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Lagunitas Brewing Company

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**Lagunitas Brewing Company:**

Maria Camozzi, Kelsey Guttchen and Amy Robertson prepared this case study under the supervision of Dr. Wayne Howard in AGB 462 Applied Agribusiness Problems as the basis for class discussion rather than to illustrate either effective or ineffective management.

**Tony Magee**

*With some luck and perseverance, a musician turns a new hobby into the dream job.*

“Beer speaks. People Mumble.” The trademark phrase printed on the side of a Lagunitas India Pale Ale package is the perfect snapshot of the company’s brand and reputation. Tony Magee, musician-turned-print-shop-manager-turned-home-brewer was able to translate his new home brewing hobby into one of the top craft brewing companies in the United States.

Magee grew up in the suburbs outside of Chicago, Illinois, an artistic teenager who thrived in the world of music but was not so fond of math and other school subjects. He eventually went on to study Music Composition at Northern Illinois University but dropped out to tour the Midwest playing with a reggae band. In 1987 Magee traveled out to Los Angeles and fell into a job selling printing services in San Francisco. Amidst experiencing some misfortune in the form of lost business clients, mounting bills to pay, and taxes breathing down his neck, Magee adopted the hobby that would change his life, almost by accident.

**Beer History**

Since the discovery of beer via fermented grain, civilizations have come to consume the protein-providing, delicious beverage in their diets for centuries.<sup>1</sup> Historians have found clay tablets from the Babylonians in 4300 BC engraved with beer recipes and 1600 BC

Egyptian texts containing over 100 medical prescriptions for beer. Finally in 55 BC, Romans introduced beer to Northern Europe. It was not until 1000 AD that hops were introduced into the brewing process and just a couple hundred years later that Germany, Austria and England were the first to capitalize on mankind's love for beer by establishing commercial brewing.<sup>2</sup>

In 1612, the first commercial brewery opened in New Amsterdam, now known as Manhattan, New York. By 1880 there were 2,300 operating licensed breweries in the United States and ten years later, beer passed distilled spirits as the front-running alcoholic beverage in America.<sup>2</sup> Sadly, the American Beer industry hit a wall in January of 1920 when the 18th Amendment was passed banning the manufacturing, transporting or sale of any type of intoxicating liquor. To the joy of beer-drinkers everywhere, Prohibition ended with the passage of the 21st Amendment in 1933. However, by 1961, the beer industry had taken a huge hit as the number of breweries had shrunk to a mere 230 establishments, amounting to only 10% of its previously thriving diversity in the industry.<sup>3</sup> This decline could be credited to the large, lager-producing companies such as Anheuser-Busch and MillerCoors who were able to master the art of economies of scale by utilizing industrialized plants to manufacture homogenous products.

### **Craft Beer History**

While the products of companies such as Anheuser-Busch and MillerCoors are still enjoyed by many across the United States, consumer taste has taken a shift towards the more complex and hoppy flavors on the market. Previously, the main source of the distinct and delicious variety in brewing was solely imported and foreign beers. The world of beer changed in 1965 when Fritz Maytag invested in Anchor Brewing Company, a San Francisco-based brewery, in order to prevent the company from going out of business. He made history when he reintroduced diversity and flavor into American brewing.<sup>4</sup> Maytag got the ball rolling for entrepreneurs such as Jack McAuliffe, who opened New Albion Brewery in 1977 in Sonoma, California. He used old dairy tanks and scrapped industrial equipment to establish the first modern craft brewery in America. Northern Californians pushed further for better beer as Ken Grossman, deeply inspired by his predecessors, opened Sierra Nevada Brewing Co. in Chico, California in 1980 creating and making a name for the American Style Pale Ale.

Today, the U.S. ranking for number of craft breweries per state is California (1st) producing approximately 2,948,895 barrels of beer in 2013 (see **Exhibit 2**), Washington (2nd), Oregon (3rd), Colorado (4th), and Michigan (5th).<sup>22</sup> Today there are over 400

breweries in California and approximately 2,700 small and independent craft brewers in the United States.<sup>6</sup>

### **Craft Beer Industry Overview**

Since the beer industry took such a heavy blow from Prohibition, the brewing market has been mostly dominated by large companies such as Anheuser-Busch and MillerCoors. Anheuser-Busch, which bought InBev Co. in 2008, controls over one-fifth of global beer volumes. In the U.S., Anheuser-Busch InBev leads the beer market with 47.2% market share and in 2013 had annual sales of \$43.20 billion. Following in second is MillerCoors which produces just over one-fourth of the industry-wide volumes and in 2013 had an annual sales of \$792.70 million.<sup>7</sup>

However, due to shifts in demographics and consumer preferences towards wine and spirits, U.S. beer market volumes declined by 6% between 2009 and 2013. This is mainly due to an ageing population of baby boomers and a lower consumption of beer among young adults between the ages of 18-29.<sup>9</sup>

While there is still a steady demand for beers such as Bud Light and Coors Light due to premium brand positioning and cost-effective methods of production, there has been a fast growing demand for more diverse beer products. This has caused a massive increase in the production and sales of craft beer. According to the U.S. Census Bureau, the number of breweries in the United States has doubled in the past five years, primarily due to an increase in craft beer demand. In the U.S., an average of the past two years has shown that 1.2 craft breweries have opened every day.<sup>9</sup> Additionally, from the year 2012 to 2013 alone the number of breweries in the United States has grown 14.9%, with the number of craft breweries increasing by 15.3% (see **Exhibit 1** below).

