over in the States having a look at some of the ideas over there', explained Jason. 'I was just blown away by the explosion of choices in the beer market – craft beers were everywhere. Really good quality and really interesting brews – I thought there was a great chance to reinvigorate the beer market. So when I got back I started looking into it and we've been working on it ever since'. On 13 September 2012, the Good George Brewery and bar opened for business in the Hamilton suburb of Frankton (see Table 1 for budget).

BEER IN NEW ZEALAND

Beer was first brewed commercially in New Zealand in 1835 and the number of breweries increased steadily until the peak of brewing numbers in 1891 with at least 102 breweries in operation. The next

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TABLE 1. BUDGET FOR GOOD GEORGE 30 SEPTEMBER 2012–2013

	Revenue	GM (%)
GG bar		
Beer	800,000	65
Wine	200,000	70
Food	500,000	65
Total	1,500,000	
GG brewery		
Sales to GG bar	300,000	60
Sales to other ^a	250,000	60
	% of sales	
Wages ^b	26	
Expenses ^c	15	
Fixed costs ^d	3	
Net profit	20	

^aSales to other bars – wholesale kegs.

^bWages include all wages to kitchen staff, bar, management, brewery, admin and sales and marketing and vary by area. Brewery is lower than bar, and will get lower still as a percentage with increased volumes.

^cExpenses include non-wage, non-cost of goods sold, non-premises expenses like telephone, training, accounting, advertising, bar expenses (lemons, serviettes, etc.), cleaning, vehicles, promotions, marketing, etc.

^dFixed costs include rent, rates and insurance – which clearly will not increase greatly with volume.

GG = Good George; GM = gross margin.



FIGURE 1. THE NUMBER OF BREWING FIRMS IN NEW ZEALAND (1835–1971)

80 years saw a consistent decline in brewery numbers down to the duopoly of Lion and DB that existed from the early 1970s (Figure 1).

For many years that duopoly was the New Zealand beer industry. In the 1980s, McCashins Brewery began in Stoke and slowly brewery numbers rose. By 2012 around 50 breweries operated in New Zealand. Craft beers are driving beer growth globally as Figure 2 attests from the United States. In South East Asia, 4.7 billion litres of craft beer are now being consumed annually. Craft beer, typically fuller flavoured and made in small batches, is gaining customers from all segments of the alcoholic beverages market.

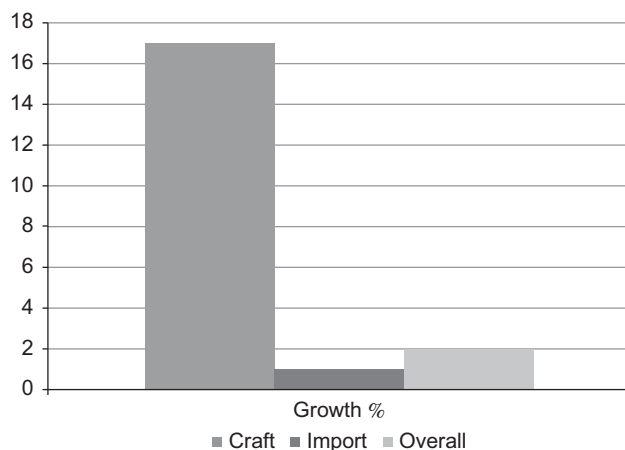


FIGURE 2. US BEER GROWTH BY SEGMENT IN 2012. SOURCE: BREWERS ASSOCIATION

One of the challenges traditionally for craft beer in New Zealand was the exclusive supply arrangements that the big two breweries, Lion and DB, had with bars and restaurants. A new bar, for example, would fund their fit out of a new bar by a loan from one of the breweries. These loans might be interest free and did not require additional collateral. A marketing and supply agreement would be signed providing exclusive pouring rights to the brewery loaning the money.

Two problems have occurred in recent times with these agreements. First, the rise of craft brewing to 'around 9% of the New Zealand beer market' has led to bars with exclusive agreements losing customers who are seeking craft beers. According to Macklow, 'The drop has been noticeable in our bars with exclusive agreements'. Second, there are a large number of those agreements up for renewal in the near future. With financial markets more difficult, breweries are offering terms far more comparable to banks for the supply of capital. 'From our perspective', argues Macklow, 'there's a cost to exclusivity and we can just as easily go to banks for any capital needs. We think there will be a reduction in exclusivity – although it's always hard predicting exactly what the breweries will do'.

GOOD GEORGE

Good George Brewing is based in the Hamilton suburb of Frankton with around 20 employees – mainly bar staff and chefs. Kelly Ryan is the Brew Ninja. Kelly has brewed beer around the world. He grew up in Taranaki, but then went to Otago to pursue his passion for microbiology. As can happen at Otago, an initial interest in medical applications morphed into a focus on beer. That morphing occurred in part because of the late Professor Jean-Pierre Dufour, 'an amazing brewing scientist and educator'. Having obtained two science degrees, Kelly went into a trainee brewer role with Dominion Breweries. 'I knew about metabolic pathways of yeast, the flavour chemistry of esters and higher alcohols and how fantastic Duvel and Chimay were (JP was Belgian, so we would do sensory analysis on Belgian beers in our lab classes) yet I'd never physically brewed a beer before my first job'.

