RICHARD MANLY BREWING CO.

PROFITABLILTIY ANALYSIS OF A HARD APPLE CIDER COMPANY

By Erik R. Johnson

PROFITABLILTIY ANALYSIS OF

A HARD APPLE CIDER COMPANY

Presented to the

Faculty of the Agribusiness Department

California Polytechnic State University

In Partial Fulfillment

Of the Requirements for the Degree

Bachelor of Science

by

Erik Richard Johnson

March 2011

ABSTRACT

The purpose of this paper was to determine whether a hard cider company could be profitable in San Luis Obispo, CA in a 3 year period. A business plan was created to analyze the potential profitability of the company and included an analysis of the market, competition, consumers, the industry, and finances.

Background information was provided on the history of the hard apple cider industry, the use and importance of a business plan and the permit and license requirements to run an alcohol business.

The CEO and founder of the future company, Erik Johnson, determined the company would be named Richard Manly Brewing Company and it was determined that if an initial investment of $500,000 can be found, the company would be profitable in 3 to 4 years.

TABLE OF CONTENTS

Chapter		Page
I.	**Introduction**…….……..	6
	Problem Statement…….…….	7
	Hypothesis…….…….	7
	Objectives…….……..	7
	Justification / Significance of the Study…….……	7
II.	**Review of the Literature**……..	8
	Business Plans…….……...	8
	History of the U.S. Cider Industry…….…….	13
	Current Laws, Regulations and Permits……..……	14
III.	**Methodology** ……..…...	16
	Procedures for Data Collection and Analysis …….……...	16
	Assumptions…….……..	23
	Limitations…….…….	23
IV.	**Analysis**……..……..……	24
	Current Industry Sales, Growth and Market Insight…….…….	24
	Industry Trends and Limitations…….……	27
	Competitive Analysis…….……	29
	Consumer Demographics and Trends …….……...	32
	SWOT Analysis…….…….	34
	Strategy Overview…….…….	42
	Financial Analysis…….…….	46
V.	**Summary, Conclusions and Recommendations**…….……	54
	Summary…….……	54
	Conclusions…….……..….	55
	Recommendations……..	58
Bibliography……..		60
Appendix: Richard Manly Brewing Co. Business Plan ……		65

LIST OF TABLES

Table		Page
1	Projected Alcohol Consumption in 2010, 2015 and 2020 and Percent Growth….	26
2	Market Share by Brand……...	29
3	SWOT Matrix…….	41
4	Fruit Prices Received by Growers, United States Monthly……..	46
5	Estimated Financial Rates……..	47
6	Payroll Breakdown……..	49

Chapter 1

INTRODUCTION

Hard apple cider is the smallest alcoholic drink category in the U.S. with little popularity compared to that of beer, spirits or wine. However, the demand for and consumption of hard cider is on the rise increasing 2% in 2009 and by 2014 sales are expected to increase by another 6.9%. In contrast during 2009, beer consumption continued to fall by 2%, opening up even more room for the growing hard cider industry to expand. Recent trends in the alcohol industry show that consumers are switching from cheap generic tasting beer to slightly more expensive, higher quality alcoholic beverages like craft beer and hard cider (Euromonitor). Craft beer is the fastest growing segment of the alcohol industry growing almost 10% in the last year. This shows that the hard cider industry has the potential for major growth, but a few key problems are keeping its growth low. One of these problems is that 70% of the market is controlled by only two major producers, Green Mountain Beverages, which brews primarily cider, and E & J Gallo Wineries, who's cider brand is just a small piece of their enormous wine empire (Euromonitor). With little competition to drive down prices and increase quality, industry growth will remain slow.

Another major problem is the low availability of cider to consumers. In California specifically the few small hard cider producers including, but not limited to, the California Cider Company, Crispin Cider Company and Fox Barrel Cider Company, only have products in the northern part of the state. San Luis Obispo County located in California's Central Coast contains a large consumer market for alcoholic beverages, but most stores don't carry hard cider at all.

This creates an opportunity for the creation of a new hard cider company in the San Luis Obispo area.

Problem Statement

Is it possible to create a profitable hard cider company in San Luis Obispo?

Hypothesis

A hard cider company could be profitable in San Luis Obispo within 3 years of operation with the creation of a well thought out and implemented business plan. If the business can get investors and a proper investment, there is an opportunity for success due to a large consumer base and few competing hard cider brands.

Objectives

1) To complete a general business plan without a complete marketing plan.

2) To analyze all the internal and external factors that could affect the overall profitability of a hard cider company.

3) To estimate costs of start up as well as revenues and operating costs, in order to create an income statement and other financial documents.

Justification/Significance of the Study

The purpose of this paper is to inform the reader about the process of writing a business plan and of starting a profitable hard cider company. Hard cider is a rapidly growing industry in the United States so this paper will serve as a reference to other entrepreneurs looking to start company in the same field. This paper will also serve as a resource for anyone looking for more

information about the hard cider industry including consumption rates, consumer demographics and growth rates. The business plan will also help potential investors gain a better understanding about the business and determine whether they believe the company will be successful. This paper will examine all possible risks, and to assure investors that the company will be successful, thorough research will be done to limit the effects of those risks. This paper will attempt to answer any questions that a potential investor or entrepreneur may have about opening a hard cider company in San Luis Obispo.

Chapter 2

REVIEW OF THE LITERATURE

Overview

The Literature review will cover background information that is relevant to the overall purpose of the paper. This information will include an overview of business plans, the history of the hard apple cider industry, and the licenses and regulations associated with the manufacture, purchase and sale of alcoholic beverages.

Business Plans

A business plan is an important tool in mapping out the strategies of a company. Business plans are used by businesses of all kinds from large corporations to small start-up businesses. They provide business owners with an organized plan that leads the company towards a common goal, analyzes internal and external controls, creates strategies to take advantage of a company's strengths and opportunities and then analyzes financial information to determine the profitability of the company and its future strategies.

There are many ways to create a successful business plan, and no version is more correct than any other, but there are general steps that most business plans follow. This paper will cover those general steps in order to help the reader understand the basics of a business plan.

The first step in the creation of a business plan is to develop a vision and a mission statement that provide a common goal for daily management of the company. The purpose of the vision is to answer the question "What do we want to become?" and it is usually only a single sentence (David). The purpose of a mission statement is to be, "an enduring statement of purpose that distinguishes one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms." (Pearce and David) The mission statement answers the question, "What is the business?" while describing the values and priorities of the company. It analyzes the firm's current operations to determine what direction the company will head in the future, and acts as a constant reminder to employees of why the business exists and what the founders envisioned when they first created the company (McTavish).

The next step in the business plan is to analyze the internal and external environments of the company. External opportunities and threats refer to economic, cultural, social, demographic, environmental, political, governmental, legal, technological and competitive trends and events that could significantly benefit or harm a business, but are beyond the control of the business (McConkey). Firms must analyze threats and opportunities so that they can change products or strategies to fit new customer needs or survive as a company. Some examples of possible threats to a firm would be a global recession, increased supply prices, new government regulations on production or cultural trends toward more sustainable practices. Possible opportunities include lower government standards, new production technologies, decreased supply costs or increased household income (Kachra). Firms survive by creating strategies to take advantage of opportunities and reduce the impact of external threats.

Internal strengths and weaknesses refer to a firm's performance on controllable activities such as "management, marketing, accounting and finance, production and operations, research

and development and management information systems (David)." Information about internal factors is gathered in many ways including analyzing management strategies at various levels of the business, comparing financial ratios to industry averages and competing firms or giving surveys to consumers or employees to determine their overall satisfaction with the company or product. Whether an internal factor is considered a strength or weakness depends on the company because each firm has a different idea of what is most important to them (Kachra). For example, one company could consider it a strength to have high inventory turnover because they consider it important to get their products sold and shipped as fast as possible. However, a different company might consider a high inventory turnover a weakness because they feel it is important to be fully stocked with available products at all times. Firms thrive if they take advantage of their strengths and eliminate their internal weaknesses.

The third step of the business plan process is to take the comprehensive list of internal and external factors, condense it, and create strategies to take advantage of strengths and opportunities while eliminating weaknesses and threats. To condense the list, each factor is given a weight based on how significant that factor is to future of the company. Then each factor is given a rank based on how well the company is currently managing that factor. The weight is then multiplied by the rank to determine the factors weighted score and the factors with the highest weighted scores are put into the SWOT analysis (Pearce and David). SWOT stands for strengths, Weaknesses, Opportunities and Threats. It compares the key strengths and weaknesses with key opportunities and threats to create strategies for company growth and increased profit. Strategies are defined as "potential actions that require top management decisions and large amounts of the firm's resources (David)." Some examples of strategies could be geographic expansion, diversification, acquisition, product development, market penetration, divestiture,

retrenchment, liquidation and joint ventures. Strategies are always future oriented, aimed at creating long term success for the company, and therefore usually plan for the next 5 years or more (Montgomery).