According to The Brewers Association, craft breweries can be split into three categories: small, independent, and traditional. A small craft brewery produces 6 million barrels of beer or less. For independent craft breweries, less than 25% of the company is owned or controlled by an alcoholic beverage industry member that is not itself a craft brewer. Traditional craft breweries have a majority of its total beverage alcohol volume in beers whose flavor derives from traditional or innovative brewing ingredients.<sup>22</sup>

The increased demand for craft beer is evident when walking into local grocery or liquor store. The Brewers Association has quantified that craft beer volumes have grown to approximately 7.8% in 2013 from a lowly 2.6% in 1998. One of the reasons for this increase in craft beer market share is due to a growing consumer need to feel a

connection and experience associated with their purchase. Companies like Sierra Nevada, Lagunitas, and New Belgium Brewery have nearly mastered the art of forming strong bonds with their consumers through personable marketing initiatives and unconventional advertising, not to mention delicious beer.

These extremely popular craft breweries are just a few of the many companies responsible for the \$14.3 billion dollar growth in craft retail, which accounts for 14.3% of total U.S. beer market retail dollars. This success in the industry represents a 20% growth from 2012 to 2013.<sup>10</sup> According to the Brewers Association, Boston Beer Co. leads the industry as the number one-ranked craft beer company in 2013, followed by Sierra Nevada Brewing Co., New Belgium Brewing Co., Gambrinus, and Lagunitas Brewing Co. respectively. The 2013 Top 5 Overall U.S. Brewing Companies are Anheuser-Busch Inc., MillerCoors, Pabst Brewing Co., D.G. Yuengling and Son Inc. and Boston Beer Co. Lagunitas comes in strong as the 11th highest volume selling U.S. Brewing Company, jumping an impressive two ranks compared to its 2012 published ranking.<sup>11</sup>

### **The Birth of Lagunitas Brewing Company**

The beginning of Lagunitas began in a small town in West Marin County in the year 1993. The owner and founder, Tony Magee, came into the industry as a musician from Chicago who travelled to California and landed himself in a paper printing business career. After some unsuccessful years in the industry Magee took up a hobby of home brewing in his Marin County home with his wife, Carissa. Once his brewing hobby made too much of a mess for their small kitchen, Carissa eventually encouraged Tony to move his exciting new hobby elsewhere. The new location of the brewing process took place in a small warehouse shed in Forest Knolls, where Tony began selling beer through wholesale trade, much like how another brewery, Anchor Brewing Company, got their start.

Tony acquired his equipment from a soon-to-be friend, John Cross, who imported European beer serving tanks from Europe. At the time, Cross had a one-off brew house that was supposed to be assembled and shipped to Russia until the order was cancelled at the last minute. To Tony's astonishment, Cross sold him the brew house for the unthinkable bargain price of \$5,000 and thus escalated the seriousness of the brewing ambitions.

Magee, using the income he made from his printing business to pay for the brewing costs, was able to produce 1,000 barrels per year with two used fermenters and the small Russian brew house that John Cross had built. His short-term goals at this time

were to start selling private label beers to restaurants in San Francisco and Marin County. Magee was the sole person in charge of the brewing, filtering, kegging, and delivering services, all the while still managing to generate an income from his printing business. Eventually, the little brewery became too busy for one person to handle and he found the need to hire an additional employee. Little by little the business grew, as well as the volume of brewing, and with it the capacity of the space needed to make his dream possible. The first sign of this was brought to Magee's attention via an unfortunately messy situation Lagunitas imposed on the county's septic system, and he decided then that it was time to move.

Lagunitas found a new home in Petaluma, but due to the high cost of the move and the new leased facility, Magee realized he would need to sell more beer to be able to survive. Unfortunately, brewery funds were running low, his small brew house was also coming to the end of its production life, and thus another phone call to John Cross was in order. Cross agreed to construct Magee a larger brew house in return for monthly interest payments for the cost it took to build it. Using old dairy tanks as fermenters and other makeshift equipment to create the rest of the framework for the brewery, Lagunitas scraped by and beer production continued.

By this time in 1995, Lagunitas was only selling in beer in kegs which, in theory, was not the most profitable way to run a brewery. Magee noticed this and made the switch to selling beer in bottles. This change resulted in a 63% increase in the wholesale price of 14 barrels of beer from \$1,820 (kegged) to \$2,960 (bottled). Instead of placing his beer in an already highly-competitive local beer market, his new 6-packs of beer were originally aimed to compete with the best international brands at his chosen retail price of \$5.99. At the time, the craft beer industry only made up 2% of total beer sales, opposed to imports that made up 12% where Magee saw a more successful business opportunity.<sup>18</sup>

The printing business soon dwindled due to the majority of Magee's attention directed to the brewery. In order to continue generating more income for the brewery, he searched for bank funding, private funding, and even a continual refinancing on his house in order to keep up with the weekly business expenses and payroll. His effort in the company was in turn reflected by its rapid progress: by the late 1990s Lagunitas was one of the fastest growing craft breweries percentage-wise in Northern California.<sup>18</sup>

In 1997, Lagunitas's popularity continued to increase and another move was necessary to escalate company production. Magee received financing from friends and friends-of-friends while continuing to use makeshift equipment, creativity, and innovation to save money wherever possible. Once the fermenters, beer tanks, boiler, and cooling systems

were bolted down into the new location on McDowell Boulevard in Petaluma, Magee brewed as much as he could in the old warehouse while transferring the finished beer to the new location across the street. When the new brewery was almost finished, Lagunitas hosted a moving party where 1,200 guests were invited to come and drink beer to celebrate the success of the company. At the end of the night, guests were asked to grab anything that wasn't bolted to the floor and take it across the street to the new location. Everything was transported in a parade procession led by a mime, a man on stilts, a purple bear, and a civil war-style marching band.