Kelly brewed at DB for a couple of years before deciding that the adage that brewers make beer not money was ringing a little too true. So he started to travel – first to Asia and then to Scotland, where he found work at craft brewer, Fyne Ales. It was only a contract position, but he loved it. 'Big breweries are really run by accountants and the brewer is there to make sure production goes as planned – there's no real opportunity for creativity. At Fyne I could try things – if we wanted to make a coffee stout, we

did. It was great fun'. When Kelly finished up with Fyne, craft brewing was really beginning to take off in England and he had multiple job offers – taking a position with Thornbridge Brewery in Bakewell. During his time at Thornbridge as head brewer, Kelly built up the business and continued to develop his network of brewers – including Luke Nicholas of Epic in New Zealand. After co-brewing two beers with Luke, Kelly was offered the opportunity to return to New Zealand and brew for Epic. A year later, Kelly was approached about the opportunity to work for Good George and the chance to do what he loved while living on the West Coast in Raglan was too good. Jason Macklow describes Kelly as an icon in the industry. 'We went to Beervana – the craft beer festival in Wellington – and it was like being with a rock star where everyone wanted to talk to him'.

Brian Watson was the person who approached Kelly Ryan. Brian had done his science degree in food technology at Waikato. Brian went on to train with Dominion Breweries as a brewer before travelling the world – first as a brewer, then working with leading craft brewery equipment supplier DME. Brian had been involved in the development of 31 breweries around the world before Good George. 'In 2011 Brian approached me about breweries and told me if I ever wanted to build one to call', recalled Macklow. 'I checked up on Brian and couldn't believe someone so experienced and knowledgeable was living in Hamilton'. As Kelly says of Brian, 'his level of knowledge is just unbelievable and he's a great guy to work with. Once I knew he was involved that gave me enormous confidence'. Brian had been chief judge at the New Zealand Beer Awards organised by the Brewers Guild in 2010 and 2011.

Brian was a shareholder in Good George along with Jason and his business partners from the Phoenix Group. Another shareholder was DME, who supplied the brewing equipment. 'That allowed us to keep the capital cost of the brewery down a bit', suggested Macklow. 'Otherwise we might not have been able to afford the quality of system we have got. It was still \$600,000'. The Good George Brewery has the capacity to produce 1,400 l batches, which take around 2–3 weeks to process into the finished product. As multiple batches can be at different stages at the same time, the brewery could potentially produce around 200,000–250,000 l/year.

Choosing beers to produce is not an exact science. 'We are not trying to make the beer too complex', says Kelly. 'We are probably going to get criticised by some "beer snobs" that we are not going hard enough after the really "out there" beers with massive hops and huge flavour – but that's really an acquired taste that doesn't appeal to our main market. We want great quality beer, that tastes fantastic – but is highly approachable. We want to do things that are different to what is available in the market – so we have a white beer, we have a hopped cider, and we will be doing some oak barrelling of beer. It will be great, but everything will be accessible to people who love beer as well as those who are more used to RTDs or whatever'.

For the time being, production is concentrated on kegs to supply taps at both the Good George and selected other bars. There is a \$20,000 bottling machine that has been purchased – which is excellent quality for small runs – but the timing of bottling has yet to be decided. 'Usually it takes about 6 batches before you really understand a particular beer', argued Kelly. 'So for now the instant customer feedback is great. And the feedback has been terrific. I am really excited about what we are producing'.

THE FUTURE

Jason, Kelly and Brian, all viewed the future of Good George Brewing with a great deal of excitement. For Jason, it was an opportunity to establish a brand unconstrained by the walls of the establishment – as was the case with his restaurants and bars. For Kelly, it was the opportunity to be involved in a brewery, which had his handprint all over the beer, and to be involved with a brew pub for the first time in his career. For Brian, it was the opportunity at long last to be involved in a quality craft brewery in his home town.

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DISCUSSION QUESTIONS

1. What changes in the environment are making it more likely for a smaller craft brewer to succeed in New Zealand?

Customer preferences: mirroring trends in markets around the world, New Zealand has seen a fragmentation of the beer market. Consumers are less willing to drink solely the major brands and more willing to seek out different types of beer and brewers who make more flavourful, high-quality craft brews. To an extent the beer market is becoming more like the wine market with a larger number of smaller producers – ironically moving back to a situation closer to 120 years ago.

Marketing and supply agreements: New Zealand is unusual in the ability of large breweries to have exclusive contracts with bars – the history dates back to the 19th century. However, the financial environment and the growth of bars has changed the nature of those agreements and provided little incentive for bar owners to sign exclusive deals any more. With a wave of agreements due for renewal, this has the potential to dramatically change the number of non-exclusive bars. That will provide the opportunity for good craft beers to distribute their beer more easily.

2. What are the key resources and capabilities that increase the chances of Good George successfully pursuing the opportunity?

People: Jason and his group provided the majority of the capital, but also the expertise in running bars that aided the development of the bar side of the Good George. Good George has been very successful as a bar right from their opening and clearly the expertise would help. However, also the access to other bars and restaurants within the Phoenix Group ensure that there are distribution outlets from the start for Good George while the number of non-exclusive bars rises. Kelly and Brian both contribute significantly to the brewing capabilities. In its first year, Good George has won numerous awards for their beers and ciders. The combination of high quality, innovation and accessibility of the beer has aided success. Finally, Brian's expertise in brewing technology and connections to DME has enabled the brewery to have leading edge, highest-quality brewing equipment. Historically, the combination of complementary people skills has been at the heart of New Zealand's most successful breweries such as Speights.

3. What are the challenges Good George faces pursuing the opportunity?

The non-exclusive agreements do not guarantee distribution, they merely increase the potential. Great beer and relationships will still be needed. The initial beer awards success of Good George will inevitably drive up demand. The capital needs to scale up significantly would be significant. The capital needs are higher if Good George expands by increasing the number of Good George pubs versus producing packaged beer versus supplying kegs and one of the challenges for Good George lies in the lack of experience in branding and distribution that will be necessary to maximise the opportunity. It is also not clear how the big breweries will react and historically it has been badly.