The last step in the business plan process is to analyze the financial data of the company and then determine how the newly developed strategies will affect the financial data in the future. First, historical data and industry averages are used to forecast what the company's financial numbers would be for the next three to five years (David). These financial forecasts are meant to show a company how well it would do in the next five years without any changes to its current business strategies. The forecasts are carefully analyzed to determine where the company is managing money well and where it can improve. In the case of a start-up company there will be no historical data, so forecasts can instead be derived by looking at industry averages or competitors that have already established working costs and revenues. Costs of production, advertising and promotion, distribution, sales must all be estimated as well as the company's expected revenues. The first year of the forecasts will also include the costs associated with founding the business or start-up costs (McKeever).

The next step of the financial process is to change the forecasts based on what is expected to occur if one of the new strategies were put into place. The new forecasts are then analyzed to determine the financial repercussions of instating a new strategy, and the company can then make its final decision on whether or not to put the strategy into affect (Anguin). If the strategy creates forecasts that will increase profitability and ensure growth the company will most likely accept it. However, if the numbers show that instating the strategy would hurt the company in the long run, the strategy will be dropped. Financial analysis is the last, but the most important step in the creation of a business plan. It shows whether or not a company can successfully use

internal and external information to increase profitability and growth for the company while continuing to follow the company's core values.

History of the U.S. Hard Cider Industry

Hard cider came to the U.S. with the first English settlers in the 18th century. The settlers brought apple seeds with them and as soon as the trees bore fruit they began using the majority of their apple crop for creating cider (Rowles). Cider quickly became the most popular drink on the east coast and by 1767, "per capita consumption of hard cider in Massachusetts is estimated to have been about 40 gallons per person annually," (Fabricant). Cider was consumed as much as water because the alcohol prevented bacterial contamination, and therefore it was safer than water. Also due to the low alcohol content, 4-7%, cider was considered a family drink and was commonly consumed during meals, even by children (Rowles).

Cider remained popular in the United States until the civil war when an influx of German immigrants increased the popularity of beer (Holz-Clause). Beer was cheaper to produce, could be fermented faster and more consistently, and it did not require the development of mature orchards. These factors became increasingly important as settlers moved west and populations shifted from rural to urban areas. Despite the growing popularity for beer, cider remained popular until the 1920's when the prohibition "dealt the final blow," and put an end to the U.S. cider industry (Rowles).

Only recently has cider regained its popularity in the U.S., finally re-immerging in the early 1990's. Over the next 10 years sales of cider in the U.S. grew rapidly from only 115,000

cases in 1990 to more than 2.7 million cases in 1997 (Koeppel). The global recession in 2001 decreased popularity and brought sales back to below 1997 levels, however, since then sales have slowly been increasing. In 2009, total volume sales of cider increased by 2% to 2.83 million cases (Euromonitor). Growth is slow because 70% of the market is controlled by only two companies. As of 2009, Green Mountain Cidery Inc, Woodchuck Cider, controlled 49.2% of the market, while E & J Gallo Winery, George Hornsby Draft Cider, controlled 21% of the market (Euromonitor). The hard cider industry has potential for growth, but it will be a long time before cider reaches the popularity of wine or beer. Increased competition paired with increased investments and knowledge of the industry could bring about more rapid growth and give the industry the boost it needs.

Current Laws, Regulations and Permits

The alcohol industry is highly regulated by the government due to the dangerous nature of the product. Therefore, there are many laws and regulations put on companies that produce and serve alcohol. There are also special permits that must be acquired in order produce or sell the alcoholic products.

The state of California requires that every business that wants to manufacture or sell alcohol or cider must obtain a special permit or license. The licenses are monitored by the Department of Alcohol Beverage Control and only a certain number of licenses are given out in each county. This number is based on population, but also depends on county and city ordinances that limit the number of alcohol stores and manufacturers. Therefore the process of

obtaining and availability of alcohol licenses is different for every city in California and can be very difficult.

The license that must be obtained for the production of hard cider is called the type 01 beer manufacturing license, and according to the Department of Alcohol Beverage Control "authorizes the sale of beer to any person holding a license authorizing the sale of beer, and to consumers for consumption on or off the manufacturer's licensed premises. Without any additional licenses (the licensee), may sell beer and wine, regardless of source, to consumers for consumption at a bona fide public eating place on the manufacturer's licensed premises or at a bona fide eating place contiguous to the manufacturer's licensed premises. (The licensee) may conduct beer tastings under specified conditions," (California). The term "licensee" is defined as the person who owns the license, and the term "bona fide eating place" refers to any place that serves food on a regular basis. The original or first year fee for a beer manufacturing license is $100 and every year after that a renewal fee of $1,379 must be paid. The license can also be sold from person to person for $934.

Regulations by the California State Board of Equalization require that the production, sale and disposal of all alcoholic beverages must be documented and recorded. Manufacturers by law must keep extensive records of the number of barrels of cider they produce and where each barrel or portion of each barrel ends up. Manufacturers must even keep a record of cider they throw away. Alcohol distributers are legally bound to keep track of all the alcohol they purchase and sell down to the last bottle. They must also record who bought the alcohol and how much each consumer, or retailer, bought. All other regulations on the production, consumption and sale of alcohol are available the California State Board of Equalization's *Alcohol Beverage Tax Regulations and Instructions Booklet* (California).

Chapter 3

METHODOLOGY

The purpose of this paper is to create a business plan that will analyze the plausibility of creating a hard cider company in San Luis Obispo County. In order to do this data must be collected from a variety of sources and then analyzed. The procedures for data collection will attempt to explain what data will be collected for each section of the business plan and where that data will come from. The various sections of the business plan are described in the literature review. The procedures for data analysis will then describe how that data will be used to create a thorough and complete business plan. In this chapter sections of the procedures for data collection will be followed by sections of the procedure for data collection explaining why the data will be collected.

Procedures for Data Collection and Analysis

As described in the literature review, the first step in the business plan process is to create a vision and mission statement. This information will come from Erik Johnson, the creator of the business because it involves defining the business by what it does, why it exists, how it operates, and by its core values and common goals.

The next step of the business plan will be the external analysis, which includes an analysis of the industry, competition, consumption, as well as relevant economic, cultural, environmental, political and social trends. Information on the Industry, Competition will be

collected from sources including Euromonitor International, Hoover's online, Lexis Nexis, industry reports and competitors' websites.

Euromonitor International is a global market information database that provides an annual report on cider and pear cider. The report includes information on production, consumption and sales growth in the past year as well as predictions for future growth. It also has information about top competitors, market segmentation and recent trends in the industry. Hoover's online and Lexis Nexis are online article databases that will provide information on publicly and privately traded companies as well as industry averages and news on industry trends. These databases have company profiles with key information on competing companies including financial reports, stock price charts, breakdowns of company management, the organization and number of employees and recent company news. Industry averages can also be found in industry reports such as, *Dun & Bradstreet Industry norms and Key Business ratios* book. The D & B industry report arranges companies by their SIC code and provides financial ratio benchmarks for over 800 industry categories. The ratio benchmarks show how the average company in the industry is doing financially, by showing relationships between the average company's income statement, balance sheet and statement of cash flows. Competitor's websites will also provide quality information about the competition, revealing new products, recent marketing and advertising strategies as well as recent news about what is going on within the company.

Information on relevant trends can be found on various article databases including Factiva, ProQuest and ABI Inform and Lexis Nexis. These databases contain peer reviewed documents on recent economic, social, cultural, political and environmental trends throughout the world. Economic trends can also be found through the U.S. Bureau of Economic Analysis

which provides information on the current Gross Domestic Product, inflation rates, unemployment rates and various other economic standards by country, state, metropolitan area or by industry. Environmental trends will also be found through sources such as the U.S. Environmental Protection Agency website, which contains studies on environmental changes to climate, natural resources, animal habitats and how humans are affecting the environment. Information on social trends will also be found through sources such as, The Pew Research Center's Social & Demographic Trends project. “The project studies behaviors and attitudes of Americans in key realms of their lives, including family, community, health, finance, work and leisure. It explores these topics by combining original public opinion survey research with social, economic and demographic data analysis”.

