

# Strategic Selling: How to Make Your Craft Brewery Attractive for Acquisition

## Executive Summary

If you are a brewery operator looking to eventually sell your business, you should start planning early. You must understand the competitive landscape and have a strong feel for how your brewery stands out from the competition. You also must take an honest look at your brewery's internal challenges and ensure your financials are in order before considering a sale.

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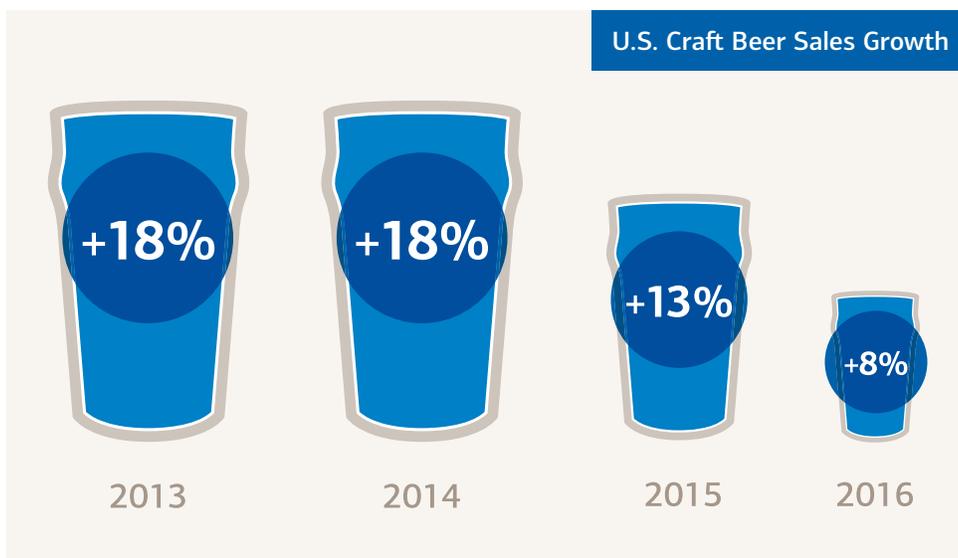
The craft brewing industry has experienced both a big boom and a sharp divide over the past decade.

Purist brewers—and consumers—believe the craft beer label should be reserved for small, independent businesses. But many brewery operators appreciate how an acquisition by a global beverage conglomerate can help them gain the strategic savvy and sales and marketing infrastructure they need to remain competitive. In the case of a sale, many brewers maintain that the authenticity of their brand need not change, while their reach may grow far beyond an initial base of loyal customers.

Such acquisitions have made many headlines in recent years. Anheuser Busch-InBev (whose \$107 billion merger with SABMiller was approved by the Department of Justice in July 2016) has snapped up craft beer operations including Goose Island, Blue Point, 10 Barrel, Elysian, Golden Road and Karbach. All are a part of AB InBev’s craft beer division, labeled The High End.

MillerCoors has also purchased stakes in small breweries including Hop Valley Brewing Co., Blue Moon, Terrapin and Revolver Brewing. And private equity firms have been dipping into the craft beer keg by purchasing stakes and facilitating mergers between small breweries.

As of 2016, there are approximately 5,000 breweries in the U.S., according to the Brewers Association<sup>1</sup>—and 99% of them are still small and independent. As might be expected after a time of big growth and increased consolidation, craft beer sales overall—while still rising—have slowed over the past four years.



Given the ultra-competitive landscape, signs of slowing growth and increasing overall market share of the big beverage corporations, how should a brewery operator today position their business to make it attractive to a major buyer?

## Start early

Selling to a global conglomerate is a long process. So the sooner you begin to position yourself as a sales target, the better, advises Scott Vanderpool, a Bank of America Merrill Lynch marketing executive in Business Banking.

“You need to start preparing yourself and making business decisions with a future sale in mind 24 to 36 months in advance,” he says.

The fundamental question to answer, however, is what a brewery hopes to gain from being acquired.

“Figuring out why you want to sell will drive everything after that,” explains Vanderpool. “For example, if you’re looking for an acquiring company to take a full equity stake in your business, that will lead to a different series of business decisions than if you’re expecting them to only buy your company’s name and distribution rights.”

## Think like a buyer

To start, most craft brewers should heed advice that’s valuable for any business looking to be acquired. Take an unflinching inventory of your brewery and be honest with yourself about any problems that may put off a potential buyer.

And as is the case with any business, the quality and brand value of your product are of the utmost importance. Independent breweries targeted by major conglomerates typically feature innovative blends that are loved by a growing regional customer base. How do your flavors stand out? How loyal are your customers, and how much sales growth have you seen over the past year or two or three?

Big-beverage giants aren’t looking for run-of-the-mill brands to add to their portfolios, so breweries must be able to understand and articulate what it is that makes them stand out from the considerable competition in this space.

It may also be worth seeking out strategic partnerships with larger companies that have already made acquisitions in your market. Establishing a partnership with a big brand can make it that much easier to explore a deeper relationship—including an acquisition—later on.

Of course, knowing and working with major players in the brewing industry doesn’t automatically mean your company will become a candidate for acquisition.

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—Scott Vanderpool  
Marketing Executive,  
Bank of America Merrill Lynch  
Business Banking

## Get your financial house in order

Many a potential business sale has fallen apart once a suitor looks under the hood of the targeted company. The best beer sales and brand appeal won't make up for mismanaged operations, negative cash flow and a P/L statement that's bleeding red ink.

MillerCoors and AB InBev have staff dedicated to undertaking a full forensic exam of any company they're looking to acquire. To prevent a sale from going bust, it's in your best interest to conduct a thorough due diligence before a potential acquirer does.



Consider pre-emptively bringing in a financial advisor to scour your brewery's books. Along with examining key fundamentals such as sales revenue, production and distribution costs, employee salaries and profit margins, an advisor can alert you to any red flags by digging deeper into aspects of your business's financial health.

These can include detailed audits of the company's federal, state and foreign tax returns; any liens, encumbrances or mortgages on personal or company property; business plans and financial projections; internal financial controls; and the status of any patents, trademarks or licenses.

## Don't overlook distribution rights issues

Sometimes a craft brewery looking to be acquired may share distribution with a rival brand of the potential buyer, which creates an unwanted headache for the buyer. So it is critical to look for these potential distribution conflicts before they arise.

If you want to position your brewery for acquisition, having a popular beer is where it all starts. But in the end, there's a lot more to strategic selling. Brewery operators on the hunt for a buyer also must establish healthy growth and brand equity, ensure their financials are in order, and remain alert to competitive conflicts from distribution.

<sup>1</sup> Brewers Association. "2016 Craft Beer Year in Review from the Brewers Association." <https://www.brewersassociation.org/press-releases/2016-craft-beer-year-review-brewers-association/>