The company has been in this location since that last move and today is complete with their 90-employee headquarter office, taproom, restaurant, beer sanctuary, and brew house.

## **The Success of Lagunitas**

### *Building a Brand*

When branching into the new world of 6-packs, Magee made a business move that has attributed to the success of Lagunitas exponentially: the creation of the Lagunitas IPA. One of the largest craft breweries at the time, Sierra Nevada, was best known for their pale ale and had effectively correlated this style of beer to be synonymous with the Sierra Nevada brand from the consumer's viewpoint. In simpler terms, when a consumer thinks of drinking a pale ale, they immediately think of the Sierra Nevada brand. Magee recognized this business strategy, saw its potential, and decided to use this same tactic for Lagunitas. He knew his pale ale wouldn't be able to survive against Sierra Nevada's as the company's main staple product, and gave that position up to his most recently brewed seasonal batch of IPA. He even designed the label with bolded, large, black letters on a plain white background so that the consumer easily familiarizes the thought of an IPA with Lagunitas. To this day, the label for the IPA beer remains largely unchanged from the original label that Magee designed for this product when it first rolled off the bottling line. For a picture of the original IPA label in comparison to today's current IPA label, refer to **Exhibit 3**.

Even today, in such a crowded market, 2012 IRI grocery-scan data report shows that between the flagship IPA, Maximus, and Hop Stoopid, a large portion of IPA beverages sold in Northern California are produced by Lagunitas. Magee's goal over time is that consumers will associate Lagunitas and IPAs to be one interchangeable idea.

### *Cost Efficiency via Creativity*

In the early brewery days, Magee stated that sometime businesses fail because they have too much capital. In cases such as these, businesses attempt to solve problems by spending money without using creativity which companies with less capital are forced to use in problem solving situations. In other words, the lack of capital was beneficial to Lagunitas because it forced Magee and his team to be more innovative. Although he has moved on from using old dairy tanks as makeshift brewery equipment, this strategy holds true today in his motivation to add brewing capacity faster and more cost efficiently than ever. Lagunitas now employs its own in-house teams for engineering and construction for expansion projects. These teams can complete the same work for the about a third of the cost of an outside company. Overall, this change brings the company brewery cost down from \$350 per barrel to \$100 per barrel at the brewery's current capacity.<sup>13</sup>

### *Building a Leadership Team*

According to Eppa Rixey, Strategic Planning Manager at Lagunitas, when it comes to running a business Tony Magee admits that he “knows what he knows, but also knows what he doesn't know.” In an effort to be a responsible founder, he brought on a team of experienced individuals to lead the company on the executive board. Some of the team members include a former Vice President of Marketing at Diageo, a marketing manager at Ben & Jerry's, and a director at Merrill Lynch, to mention a few. While Magee is most familiar with the brand and personality of the company, he notes that you must be humble enough to take in help where you need it. These individuals lead the company with years of experience and business insight to make the success of Lagunitas possible.

### **Current Company Overview**

Tony Magee is the founder and owner of the privately owned company and has a wildly talented management team. Included in that team is Leon Sharyon (CFO), Ron Lindenbusch (Marketing Manager, a.k.a. Beer Weasel), Robin McClain (VP of Finance), Ryder Morrison (Packaging Manager), Carissa Brader (Production and Logistics Coordinator), Sean McHugh (Market Manager), and last but not least Jeremy Marshall (Brew Master, a.k.a. Brew Monster). The company includes over 700 employees ranging from keggings line operators to swag shop retailers and a variety of other positions that keep the day to day business operations running smoothly.

By share gain, Lagunitas considers its biggest competitors to be Boston Beer, Sierra Nevada, New Belgium and Craft Brew Alliance. While considered a craft beer company, they still view the industry leaders such as Anheuser-Busch to be in their main competitors, always competing on a larger scale rather than craft breweries of similar size.

## **Products**

It all started with a standard five gallon plastic pail, a strainer, hop packets, yeast, and malt syrup. Tony's first brew of beer was a "California Common Beer" which turned out, in his own words, "pretty vile." However, as he compared it to learning an instrument, with continued practice his beers got better-- each with a distinct, unique flavor that makes it a Lagunitas.

Magee often refers to his brewing process as part of a symphonic orchestra. Each beer is part of a larger picture that he tries to accomplish of the overall character of a Lagunitas. Incidentally, the beers are usually hoppy, flavorful, very aromatic and in turn, often confused for having inappropriate characteristics of the beer's style. For example, their Pale Ale tastes more like a traditional IPA than their flagship IPA does. At any brewing competition, it is unlikely that Lagunitas will ever win in any category, the main criticism of the beer being "not appropriate for style."