External information will be analyzed to create a set of key external factors affecting the new business. The factors will then be separated into opportunities and threats, which are based on whether the factor provides the company with the opportunity to become more profitable or threatens the company’s future profitability. The company will then analyze how it can change its business strategies in order to take advantage of opportunities and eliminate threats. Industry and competitor information will help the company understand how it compares to its competitors and industry averages in various categories including overall sales, growth, product quality, or customer satisfaction. Consumer trends will be analyzed to see what products consumers are purchasing the most, where they are purchasing them, for what reasons and how much are they spending. This information will tell the company whether it should change the product, create a new product, change the locations it is sold at, or change the price. Economic trends will tell the company whether the country is in a recession and people will be buying cheaper products. The company can then eliminate this threat by changing its prices or creating a new cheaper product

to fit consumer needs. Political and social trends will tell the company if new anti-alcohol policies will be enacted or if drinking cider is becoming more of a social norm. Environmental trends could change policies on whether packaging should be more environmentally friendly or if production processes should be more sustainable. Cultural trends will tell the company about new fads that the company could use to reach new consumers and gain market share. Once the company has analyzed all this external information and created a list of opportunities and threats, it will determine which factors will affect the business the most. These key external factors will then be combined with key internal factors to create new business strategies.

External information on the cider industry and competition will also be used to create an industry analysis and competitive analysis. Information about current industry averages, trends and news from Euromonitor International, Hoover's Online, D &B's industry report, and Lexis Nexis will be combined and analyzed to create a general overview of the current cider industry. Information about competitors from Hoover's Online, Lexis Nexis, competitors' websites will be combined and analyzed to create an overview of the top competitors including which companies have the highest market share, what new products are coming out, which companies are growing the fastest and how many competing companies there are. The industry and competitive analyses will serve as general overviews about these topics for anyone who reads the business plan.

The external analysis will be followed by an internal analysis which includes analyzing the strengths and weaknesses of the new company. Because the company has not been created yet the information will be gathered from sources that explain the common problems associated start-up companies. These sources include the U.S. Small Business Administration website and an article in the Journal of Small Business Management, *The Relationship between Written Business Plans and the Failure of Small Businesses in the U.S.* The U.S. SBA website is a

government site with information on financing a new business, managing assets and equity, finding loans, getting permits and licenses, and other information necessary for start-up companies. *The Relationship between Written Business Plans and the Failure of Small Businesses in the U.S.* is an article that compares successful start-up companies with similar start-up companies that failed, and then analyzes the various reasons for failure and how that failure could have been prevented (Perry).

The internal information will be analyzed to see what the strengths and weaknesses of the company are. The data on common weaknesses of start-up companies will make up the companies weaknesses. The strengths will be the new, exciting product with characteristics that make it better than the competition as well as a motivated and talented sales team to get the product on the shelves. The company will also have the enthusiasm and drive of the founder and employees, as well as the state of the art facilities and brewing materials to ensure the highest quality cider. A list will be compiled of all the company's strengths and weaknesses and then the most important key factors will be chosen. Key factors will be based on scores given for how important the company feels each strength or weakness is, and how well the company is managing each strength or weakness. Factors with the highest scores will be combined with the key external factors to create new business strategies that take advantage of the company's strengths and improve its weaknesses

The next information that must be collected is the financial data for the company. This data will include costs associated with start up, production, advertising and promotion and distribution and sales. Information on forecasted revenues will also be collected. Start-up costs will include the cost of the brewery, renovation, machinery, supplies, inventory, alcohol licenses, business permits and many other small costs associated with a new business. The cost of the

brewery will be determined by looking up spaces in the San Luis Obispo area and then calculating an average price. Information can be found in the real estate section of local newspapers such as the San Luis Obispo Tribune, or on websites such as loopnet.com, which lists commercial spaces available for purchase. The cost of any renovations that must be done to the purchased space will be gathered through direct contact with a contractor. Contractors can be found in the local Yellow Pages telephone book or online at yellowpages.com.

Supply and inventory costs will be gathered by contacting various apple suppliers such as Gopher Glen Farms in Avila, CA to find the correct varieties and lowest prices possible. Apple suppliers can be found through sources such as Business.com, which has information on apple growers from all over the country. Apple suppliers can also be found through a produce broker that manages the distribution of apples for farms. Machinery costs will be determined by comparing prices of barrels, fermentation tanks, hydrometers and other supplies from various machine suppliers, such as Siemens Corp. a national brewery machine manufacturer. The best prices can be determined through websites such as Thomasnet.com, which provides consumers with comprehensive comparisons of different brewery products.

Information on business permits and alcohol licenses will come from the California Department of Alcoholic Beverage Control's website. The website abc.ca.gov has information on what licenses are required to serve, produce and sell alcohol as well as the initial and annual fees required to have each license. The website also has a detailed pamphlet that explains all the regulations, taxes and requirements involved with the production, distribution and sale of alcohol in the state of California.

Operating expenses are all costs associated with production, advertising and promotion, and distribution and sales. These costs can all be determined by looking at the financial documents of competitors that have already established working costs and revenues. The financials for public companies can be found through the company profiles on Lexis Nexis or Hoover's Online. Public company financials can also sometimes be found on a company's website in their most recent annual report. Most cider companies in the United States, however, are private so financial numbers may not be available. Operational costs will also be estimated by looking at industry averages, on Hoover's Online and in the *Dun & Bradstreet Industry norms and Key Business ratios* book. Advertising costs specifically will also be determined by looking on the San Luis Obispo Chamber of Commerce website, which has a list of local marketing companies that can be contacted for information on advertising prices. Distribution costs will also be found by contacting local distributors such as GBL Distributing Co., located in Santa Barbara, CA, and asking for estimates on prices.

Information collected on financial data will be analyzed to create a set of financial documents including; an income statement, balance sheet and statement of cash flows. Numbers will be forecasted for five years into the future based on average industry growth and inflation rates. The income statement will be created first by adding all up the estimated costs and subtracting them from the estimated revenue. The first year of the income statement will consist of the startup-costs as well as costs of operation. Years two through five will only contain operating costs because the building, brewery supplies initial inventory and renovations will already be paid for. The statement of cash flows and balance sheet will be created next and will show how changes in cash over the five years, due to expenses and revenues, change the company's balance of assets, liabilities and equity. These documents will then be analyzed to see

how long it will take the company to breakeven, how much funding the company will need to get started, and whether the company will be profitable enough to survive. The financials will tell the founder of the company whether or not it will be financially feasible to create the company and will answer the problem statement of this paper.

The last step in the business plan is to create marketing strategies based on the internal and external analysis and financial information. This paper, however, will not cover that material. The marketing plan portion of the business plan will be completed by Rebecca Tortorich in a separate paper.

Assumptions

This study is based on the assumption that all secondary data collected is accurate. It is also assumed that the tools used in the analysis of data are correct. This study also assumes that the marketing section of the business plan will be completed in a separate paper.

Limitations

The limitations of this study are the inaccuracies of estimating forecasted costs and revenues. This paper is also limited in the detail of information due to the limited amount of research that could be done in the time available for this project. With more time and resources, more accurate data would be possible.

Chapter 4

ANALYSIS

Data for this report was collected by means of a lengthy and thorough research project that included an analysis of the industry, consumers, competitors, the internal environment of the company, as well as production, advertising, promotion and operating costs. The procedures for this data collection can be found in Chapter 3 and the procedures explained were followed precisely.

The tool used to gather and organize the information was a business plan which can be found in the Appendix. This chapter will describe the information found in each section of the business plan and will analyze how each piece of information is important to the company.

The Company

The CEO, Erik Johnson decided to name the company Richard Manly Brewing Co.

Current Industry Sales, Growth and Market Insight

The hard cider industry is currently increasing in sales volume and sales value; however, it is still the smallest category of alcoholic beverages in the U.S. From 2008 to 2009 total sales volume increased 2% to 208 thousand barrels. This is almost 100 times less than beer, the largest category, which in 2009 had a total sales volume of about 206 million barrels (Euromonitor). However, the beer industry decreased in sales volume by 2.2% in 2009 due to the recession and

changes in consumer preferences. Cider increased in sales value by 5.5% or 11 million dollars to a total of $214 million. During the same year total U.S. alcohol consumption went down 3.3%. Cider continued to increase in sales despite the decline of the entire industry (Consumer Lifestyles). Sales value increased by a greater amount than sales volume due to increased apple prices from 2009 to 2010. If economic conditions were better and consumers had more disposable income, cider consumption may have increased even more over the past year. This shows promise for the future of the cider industry hinting that it may grow faster than was previously expected.

According to a report on the cider industry from Euromonitor.com, the cider industry is forecasted to grow 7% in sales volume and 12.5% in sales value by 2014 (Euromonitor). Apple prices are expected to increase leading to a larger percent increase in sales value compared to sales volume. Table 1 on the next page suggests that expenditure on beer is estimated to grow only 1.8% in the next 20 years (Consumer Lifestyles). Forecasts show that cider sales will grow at a consistent rate while beer sales are expected to remain relatively steady for the next 20 years. In time cider may reach the popularity of beer if the industry's growth remains consistent and the beer industry's growth remains low. The table also forecasts that in the upcoming years, expenditure on alcoholic beverages is expected to increase as well. By the year 2020 "it is projected that expenditure on alcoholic drinks will increase by 14.5%...reaching $131.2 billion" (Consumer Lifestyles). The cider industry needs to make a push to increase its market share so that over the next 20 years it can take advantage of increased alcohol consumption.

Table 1. Projected Alcohol Consumption in 2010, 2015 and 2020 and Percent Growth

US$ million	2010	2015	2020	%growth
Alcoholic drinks	114,607	125,991	131,231	14.5
Spirits	27,714	32,617	37,185	34.2
Wine	25,394	28,923	31,463	23.9
Beer	61,499	64,450	62,583	1.8
Tobacco	83,826	84,643	88,080	5.1
TOTAL	198,433	210,634	219,311	10.5

Source: National statistical offices, OECD, Eurostat, Euromonitor International

Note: Constant value at 2009 prices

The cider industry does, however, face a threat from the craft brew segment of the beer industry. From 2008 to 2009 the craft beer market increased in total sales volume by 7.2% to 9.12 million barrels. It also increased in sales value by 10.3% becoming the fastest growing segment of the entire alcohol industry (Brewers). The price of microbrews is also increasing which contributes to the larger increase in sales value compared to sales volume. Microbreweries that produce craft beers are starting up all over the country and with each new brand the cider industry faces increased competition. The cider industry needs to find a way to compete with craft brews on a higher level or it will remain one of the smallest categories in the alcohol industry.

Industry Trends and Limitations

The cider industry is a niche market that caters to the demands of a few small groups of dedicated consumers. This has split the industry into two general categories: Mass produced poorer quality brands and handcrafted premium brands.

Mass produced brands owned by the leading domestic companies are marketed more towards consumers who dislike the taste of beer. These brands attempt to mimic the marketing strategies of craft beers, placing their products in 6 packs and pricing them similar to craft brews (Euromonitor). With the increased popularity of craft beers this is a good strategy, however in order to increase consumer awareness cider products need to stand out. With packaging similar to beer, cider can easily be overlooked, but if the packaging was more bold and enticing consumers would be more likely to pick it up and possible buy it.

Large cider companies are trying to occupy a craft and premium quality image, but consumers don't see their products as handcrafted, they see them more as industrially manufactured products. These ciders have the poor quality of mass produced beer, but are sold at prices similar to premium quality beer. Consumers are not willing to pay premium prices for low quality cider when they can purchase other alcoholic alternatives for much cheaper.

On the other side of the industry smaller handcrafted brands and imported European brands reach consumers looking for high end alcoholic drinks with distinct flavor and history. Handcrafted ciders are also marketed towards people looking for an alternative to wine and are often marketed similar to wine. These ciders are packaged in 750ml bottles and sold at prices upwards of $20 a bottle (Rowles). Handcrafted ciders have the premium appeal consumers are looking for, but are also being sold at prices that are too high. The average consumer cannot

afford to purchase these handcrafted ciders, and producers are therefore limited to a small group of consumers looking for a unique alternative to high end wines or spirits.

The industry needs a brand that is of handcrafted quality, but is sold at prices similar to craft beer. Until a brand can fit these characteristics and change consumers' opinions of cider, consumers will continue to be turned away. If Richard Manly Hard Cider can meet these characteristics then the company could emerge quickly as one of the industry's most popular brands.

There is huge potential for growth in the cider industry, but current cider brands lack the consumer appeal and size needed for large scale growth. In the UK popularity for cider boomed due to heavy advertising by companies such as C & C Group Plc. C & C Group's cider brand Magners is one of most popular cider brands in Europe and is gaining popularity in the United States. In order for popularity in the U.S. to grow as it did in the UK a large scale nationwide promotion strategy must be instituted and directed towards all possible consumers (Euromonitor). A so called blanket product promotion that targets all Americans through TV commercials, product placement in shows and movies, social networking cites, event promotions, and various other marketing channels must be initiated. No current company, however, can afford to fund such a large promotion and large European companies are distracted by reduced sales in their core markets of Ireland and the UK (Rowles). In order to really penetrate the U.S. household cider advertising needs to be everywhere consumers turn. In order to compete with the beer industry the cider industry must advertise and promote like the beer industry.

Competitive Analysis

The U.S. cider industry is dominated by two large companies that own 70% of the market share. According to Table 2 below, Green Mountain Cider Company has 42.3% of the market between its two brands, Woodchuck and Cider Jack. Green Mountain Cider Company was founded in 1990 by a family owned winery in Proctorville, Vermont and has since grown to be the biggest cider producer and distributer in the country (Green Mountain).

Table 2. Market Share by Brand

Woodchuck (Green Mountain Beverages)	Green Mountain Cidery Inc	25.4%
Hornsby's	E & J Gallo Winery	20.7%
Cider Jack (Green Mountain Beverages)	Green Mountain Cidery Inc	16.9%
Hardcore (Boston Beer Co. Inc, The)	Hardcore Cider Co.	9.0%
Magners Original Vintage Cider (C&C Group Plc)	William Magner Ltd of Clonmel	7.9%
Woodpecker (Heineken NV)	Green Mountain Cidery Inc	6.2%
K	Constellation Brands Inc	3.8%
Wyder's (Wyder's Beverages Canada Ltd)	Wyder's California Inc	2.6%
Ace Cider	California Cider Co.	2.0%
Spire Mountain	Washington Wine & Beverage Co.	1.0%
Others		4.6%

Source: National statistical offices, OECD, Eurostat, Euromonitor International

E & J Gallo Winery is the second biggest cider producer with its brand Hornsby's taking 20.7% of the market. The brand Hornsby's is just a small piece of the Gallo Empire which produces over 50 brands of wine, most notably Barefoot, and 3 brands of brandy (E&J Gallo).

The Boston Beer Company, producers of the brand Hardcore and the more popular Samuel Adams Beer, is the third largest U.S. cider producer with 9% of the market.

With only two companies controlling most of the market, the cider industry is relatively uncompetitive. Low competition means prices will most likely stay high and the quality will stay low. So far large international, European corporations have only partially entered the U.S. market, but with such little competition they could easily take over. The international brands Magners Original Vintage Cider, Woodpecker and Wyder's, account for 16.7% of the U.S. market. Magners, the biggest international competitor with 7.9% of the market, is a brand produced by C&C Group Plc. in the UK. Woodpecker is produced in England by Bulmers, a subsidiary of Heineken, but is actually distributed by Green Mountain Cidery. This gives Green Mountain even more control over the already concentrated market. Wyder's, which is the name of the brand and company, is produced in Canada. If U.S. companies want to keep their stronghold on the market they are going to need to improve the quality of their products and make an effort to increase consumer awareness of their brands.

It would also be beneficial to the cider industry if there were more companies competing for shelf space and their share of profits. Increased competition usually equals faster adaptation to consumer demands, better quality products, cheaper prices, and a larger variety of products. If the cider industry had more variation in its products it could reach a larger consumer market and increase overall industry sales.

The cider industry also faces competition from substitute products including most importantly beer. Since the end of the prohibition, beer has consistently been America's number one choice in alcoholic beverages. In 2009 it accounted for more than half of total expenditure on alcoholic beverages (Consumer Lifestyles).

The beer industry is also highly concentrated with two companies, MillerCoors and Anheuser-Busch, controlling 94% of the market. In the past the beer market has been dominated by these types of breweries, which use lower-cost ingredients to produce lighter and less flavorful beers. These companies have the advantage of "mass-producing to take advantage of economies of scale in production" (Boston Beer).

However, more recently the market has been starting to favor the "Better Beer category of the industry, which includes craft (small, independent and traditional) brewers as well as specialty beers and most imports" (Boston Beer). This category includes both domestic production and imported beers. The top three companies are Corona, Heineken, and Boston Beer, respectively. Small companies are able to compete in the industry effectively by developing specialty products and by serving a local or even regional market (Industry Profile). The larger beer companies have started to compete in the Better Beer category as well, either by developing their own craft brew products or by acquiring smaller craft brew or microbrew companies.

The cider industry seems to be a smaller scale version of the beer industry. With that being the case more distinct and unique microbrew-like ciders need to be introduced into the market. These ciders can grab the attention of consumers and give them the same satisfaction as microbrewed beers. If handcrafted ciders can take on the microbrew image they will become

more popular among the millennial generation, which "sees craft beer as the wine of their parents' generation" (Mercer).