### *Year-Round Beers*

True to Magee's unconventional manner, his beers are aptly named to reflect the personality that the beer brings to the symphony that is the Lagunitas brand. The year-round products are represented first and foremost by the flagship Lagunitas IPA. The brew was the company's first seasonal beer in 1995 but was so popular that the company brought it back and used the ale to establish their name and brand in the craft brewing market. Other year-round brews include the Little Sumpin' Sumpin' Ale, Pale Ale (New DogTown), DayTime Fractional IPA, Pils (a Czech-Style Pilsner), IPA Maximus Ale, Censored Rich Copper Ale, Hop Stoopid Ale, and the Imperial Stout. Many of the beers hold a reputation for being rich in unique hops, flavor and moderately high ABV (alcohol by volume).

### *Seasonal Beers*

While the Lagunitas IPA has yet to run its course on the taste buds of its consumers, the company's strategy to keep things interesting includes rotating seasonal beers, which act as the "pilot light to keep the IPA fire going". Starting with the IPA, Lagunitas

has brewed numerous seasonal beers, each with its own interesting tale and unique pallet to stay true to the Lagunitas way. Those that are currently on the seasonal menu include Lagunitas Sucks, Cappuccino Stout, NightTime Ale, Little Sumpin' Extra! Ale, Imperial Red, Little Sumpin' Wild Ale, Brown Sugga', The Hairy Eyeball Ale, and the Undercover Shutdown Ale, a beer that is brewed to commemorate a time in Lagunitas's history when the company was suspended from sales for 20 days due to an undercover investigation of an ABC violation.<sup>12</sup> As Magee proudly claims, "We did the crime. We did the time. We got the bragging rights." On the company website, consumers can find stories of this beer and many others as well as the description of taste and profile. More detailed stories of the creation and inspiration of some select beers can be found and enjoyed in Tony Magee's book titled So You Want to Start a Brewery?: The Lagunitas Story.

### *Fusion Beers*

Individuality and outlandish are not terms that intimidate the Lagunitas Brewing Company. While many other companies produce beers as a result of a collaborative effort such as Super IPA by Alpine Beer Company and New Belgium, Lagunitas prefers instead to innovate through a process they call Fusion. In this type of brainstorming, Lagunitas will collaborate with distributors, suppliers, and even musicians to inspire their Fusion line of beer to wow Lagunitas consumers and keep the world of craft beer interesting. The Fusion line combines ideas and suggestion from different levels of the supply chain to create the ideal product, bringing the Lagunitas tribe closer together. Some examples include the CouchTrippin' Fusion 19 Ale or Fusion 18, an Über-hoppy Imperial OatWine. These are all special release beers and are available at the on-site tap room.<sup>12</sup>

### *Born Yesterday*

Born Yesterday is both a Lagunitas overarching concept and an innovative newly released beer. Born Yesterday is a revamped version of both the Pale and New DogTown Pale ales. What gives this beer its characteristic differences to set it apart from the Pale and New DogTown Pale ale is the use of whole Amarillo, Mosaic and Equinox hops. It holds unbashful grapefruit, pineapple, apricot and mango flavors and totes hop flavors much like an IPA. However, what makes this such unique concept to the industry is that, you might have guessed it, it was born yesterday. Any consumer who enjoys a Born Yesterday Pale Ale is drinking a beer that was bottled a maximum of 24 hours earlier. This ensures the consumer is getting nothing but the freshest beer possible; a trend favored by many beer lovers. For an image of the Born Yesterday label, see **Exhibit 5**.

## Production

In the United States, Lagunitas was ranked by the Brewers Association as the 5th largest craft brewery in 2013. This ranking was based on the company's production of 600,000 barrels, passing up Deschutes Brewery last year. Between 2012 and 2013 production jumped about 70%, which reflects their impressive success when compared to production three years ago of 161,000 barrels.<sup>20</sup> Currently, Lagunitas operates 4 brew houses between its main brewery and headquarters in Petaluma, California and its new production facility in Chicago, Illinois. This year, the Chicago plant will produce about 120,000 barrels out the 600,000 total company barrels. By next summer, the Chicago facility will be able to produce at a capacity of 1.2 million barrels as the Petaluma plant reaches maximum production around 700,000 barrels.<sup>21</sup> Details of Lagunitas's growth over the last ten years can be seen in **Exhibit 4**.

This new venture will largely produce and distribute beer to the Eastern United States. Since the new plant establishment, Magee has been looking at a substantial increase in production from the 700,000 barrel brewing capacity to over 1.7 million barrels for total brewing capacity by the end of 2015.<sup>13</sup>

## Sales and Distribution

In 2014, estimated total sales for Lagunitas were \$150 million revenue, which is a long way from Tony Magee's original financial struggles with debt, accounts receivables, accounts payable and the IRS when he was first establishing his company. Of total company sales, 36-40% are from on-premise accounts such as bars or restaurants, while 60-64% are from off-premise accounts such as your local grocery store. 10,000 of the 600,000 barrels produced at the brewery are sold direct to consumer, meaning the on-site taproom and beer sanctuary, making up 1.67% of total sales.<sup>13</sup> As for their packaging assortment, Lagunitas sells the majority of its beer in bottles at 66% and the remaining 33% in kegs.

Currently, Lagunitas is sold in 45 states within the United States. Approximately half of all domestic sales are in California, with Northern California taking credit for roughly 70% of the company's California sales. The company also exports to 8 countries including Canada, Sweden, Japan, the United Kingdom, Denmark and soon Mexico. When asked about their sales distribution strategy, Rixey stated that the company sales representatives look to start distribution in a bar that they feel would be a good fit to sell Lagunitas, where they will introduce their IPA and then gradually bring in other beers that they find appropriate for that establishment. As growth and expansion rapidly increase, the company still prioritizes the importance of maintaining their personality as

the brand travels across the globe, controlling the route to market in order to protect quality of the products.<sup>13</sup>

## **Brand Marketing**

Much like the majority of companies in consumer marketing, Lagunitas targets the socially aware millennial generation that tends to have emotional attachments to their products. However, instead of referring to them as the blanket consumer, Magee urges its marketing and branding department to connect with the individual consumer.