Consumer Demographics and Trends

According to MRI plus, a statistical website for demographics of the United States, the characteristics of the average consumer who has drank premium beer (the most comparable product to cider) in the last 6 months are male gender, 18-54 years of age, a household income of $75,000 to $150,000+ and graduated from college or some kind of higher education (MRI). Potentially the consumer base for cider is almost half of the U.S. population; however, current marketing strategies are not reaching nearly as many consumers as they could. The blanket advertising campaign mentioned earlier in this paper would cover all these possible consumers.

Consumers are beginning to be more health conscious and health aware. As this trend continues, consumers are continuing to demand healthier versions of the food and beverages they already consume. Brewers are starting to come up with organic, gluten free, and specialty beers in order to satisfy the changing tastes of modern consumers (Industry Profile). Cider can take advantage of the changing consumer preferences because it is a healthy alternative to beer, gluten free and has a taste many American's have never tried. Cider companies should promote the fact that cider has some health benefits that beer lacks, especially if companies are attempting to market their products as beer alternatives.

"Cider also appeals to celiac sufferers, who have an adverse reaction to ingesting gluten, a protein found in wheat and barley, and a key beer ingredient. Although the disease affects less

than 1% of the US population, sufferers must adhere to a gluten-free diet to avoid considerable discomfort" (Euromonitor). Cider is a popular gluten-free alternative for people seeking a low alcohol beverage comparable to beer. Over the last ten years, consumer awareness of the disease has grown, driven by celiac advocacy movements. Manufacturers across most food and beverage categories are taking notice, launching gluten-free alternatives to popular products, including gluten-free beer. Cider companies should begin supporting celiac sufferers by setting up events, donating profits to the development of a cure, or advertising to consumers that part of every purchase goes to help people with the condition. This would improve the public image of cider companies and could help increase sales if consumers are more willing to buy a product to help a good cause.

As the millennial generation reaches the legal drinking age, they bring with them new preferences for alcoholic products. As mentioned before this generation has started to adopt beer, and specifically craft brews, as the wine of their parent's generation (Mercer). There is huge potential for growth in the cider industry if companies focus their advertising and promotional strategies on reaching the new generation of drinkers. If cider becomes popular among the Millenials it will have increased success far into the future.

SWOT Analysis

The SWOT analysis is comprised of various factors that affect the company. These factors include external influences on the company including opportunities for further success and threats from competitors or substitute products. The factors also include internal strengths in which the company does better than its competitors and weaknesses where the company is lacking compared to competition.

Internal Analysis

The internal analysis focuses on the internal factors of the company including its strengths and weaknesses when compared to other companies in the industry.

Strengths

New quality product: Richard Manly Hard Cider is a new product and therefore has the appeal of being different and exciting to consumers. The cider is also the premium quality of expensive brands, but is sold at prices similar to mass produced brands.

Updated technology: Founded in 2011 Richard Manly was able to take advantage of all the most recent technology in production machinery, sterilization, fermentation and pasteurization techniques.

Adaptive mentality: Richard Manly is a company full of new creative ideas and is always open to changing its perceptions on the industry. The company will be able to quickly adapt to changes in the economy, consumer preferences and industry trends.

Knowledge of social networks: Richard Manly is a young company with a young staff that has grown up using social networks such as Facebook, Twitter and LinkedIn to communicate with friends and colleagues. The company will be able to use these sources to effectively gain consumer awareness within the target market and especially the millennial generation.

Understand the millenial generation: The young company will also be able to reach the millennial generation better because most of their employees are part of it. Richard Manly understands the social and cultural trends of their age and can use that knowledge to take advantage of various advertising and promotional techniques.

Updated marketing and promotional techniques: Just having recently graduated college, Erik Johnson and many other employees are up to date on the most recent marketing software. The company has a good knowledge of how to collect data from consumers, and how to analyze and then use that data for increased profitability. This will help the company outperform its competition and gain more market share.

Weaknesses

No experience: The company has no experience in the cider industry. The company does not know the politics of the industry, which competitors are trustworthy and which companies to avoid. Richard Manly will have a hard time competing at first with little practical experience of how to outperform competitors. With time and a driven attitude the company will learn the business and become successful.

No customer awareness: The product is not yet out on the market and has not been advertised or promoted. Therefore there is almost no consumer awareness that the product exists and it will take a while to build a strong dedicated consumer base. A well thought out and researched marketing strategy will help the company gain consumer awareness and develop a public image. The best strategy will be to advertise to as many people as possible, however, Richard Manly does not have the funds to support a large advertising campaign. Therefore the company will have to stick to point of purchase ads and other local advertising sources until it earns enough money to spread its efforts throughout the state.

No business connections or relationships: The company has not yet made any long term business relationships or any strong connections with distributors, retailers or suppliers. These relationships take time to form and Richard Manly has been around less than a year. With time business relations will be formed, and as long as the company stays trustworthy and honest it will develop a good company image and maintain strong relationships.

No product variety: Richard Manly currently only produces one product so consumers have little to choose from. This also means less shelf space for consumers to notice the product and if the cider fails to sell the company has no alternative income to fall back on. The company needs to develop other forms of cider using different varieties of apples or even pears. Richard Manly could also look into brewing beer and competing in the rapidly advancing craft brew market.

No Brewery: The cider is produced and bottled at separate locations not owned by Richard Manly. This gives the company less control over production costs and efficiency than it would have if it could regulate everything itself. This also poses some security threats when it comes to the secrecy of the cider recipe and possibly the quality of the product. A brewery will need to be built in order for Richard Manly to grow as a company and produce the desired 15,000 barrels of cider.

External Analysis

Opportunities

Cider increasing in sales: The cider industry increased in sales volume by 2% and in sales value by 5.5% from 2008 to 2009. It is also forecasted to increase in sales volume by 7% and in sales value by 12.2% by 2014. Growth in the cider industry is slow but consistent, which bodes well for Richard Manly Brewing Co. In order for the company to survive its first few years, it will need a steady industry growth. The more the industry shifts economically the less likely Richard Manly is to succeed.

Brand Recognition and Loyalty: Consumers want to feel like they have a personal connection to their beer. Many campaigns in the last year have been advocating consumers to "buy local" and to help out small businesses within their community. As a consequence, consumers are becoming more informed about where ingredients come from and want to hear that the product that they are buying has a story behind it (Craft Beer Segment). Richard Manly has a story and plenty of character for consumers to connect to. It is the small, local brewery consumers are currently looking for.

Increasing in popularity (millennial): It has become increasingly important to capture the new emerging market, the millennial generation, for cider producers. The millennial generation is much more accepting of new products and willing to venture outside of their comfort zones to try new things (Mercer). The Millenials are the upcoming and future cider consumers, so getting to them as soon as possible is key to the future success of the company.

Growing Demand for Gluten Free Products: Consumers have begun to demand alcohol products that are healthier, gluten free and have new distinct flavors. As health consciousness increases among consumers, niche markets have been developing in the alcohol industry. As mentioned earlier in this paper, cider is a gluten free product and offers some health benefits that beer does not. This gives cider the upper hand when competing for the more health conscious consumers that still like to enjoy low alcoholic beverages.

Increased Social Networking: People are staying more connected to the world, and to their favorite products through these sites. Richard Manly is full of employees that grew up learning how to use social networking sites. This will allow the company to communicate with consumers faster, cheaper and easier. It will also allow the company to advertise to a larger consumer

market and gain consumer awareness much quicker. Richard Manly can also use social networks such as Facebook to target specific groups of consumers based on physical characteristics, interests, affiliations or location.

Sustainable Movement: Sustainability and the move to "go green" is an emerging issue in society (Greening Beer). Richard Manly produces and distributes its products as sustainably as possible. This will give consumers a better image of the company and is a good way for the company to give back to the environment and the community.

Improved Production Technologies: "Innovation in products, packaging, and marketing are important to attract today's consumers, who are more willing to try new products" (Industry Profile). Richard Manly is full of employees that are up to date on the most recent technologies in the industry. The Richard Manly brewery will be furnished with state of the art equipment for brewing, and the company's computers will be equipped with the most up to date marketing programs. This will ensure efficiency in production and in advertising campaigns.

Location: San Luis Obispo is a college town with a huge potential market. Drinking is a large part of college culture and San Luis Obispo is a breeding ground for new ideas and businesses. Consumers in San Luis Obispo are very open to new products and are constantly searching for that next great thing. San Luis Obispo is the ideal place to start a cider business especially because there are very few cider products currently available or easily accessible to consumers.

Threats

Low Household Penetration: Cider is not a popular alcoholic beverage in the United States and one of the main reasons for this is that many Americans don't even know what cider is. Consumers will not buy a product they don't know exists. As stated before in this paper, A well thought out and researched marketing strategy will help the company gain consumer awareness and develop a public image.