The marketing philosophy behind Lagunitas is simple: be humble. The company rarely talks about itself in the form of billboards or print ads. The closest thing to an advertisement you will see from Lagunitas is the sponsorship of events that the company feels a connection to, largely including music festivals across the country. A message of humility comes across loud and clear with the incredible efforts towards donations to non-profit groups. Brewery tap rooms in Petaluma and Chicago are available free of charge Monday and Tuesday nights for the non-profits to borrow space to hold fundraiser events. The company also donates beer to these events and others totalling to approximately 70,000 cases of beer annually.<sup>13</sup> Tony often repeated throughout the growth of Lagunitas that while he may have been money poor, he was beer rich and he does what he can to share the wealth.

Generosity is in no shortage at Lagunitas as Magee also enthusiastically donates to local music programs, sponsors NPR programs, music festivals, bands and the San Francisco Giants. Lovers of the brand have even uploaded images of their Lagunitas tattoos to social media sites, displaying their commitment to Lagunitas and the image they stand for. Magee has succeeded in establishing his brewing company as more than just a beer factory. As he reiterates the philosophy behind Lagunitas, "We are in the business of building a tribe and beer is our method." Following his symphonic analogy, the brand has been revealing what it was intended to be all along since 1993. Through the character of each beer crafted, the personality behind every marketing-based competition and the hop-loving tribe that Magee has built, the Lagunitas brand has established itself as the beer for beer drinkers everywhere.

## *Endorsements*

While Lagunitas is committed to supporting the music industry, driven by Magee's passion for music, the company also participates in other philanthropic events and endorsements. The company put on a donation drive in conjunction with Hope Response Coalition and COTS Petaluma called Beers for Brrrrrs where people had the

opportunity to donate warm clothes, and in return get to attend a party put on by Lagunitas.<sup>15</sup>

A new event to Petaluma called The O+ Festival (pronounced oh positive) was held on November 7th to 9th of 2014. This creative festival is a type of bartering system where participants offer their artistic talents in exchange for access to health and wellness services from a myriad of health care professionals. Participants who would not normally be able to afford American health care services are given access by offering what they do have for others to enjoy. Lagunitas is one of many local companies that has stepped up to do what they can to sponsor the event and bring it from its origin in Kingston, NY to its newest location in their hometown in California.<sup>14</sup> Through its incredible philanthropic outreach, Lagunitas has played an active role in bringing the local community together and, in turn, making it easy for consumers to rally behind such an ethical brand.

### *Events & Consumer Interaction*

Every year, the brewing company puts on its “freaktastic” event, The Lagunitas Beer Circus. This event, like many others the company is involved in, is a Music Festival where attendees can enjoy music, acrobatic entertainments and tastings from local breweries.<sup>16</sup> Besides reinforcing the fundamentally fun characteristic behind the brand, Lagunitas supports its local breweries, stimulating success across the industry as well as its individual brand.

The marketing team bravely ventured into new grounds with its CouchTrippin’ Contest where contestants take a picture of their couch and Lagunitas beer, post the picture on Instagram or Twitter and tag the photo with a “#CouchTrippin”. The winning member of the Lagunitas tribe wins a party with, and thrown by, Lagunitas itself in their hometown.<sup>17</sup>

### *On-Site Marketing*

When Tony Magee first opened his brewery, he was completely opposed to opening an on-site pub. He believed, in his own words, that “the whole damn state is our pub!”. Opening the on-site pub component would mean much more attention directed towards customer service, even though it provides a very lucrative channel for growth.<sup>18</sup> Now the Petaluma Brewery taproom is the place to be on Saturday afternoons in Sonoma County. The tap room has tastings available five days a week and free public tours throughout the day to see behind the scenes in the brewery and, if you’re lucky, get to hear about the history of Tony Magee and the Lagunitas Brewing Company in the cozy

loft while enjoying a free tasting. After a free tour, visitors can enjoy the restaurant as well as a full selection of Lagunitas beers while listening to the live bands that play in the outdoor beer sanctuary.

## **Issues and Opportunities**

### *Chicago Plant*

As Lagunitas beer production began to max out Petaluma's space and sewer capacity, the idea to expand the company into another location became increasingly necessary as time went on. The expansion to the 300,000 square-foot facility in Chicago, Illinois was a vital move to ensure the future of the Lagunitas brand. Tony Magee was born and raised in Chicago and it made sense for him to move the company back to his hometown as the first option for expansion. This new plant, launched in April 2014, was revamped from an old shuttered steel mill and now ranks as the largest brewery in Illinois at an impressive 6 acres of space.<sup>19</sup> With this new location, Lagunitas now has the ability to ship fresher beer faster to consumers on the East Coast.