Increased Competition from beer companies: Large breweries are starting to diversify and include craft brews in their product lines. At the same time small microbreweries are increasing in number every year, all over the country. This increases competition in the cider industry from substitute products. If Richard Manly can create a product with as much appeal as a craft beer then it will be able to compete with new competition from the beer market.

Overall Alcohol and Beer Consumption Decreasing: Overall alcohol consumption decreased in 2009 and overall beer consumption also decreased (Consumer Lifestyles). This may decrease cider sales in the short run, but overall it is a good thing for the health of the U.S. population. Richard Manly will do its best to promote drinking responsibly and in moderation.

Health Consciousness: Consumers are becoming more health conscious and making choices that will fit with their healthy lifestyle, cider is not always a healthy beverage choice (Consumer Lifestyles). However, cider is healthier than beer and some other alcoholic beverages so Richard Manly could take advantage of that fact. This doesn't seem to be a huge threat because although alcohol is unhealthy, expenditures on alcohol are forecasted to grow almost 15% over the next 20 years.

Low Barriers to enter cider and beer market: The barriers to enter the cider or beer markets are low, and as a result there are many microbreweries and small cideries in the market. This will increase competition for Richard Manly Brewing Co., but as described earlier in this paper it is good for the industry to have more competition.

New Interstate Commerce Laws for Alcohol: Possible new interstate commerce laws, giving individual states more power to tax. This will increase the costs of shipping products out of California and therefore the price of the product in other states. However, Richard Manly Brewing Co. does not expect to expand outside of California until it has a solid base within the state. This will most likely take more than 5 years and in that time interstate commerce laws for alcohol could change again.

Medical Issues Related to Alcohol: "The National Center for Chronic Disease Prevention and Health Promotion reports that excessive alcohol consumption is associated with approximately 75,000 deaths in the US" (Consumer Lifestyles). Richard Manly will do its best to support organizations that help treat alcoholism, and as said before the company will promote drinking responsibly and in moderation.

Strategy Overview

After careful overview of the SWOT analysis, a list was compiled of the most important factors according to weighted scores. The following chart is the SWOT matrix, which was used to develop the company's two business strategies.

Table 3. SWOT Matrix

	Strengths • Understand the Millenial Generation • New Quality Product • Knowledge of Social Networks	**Weaknesses** • No Experience • No Customer Awareness • No Business Connections or Relationships
Opportunities • Cider Increasing in Sales • Millennial Generation • Growing Demand for Gluten Free Products • Increased Social Networking	**Strategy 1:** Use social networks and cell phone applications to reach Millennials and change industry image.	
Threats • Low Household Penetration • Industry Image • Health Consciousness • Low Barriers to Entry	**Strategy 2:** Display in store advertisements to show customers the much higher quality of the product compared to competitors at only a slightly higher price than the competitors.	

Strategy 1: Reach the Millennial Generation

One of the most important factors in determining whether or not the company will survive is the Millennial generation. This generation is beginning to turn 21, which means its members are starting to develop their alcoholic preferences. As mentioned before in this business plan, the new generation is already changing the market, choosing craft beers over mass produced beer and wine. In order for Richard Manly to become successful, and remain successful in the future, they will need to gain awareness among the Millennials.

The best way to advertise to the new generation is through social networking cites and TV commercials. Richard Manly has numerous employees that are extremely knowledgeable about how cites such as Facebook and Myspace work. Social networking is becoming increasingly popular throughout the world, spreading news about products and events to more possible consumers, faster than ever. According to MRI Mediamark reporter, the most popular websites for male consumers, ranging from age 21-29, are social networking cites such as Facebook and Myspace, and sports websites such as ESPN.com and fox.com (MRI).

The company's marketing director will create a Facebook page for Richard Manly Brewery where consumers can "like" and follow the company as it grows and becomes more popular. The page will have news about recent company functions and events as well as pictures and brief bios about the employees. The page will also have a link to the company website and will be monitored by the marketing director so it is always up to date. Consumers will receive notifications whenever the page is updated, and friends of people following the company will also receive notifications. Facebook, along with other social networking cites, are free to use and are essentially free advertising (Facebook). Richard Manly will create pages on all possible

social networks to increase brand awareness as much and as fast as possible. Advertising on sports websites is a great option to pursue in the next few years, but for now the company will not be advertising on them.

The Millennial generation can also be reached through TV advertising. According to MRI the TV stations most watched by males aged 21-29 are MTV, MTV 2, Adult Swim, ESPN, and Comedy Central (MRI). The easiest way to advertise on these websites will be to go through the local San Luis Obispo cable network. Charter Communications owns the rights to provide cable TV services in San Luis Obispo. They work with small businesses to create advertising and marketing campaigns that can be targeted towards a specific market or category of consumers. They also give companies the ability to play their commercials at a certain time of day or in a certain region of the county, state or country. According to a Charter representative these campaigns can cost anywhere from a few hundred to a few thousand dollars a month depending on a variety of factors. These factors include, but are not limited to, how often the commercials are played, how big of an area they are broadcasted to, and which networks they are played on. The cost of these promotions will be will be covered by the $54,000 sales and marketing budget (Charter).

Through TV and social media networks Richard Manly should be able to reach the millennial generation and increase consumer awareness of their product. The company will also make an effort to change the image of the cider industry by portraying an image more similar to beer. Beer commercials appeal to consumers mostly through humor, so Richard Manly will do the same by creating funny commercials that will catch consumers' attention. If Richard Manly can portray a fun and exciting image in consumers' minds then consumers will be more likely to by the product and try it out.

Strategy 2: Point of Purchase Advertising

Alcohol isles are littered with hundreds of products ranging from hard liquor to wine and beer. It is hard for any one product to stick out among the many labels, especially if it is not a well known category of alcohol. Based on personal observations most grocery and liquor stores have hard cider products in the far corner of the beer aisle where they are rarely seen, or next to not very popular fruity, mixed drinks. Cider has not penetrated into the minds of the average American household and therefore is unknown to many consumers as an alcoholic beverage.

One way to stand out is by placing signs in the alcohol aisle that catch consumers' attention as they are purchasing alcoholic products. This form of advertising is called point of purchase advertising and can be very successful in getting consumers to make impulse buys or in changing what the consumer planned on purchasing (Perry). The signs will be mostly the logo of the company in bright colors, but there will also be information on how cider is gluten free and can be healthier than beer. In some locations Richard Manly will also train salespeople to get consumers attention and convince them to buy the product. Sales people will be able to give consumers special discounts and explain to consumers how cider can be more health conscious than beer or a fruity alternative to wine.

Customized stand-alone signs from BuildASign.com, cost around $130, and the company feels it is best to purchase 4 bringing the total cost to $520 Salespeople will be paid at a rate of $9 per hour and will be asked to stay at a specific location for 5 hour shifts. If salespeople are sent to two stores once a week for 4 weeks straight the total cost will be around $400, including $40 for extra costs. All this money will come from the $54,000 advertising and marketing budget.

Financial Analysis

Richard Manly Brewing Company is a start-up company and has no past financials; therefore financial documents were forecasted for the next three years to determine the financial state of the company. These financial documents included an income statement, a balance sheet and a statement of cash flows and were forecasted for the next 3 years. All three documents are available for review in the Richard Manly Brewing Co. Business Plan located in the Appendix at the end of this paper.

Income Statement

The income statement includes sales revenue as well as costs of production, packaging, operation, sales and marketing, and start-up expenses. Amounts were based on 2000 U.S. barrel production level.

Sales Revenue was determined by taking the total cost incurred throughout the course of the year, dividing it by how many 12 oz bottles of cider will be produced, and then increasing that amount by 8%. This equation returns a cost of about $1.38 per bottle and an 8% increase brings the price per bottle to about $1.50. Assuming 95% of the cider produced will be sold, this brings first year sales revenue to $942,400. The remaining 5% of the product in inventory totals approximately $46,000.

Production costs include cost of apples and brewing equipment, production wages are included in the payroll. The cost of apples was determined by taking the average price per pound over the last year. According to table 4 on the next page, apple prices in 2010 increased 76.7% in July and another 33.2% in August reaching almost $0.32 a pound and averaging about $0.31 per

pound. It takes approximately 12.5 pounds of apples to make 1 gallon of cider, and there are 31 gallons in each U.S. barrel (Perez, Dohlman and Plattner). Therefore, 744,000 pounds of apples with a total cost of $230,640 are needed to produce 2000 barrels of cider.