The new Chicago Brewery is complete with a 4,000 square foot taproom that opened its doors to the public on June 25, 2014. The taproom includes a concrete bar with 32 tap handles ready to pour for a capacity of 300 visitors at a time.<sup>24</sup> The view from the taproom windows displays the production line where customers can watch the beer being made while sipping their brew. With this new development, the company made sure that the importance of community isn't lost in their rapid growth. The long bar and tables set up end-to-end encourage visitors to sit next to people they don't know to enhance the Lagunitas community atmosphere.<sup>24</sup>

### *Hop Wars and Alcohol Content*

When Lagunitas was first establishing itself on the market as a craft brewery, their beers were known to be high in alcohol content with an ABV of approximately 6%. Now that the craft brewing industry is taking off at such an exponential rate, there seems to be somewhat of an arms race in the amount of hops in beer as well as alcohol content, which can now be seen to be up to 9 or 10% on the average craft brew. Rixey believes that there will eventually be a plateau in alcohol content as brewers are becoming increasingly more creative with their hops including varietals and techniques of adding the hops to the beer. He does foresee an increase in popularity of dry-hopping, also called cold-side hopping which is how most Lagunitas beers are hopped. In order to recognize and cater to those occasion-based drinkers that do not always favor the hoppier and higher alcohol content beers, Lagunitas brews a Day-Time Session IPA

which is still hopped in true Lagunitas fashion without the high alcohol content so it can be enjoyed any time of day.<sup>13</sup>

### *Hop Supply*

On the topic of recent hop supply concerns, Rixey explained that there really is no hop shortage. In fact, he described that there is only a shortage when the media makes propaganda-like claims, inciting the need for beer producers to scramble up as many hops as possible. According to Rixey, the only reason why there ever is any concern over a hop shortage is a direct result of the allegations provided by the media.

Although there is no current or foreseeable shortage in the hops market, Rixey did mention that there is some concern over the supply of particular varieties, for example the alpha variety. This specific hop acts primarily as the bittering agent in many IPA's.<sup>13</sup>

As of right now, Lagunitas sources their hop supply exclusively from Yakima Valley, Washington. They buy from seven different growers in Yakima, but are looking to begin sourcing hops from Oregon as well, should the resources become available.<sup>13</sup>

Washington farmers used to primarily grow alpha hops and, at one point, the variety made up about 70 percent of the state's production.<sup>25</sup> Since the IPA is the flagship beer at Lagunitas, this kind of hop is used quite often at their brewery. With that being said, many breweries are trending toward adding more aromatic hops as opposed to bittering hops. This year, the amount of aroma and alpha hops produced were about even in Washington and aroma hop production is expected to grow to about 60 percent in the next year.<sup>25</sup> Therefore, although there is potential for a slight shortage in alpha hops, most craft beer producers are now looking for hops that satisfy a consumer's nose.

### *Waste Water Management and Sustainability*

As a general rule, Lagunitas does not use sustainability as a marketing tactic. It is their firm belief that sustainability should be used for business benefits and where it makes sense, not solely to improve their image in the eye of the public. For efficiency purposes, the company has recently taken on a major waste water management project to sustainably reuse and renew waste water instead of trucking the one third that gets sent to Oakland. Working in conjunction with Cambrian Innovation, a company committed to developing advanced environmental solutions through the use of biotechnology, Lagunitas has been in process of installing a bioelectric treatment process called EcoVolt.<sup>23</sup> This new system creates clean water and renewable methane gas which, when implemented at the brewery, will ideally generate about 16% of electrical demands, reduce water use by 40% and reuse water wherever possible.<sup>13</sup>

## Future and Company Outlook

For a company with as much character and personality as Lagunitas, it is hard to imagine any sort of end in sight as far as growth and expansion are concerned. With the new Chicago plant up and running, putting a stop to the growth of Lagunitas is near impossible. In an interview with Tony Magee in The Press Democrat, Magee mentions his hopes to ultimately establish four to five domestic breweries if trends continue.<sup>21</sup> The owner has also considered opening an international plant, potentially located in the United Kingdom. Long before then, however, Magee hopes to soon expand distribution into Mexico and perhaps even into Ireland and Australia.

Meanwhile, Magee and his team remain on the home front to decode and predict the fickle American Consumer. The challenges lie in anticipating demand and the ever changing consumer tastes and preferences. Most beers produced by craft brewers are based on traditional styles of foreign beer. One of the few original California styles of beer is Steam beer, produced by Anchor Brewing Company. Fortunately for consumers with a strong affinity for delicious beer, California, in popular opinion, has surpassed foreign beers in quality and flavor. This has made California a competitor on a global scale.

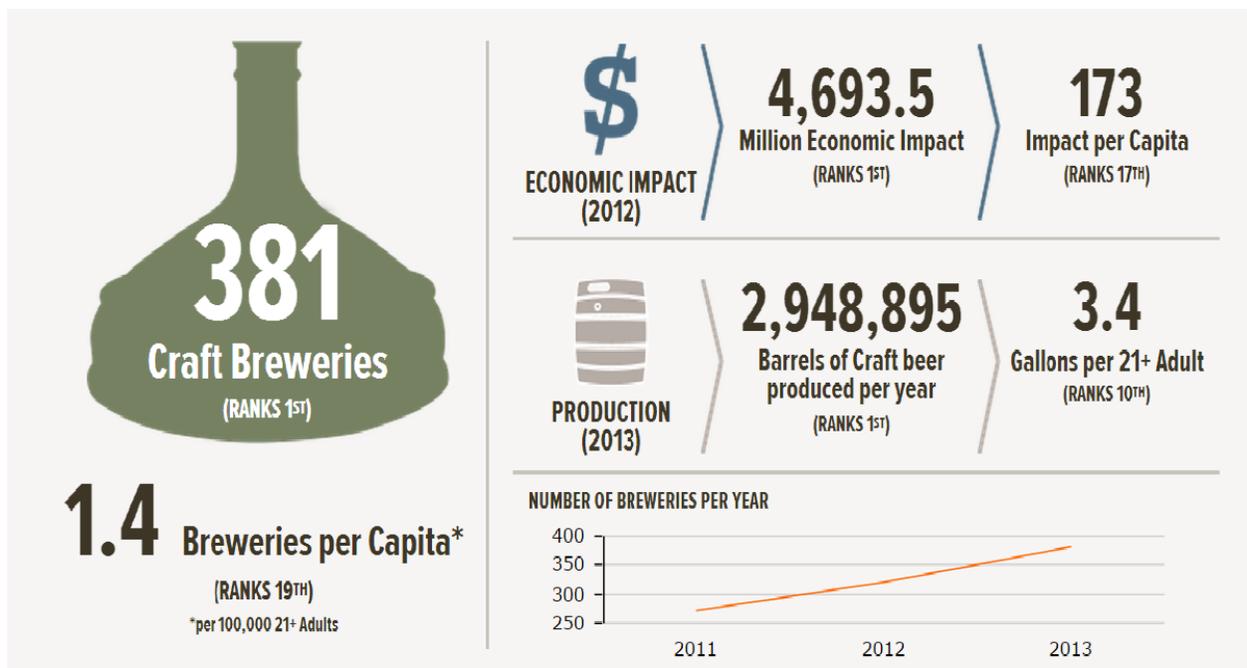
Lagunitas has harnessed the power of hops and capitalized on their creativity to create not only a beer producing company but a brand that has propelled itself forward in a fast paced industry. Magee has turned what started as a small home brewing hobby into a long-form symphony of character. The brand has found much success in its unique emotional appeal to consumers. Lagunitas strives to maintain high-quality, stable core products and constantly innovate with its cycled seasonal beers. In Magee's memoir of starting the business, he says "It's good to be lucky, even if only a little, and especially over and over again."<sup>18</sup> Call it luck, creativity, passion or perseverance, regardless Magee has built a brand and a tribe that will thrive in the craft beer industry for years to come.

## Exhibit 1 U.S. Brewery Count

U.S. Brewery Count			
	2012	2013	% Change
<b>CRAFT</b>	<b>2,401</b>	<b>2,768</b>	<b>+ 15.3%</b>
Regional Craft Breweries	97	119	+ 22.6%
Microbreweries	1,149	1,412	+ 22.8%
Brewpubs	1,155	1,237	+ 7.1%
<b>LARGE NON-CRAFT</b>	<b>23</b>	<b>23</b>	<b>no change</b>
<b>OTHER NON-CRAFT</b>	<b>32</b>	<b>31</b>	<b>- 3.1%</b>
<b>Total U.S. Breweries</b>	<b>2,456</b>	<b>2,822</b>	<b>+ 14.9%</b>

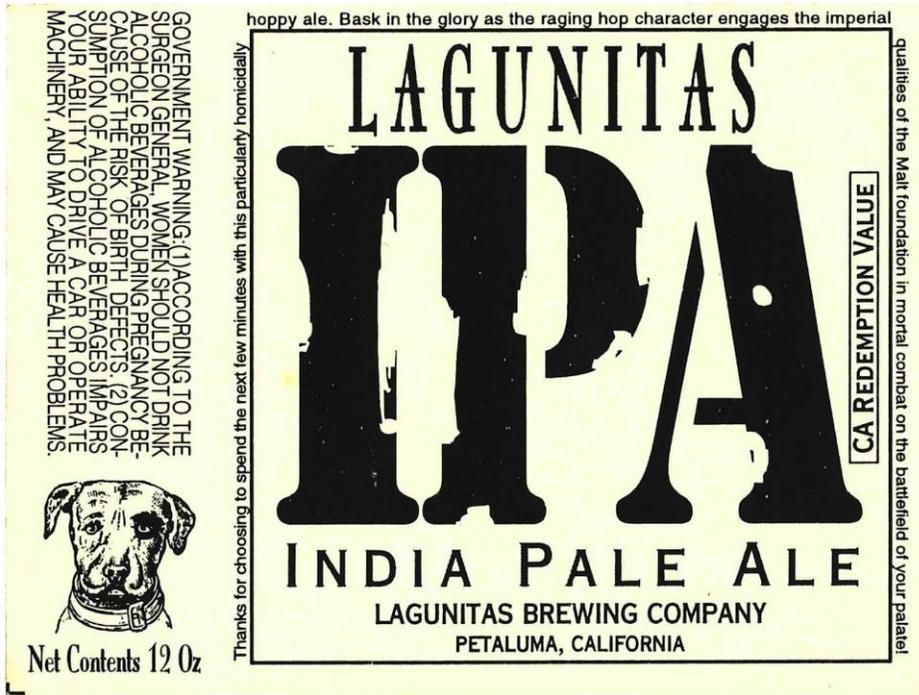
Source: Brewers Association, <http://www.brewersassociation.org/statistics/number-of-breweries/>

## Exhibit 2 California Beer Statistics



Source: Brewers Association, <http://www.brewersassociation.org/statistics/by-state/>