Table 4.--Monthly fruit prices received by growers, United States

	2009		2010		2009-10 change	
Commodity	July	August	July	August	July	August
	----------Dollars per pound ----------					
Apples, fresh	**0.172**	**0.238**	**0.304**	**0.317**	**76.7**	**33.2**
Grapes, fresh	0.305	0.155	0.375	0.38	23	145.2
Peaches, fresh	0.322	0.338	0.256	0.26	-20.5	-23.1
Pears, fresh	0.269	0.212	0.297	0.221	10.6	4
Strawberries, fresh	0.748	0.735	0.62	0.79	-17.1	7.5

Source: USDA, National Agricultural Statistics Service, Agricultural Prices .

Notes: 1/ Equivalent on-tree price.

2/ Equivalent packinghouse-door returns for CA, NY (apples only), OR (pears only), and WA (apples, peaches, and pears). Prices as sold for other States.

The costs of brewing equipment were found by looking up prices on various brewery supplier websites. A new 284 gallon fermentation tank, on average, costs about $1,300. It was assumed that the company will need 4, which all together equals a total cost of $5,200. Other equipment needed including hydrometers, siphons, CO2 tanks and various other parts totaled about $1000. Each year more equipment will need to be purchased and old equipment will be replaced, this will cost about $500 a year (fermentationsettlement.com). All materials will be purchased new because they will last longer, will be of better quality and will have updated technology.

Packaging costs include bottles, caps, labels, boxes and kegs. 1000 of the 2000 barrels of cider produced each year will be bottled. 330,667 bottles will be needed to hold 1000 barrels and will be purchased at the cheapest price from freundcontainer.com for $0.20 a bottle. Customized caps can be bought from Wildhopsprintshop.com for $0.05 each. Labels can be customized on and bought from myownlabels.com for $0.15 each. Six-pack boxes can be purchased from massbarmate.com for $0.35 each. The other 1000 barrels of cider will be put into kegs. Kegs can be purchased for around $15 new from midwestsupplies.com. Initially 300 kegs will be bought, sold and then reused. More will be purchased as the kegs are lost, damaged, or production increases due to higher sales. All these costs are expected to increase by around 5% a year due to inflation, increased sales and production, and industry growth.

Most of the operating costs, as well as sales and marketing costs, were forecasted using numbers from a business plan created for a startup brewery with a similar production level. The business plan was created by the Palo Alto Software Company using their well known and respected software, Business Plan Pro. In forecasting their costs, Palo Alto Software Company made the following assumptions:

1. We assume a strong economy, without major recession.
2. We assume, of course, that there are no unforeseen changes in economic policy to make our products immediately obsolete.
3. Interest rates, tax rates, and personnel burden are based on conservative assumptions and can be seen in table 5 on the next page

Table 5. Estimated Financial Rates

	Year 1	Year 2	Year 3
Current Interest Rate	10.00%	10.00%	10.00%
Long-term Interest Rate	10.00%	10.00%	10.00%
Tax Rate	25.42%	25.00%	25.42%

Source: Palo Alto Software Company, Sedibeng Breweries. Business Plan Pro.

In conjunction with these assumptions the Palo Alto Software Company did extensive research on the brewery industry in order to forecast their financial documents. Costs from the business plan for Sedibeng Breweries were analyzed and then slightly altered to better fit Richard Manly Brewery. Forecasts for Richard Manly were estimated using a 25% tax rate as well, but only an 8% interest rate.

Operating costs include depreciation, utilities, insurance, license fees, rent, payroll and taxes. All these costs were adapted from the Sedibeng business plan except for rent and license fees. According to the San Luis Obispo Chamber of Commerce the average rent for commercial buildings in San Luis Obispo is around $1.25 per square foot. The brewery will require an area of about 4,500 sq ft and therefore will cost around $5,625 per month or $67,500 a year. The cost of rent is expected to increase each year by about 2% due to inflation and changes in the real estate market. According to the San Luis Obispo Chamber of Commerce, it costs $68 to apply for a business license for a rental property not located in downtown San Luis Obispo (Real Estate). To obtain an alcohol license a business must apply through the California Department of

Alcoholic Beverage Control. If accepted the initial fee for a beer manufacturer is $100 and the annual renewal fee is $1379 (California).

Sales and marketing costs were developed assuming high initial expenses as the company seeks to gain brand and consumer awareness. Marketing strategies will include the development of sales literature, advertising expenses, and function expenses, including lunches and dinners with interested investors, clients or suppliers (Palo Alto). The total cost of sales and marketing efforts was forecasted using the Sedibeng business plan numbers, and was found to be about $54,000 for the first year. This number is expected to grow another 5% each year, as the company increases in market share and begins earning some capital. If marketing programs prove successful in bringing in more business, more money will be invested into developing new marketing programs and expanding current programs.

Payroll costs were determined using table 6 on the next page. The company will have 12 employees for the first few years, but as the company grows in size this number will increase as well. Salaries will be kept constant for the first two years in attempt to keep costs low, but all employees will receive a generous raise in year 3 to compensate. The CEO and Operations Manager will receive an 8% increase in pay, The Marketing Manager, Brewmaster, and Office Manager will receive a 16% increase in pay, and all other employees will be earn a 25% raise in year 3.

Table 6. Payroll Breakdown			
	Year 1	**Year 2**	**Year 3**
President and CEO	$48,000	$48,000	$52,000
Operations Manager	$48,000	$48,000	$52,000
Marketing Manager	$36,000	$36,000	$40,000
Brewmaster	$36,000	$36,000	$40,000
Office Manager	$19,200	$19,200	$22,500
Bottler #1	$12,000	$12,000	$15,000
Bottler #2	$12,000	$12,000	$15,000
Packager #1	$12,000	$12,000	$15,000
Packager #2	$12,000	$12,000	$15,000
Packager #3	$12,000	$12,000	$15,000
Shipper #1	$12,000	$12,000	$15,000
Shipper #2	$12,000	$12,000	$15,000
Total Employees	**12**	**12**	**12**
Total Payroll	**$271,200**	**$271,200**	**$313,000**

Source: Palo Alto Software Company, Seidberg Breweries. Business Plan Pro.

Start-up costs for the brewery are included in the operating, production, packaging and sales and marketing expenses listed previously. Start-up costs will include purchasing most of the equipment needed for brewing the cider, about 6 months worth of packaging products, costs of apples, costs of licenses and application fees, costs of hiring and training employees, and the high initial marketing and sales expenses. All together opening the brewery will cost around $500,000.

Statement of Cash Flows

Richard Manly Brewing Company hasno equity and must get an investor in order to begin production. A loan of $500,000 will cover all expenses for the first year with some extra money for unforeseen expenses. The company forecasts that this loan will come with an annual interest rate of 8% to be conservative. Richard Manly will begin paying off the loan by year 2 in $50,000 increments and by year 11 will have the loan paid off. The faster the loan is paid the less interest the company must pay and therefore paying off the loan is a top priority.

The company estimates that it will sell 95% of its product, leaving 5% in inventory each year. This allows Richard Manly to always have some product in stock, but adds storage costs. Each month 25% of sales recorded will go into accounts receivable and will not be received until the next month. This leaves 25% of December sales in accounts receivable at the end of the year. Also 25% of each months costs will be purchased on credit and therefore will not be paid until the next month. This leaves 25% of costs from December in accounts payable at the end of the year.

Equipment purchased for production and transportation, a total of $86,160, is forecasted to depreciate $2000 a year. The company will not invest in any more equipment until production levels increase or old equipment breaks down. The company also has no common stock and therefore will be paying no dividends.

Cash flow is negative for the first 3 years but will trend upward each year due to increased cash sales. For the first three years the principal payment on the loan exceeds the amount of cash saved from operations, therefore the cash balance at the end of the year is

negative. However, by year 4 or 5 the amount of cash received from operations will increase and cash flow will be positive. The initial loan will cover the loss in cash over the first 3 years and will keep the company in business until it has a positive cash flow.

Balance Sheet

Due to a negative cash flow for the first 3 years of business, total assets will also decrease for the first three years. Accounts Receivable should continue to increase as long as sales continue to increase. Inventory should continue to rise as production increases. No more equipment will be purchased so current property plant and equipment will depreciate at a rate of $2,000 per year, further decreasing total assets.

At first the company's assets will be funded 100% by debt, but as the company pays off its initial loan and retains some of its earnings, more of the company will be funded by equity. Accounts payable will continue to rise as the company increases production and in turn increases its costs of production. Retained earnings should also increase at a consistent rate as long as net income continues to rise and the company does not decide to purchase any new equipment.

Chapter 5

SUMMARY, CONCLUSIONS and RECOMMENDATION

Summary

This paper sought to test the hypothesis that it is possible to create a profitable hard cider company in San Luis Obispo, CA within 3 years. After extensive research it was determined that it is possible to create a profitable company. However, many things must fall into place in order for the company to survive and make money. A large initial investment will be needed to start the company and employees will have to work very hard to get the company's name out into the public eye. Cider is not a well known alcoholic beverage and the cider that is available to consumers is not very good quality. It is also sold at prices to high and therefore the industry has developed a poor image. Heavy advertising is needed to change the image of cider and reach new customers, especially the new generation of drinkers because they will control the future of the alcohol industry. Richard Manly Brewing Company is an idea with great potential and with the right investors and a driven sales and marketing team it could become a reality.