**Exhibit 3** Original Lagunitas IPA Label



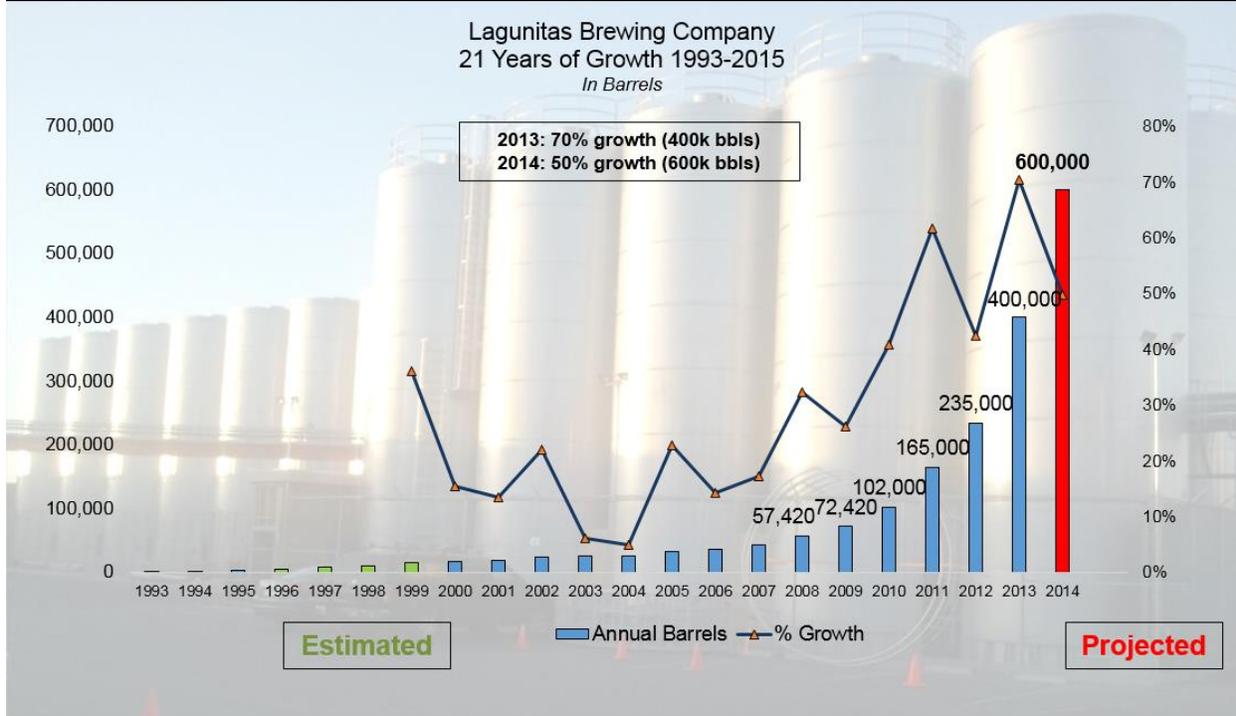
Source: Eppa Rixey, Lagunitas Brewing Company



Source: Beer of the Day, beeroftheday.com

**Exhibit 4** 21 Years of Lagunitas Growth

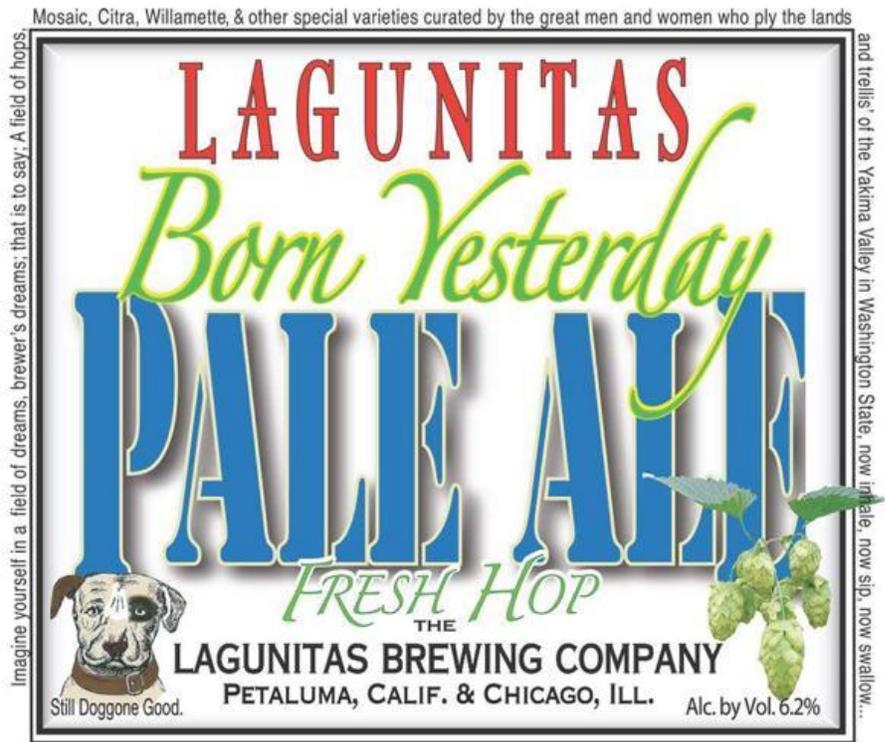
**Lagunitas has experienced rapid growth in the last 5 years  
We project 50% growth in 2014 to reach 600,000 barrels**



# LAGUNITAS BREWING CO.

Source: Eppa Rixey, Lagunitas Brewing Company

**Exhibit 5** Born Yesterday Label



Source: The Street, <http://www.thestreet.com>

## End Notes

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