Conclusions

After a careful analysis of the information gathered for this paper, the following conclusions were derived.

Although cider is the smallest category of alcoholic beverages, it is growing at a slow and steady pace. By 2014 the industry is expected to grow 7% by sales volume and 12.5% by sales value. The U.S. cider industry is still young and has huge potential for growth, which means entering the market now could lead to huge profits in the future. However, with such a small consumer base a new cider company could easily fail. Overall expenditure on alcoholic beverages is also forecasted to increase for the next 20 years and in that time span, beer consumption is expected to be relatively stagnant. This means consumer preferences are going to change and the cider industry could take over some of the market share lost by the beer industry.

As the millennial generation enters the legal drinking age they are bringing with them new demands and preferences for alcoholic beverages. The new generation of drinkers is already affecting the beer and wine industries because they are choosing to drink more craft beers instead of wine or cheap beer. This is partially why the craft beer market is growing faster than any other category of alcohol. Cider companies have attempted to mimic the marketing strategies of craft beers in order to gain popularity; however, the cider is poor quality and consumers are turned away by the high prices. Other cider companies have the quality product consumers are looking for, but are selling their cider in 750ml bottles and pricing them similar to wine at upwards of $20 a bottle.

Richard Manly Brewing Company will solve this problem by selling its quality cider at the cheaper craft beer prices. The company will make a small profit on each bottle sold, but the

lower prices will attract more consumers and increase sales volume. In order for the company to succeed, it must change the current image of the cider industry and show consumers that cider can taste good and still be affordable.

Another problem with the cider industry is that 70% of the market is controlled by only 2 companies. The Green Mountain Cider Company and E & J Gallo Wineries dominate the market and control the industry's image. Their brands Woodchuck Draft Cider and Hornsby's Hard Cider are the only two brands found in most grocery and liquor stores in San Luis Obispo. This leaves consumers with almost no variety and two low quality products. Richard Manly will put its cider in every grocery and liquor store possible to increase not only the variety of ciders available to consumers, but also the quality of cider available and the shelf space covered by cider products. The more space cider takes up on the shelves, the more likely consumers will see the product and then purchase it.

In order for the cider industry to grow at a faster rate cider companies need to greatly increase consumer awareness of the product. Many American households do not know what cider is, and with only one or two brands on the shelves among hundreds of other alcohol types and brands, cider has a hard time standing out. Richard Manly will try and fix this problem by putting signs in the alcohol aisles to catch consumers' attention as they are purchasing alcohol. These signs should also increase brand awareness and if consumers do choose to purchase cider they will be more likely to pick Richard Manly. On a small scale this could help increase consumer awareness of cider, but in order to increase awareness across the country or even the state, a much larger advertising campaign is needed.

A campaign that reaches all Americans through multiple forms of advertising is the best way to not only increase awareness of the product, but also change the industry's image. The problem is that no company has the money to fund a nationwide campaign and therefore consumer awareness stays low. This low consumer awareness could prevent Richard Manly Brewing Company from being successful and could cause the company to fail if no consumers purchase its cider. The company must advertise heavily in its first few years to get their name out into the public and to sell as much as possible.

Financially the company can succeed, however it will take a few years to become profitable and a large initial investment of around $500,000. Year 1 will end with a negative net income because year 1 costs, including excess start-up costs, exceeded sales revenue. However, 2012 and 2013 show positive net incomes and increased production. From year 1 to year 2 sales are expected to increase by 5% and with that net income is forecasted to become positive and grow by over 300% from a loss of $19,250 to $69,150. From year 2 to year 3 sales are forecasted to increase another 10% while net income is expected to grow by almost 20%.

At first the company will be financed 100% by outside investors, but each year Richard Manly plans to pay off $50,000 of the loan. By year 11 the loan will be paid off and the company will be 100% equity and therefore debt free. Growth for the first 10 years is assumed to be slow but consistent due to high debt service and a desire to keep the cost of purchasing the cider as low as possible for consumers. This leaves Richard Manly with a small profit margin per bottle but should lead to increased purchases. Therefore, keeping the price low should lead to increased profits.

Cash flow is negative for the first 3 years but will trend upward each year due to increased cash sales. For the first three years the principal payment on the loan exceeds the amount of cash saved from operations, and therefore the cash balance at the end of the year is negative. However, by year 4 or 5 the amount of cash received from operations will increase and cash flow will be positive.

The future of Richard Manly Brewing Company looks successful. The company will grow slowly but steadily, and as long as the economy stays healthy, sales and production should increase as planned. The biggest barrier to the initial success of this company is the large amount of money needed to get started. If an investor can be found, the company should become profitable within 3 to 4 years and will breakeven around year 5.

Recommendations

This paper should be used as a guideline to anyone looking to start a similar business or looking to learn more about the cider industry and what it takes to start a company. It is recommended that if someone is looking to start a similar company that they should not copy the plan exactly. They should take the plan and adapt it to their location. Industry information, the competitor analysis and consumer analysis can be taken exactly as is, but the financial documents created should be altered. Also, the success of this company will be largely determined by its employees and the drive of the company's founder. Therefore, trying to implement this plan without first analyzing how each step of the plan will be accomplished and who will be helping run the company will likely cause the business to fail.

For anyone looking to expand on this research they should look further into the costs of supplies and the equipment needed for expanded production. More information should also be gathered on the technicalities of starting the company and the legal aspects of selling alcohol. This information would include answering questions such as, how easy it is to obtain a beer manufacturing license, and what information must be put on the label or in advertisements to avoid lawsuits. To further understand the consumers and the market in San Luis Obispo, a person should also read Rebecca Tortorich's marketing plan which was created for Richard Manly Brewing Company as a separate senior project.

BIBLIOGRAPHY

*"*Advertising*." Charter Media . Charter Communications, 2011. Web. 10 Mar 2011.* <*http://www.chartermedia.com/ProductsAndServicesMain/Advertising.aspx*>.

Angwin, Duncan, Sotirios, Paroutis, and Sarah Mitson. "Connecting Up Strategy: Are Senior Strategy Directors a Missing Link?" California Management Review. Spring 2009. pp. 49-73.

"Beer and Wine Making Supplies." *Midwest Homebrewing Supplies*. Wagento Consulting and Bilhelm Design , 2011. Web. 10 Mar 2011. <http://www.midwestsupplies.com/>.

"Beer Packaging." *Bar Mate: The Bar Accessories Website*. Mass Bar Mate Corporation, 2011. Web. 10 Mar 2011. <http://www.massbarmate.com/>.

Burke, A., Fraser, S. and Greene, F. J. 2010. *Journal of Management Studies*. Blackwell Publishing Ltd. 47: 391–415.

Boston Brewing Company. *Samuel Adams 2009 Annual Report*. Rep. N.p., 26 Dec. 2009. Web. 15 Oct. 2010. <http://thomson.mobular.net/thomson/7/3090/4213/>.

Brewers Almanac-2010. 1 Oct. 2010. *Beer Institute*. Web. 10 Mar 2011.

California. *Alcoholic Beverage Tax Regulations and Instructions*. , 2006.

Consumer Lifestyles in the US: Drinking Habits. Rep. *Global Market Information Database*. Web. Oct. 2010. <http://www.portal.euromonitor.com/Portal/Magazines/Topic.aspx>.

"Craft Beer Segment Grows as Premium Brands Slide." *Beverage World*. 14 Sept. 2010. Web. Oct. 2010. <http://www.beverageworld.com/index. >.

"Custom Bottle Caps." *Wild Hops Print Shop*. Alathia Group, 2010. Web. 10 Mar 2011. <http://www.wildhopsprintshop.com/store/custom-bottle-caps.html>.

"Custom Bottle Labels." *MyOwnLabels.com*. My Own Labels, 2011. Web. 10 Mar 2011. <http://www.myownlabels.com/beer_labels/SPOG13/>.

"Custom Signs." *Build-A-Sign*. BuildASign.com, 2011. Web. 10 Mar 2011. <http://www.buildasign.com/CustomSigns>.

David, Fred R. "How Companies Define Their Mission." *Long Range Planning*. (22-1). February 1989.

David, Fred R. 2011. *Strategic Management: Concepts and Cases*. 13th ed. Prentice Hall. ch 1-6.

"Demographic Databases." 2006. Information Resource Inc. New York.< http://us.infores.com>

E & J Gallo Winery. E & J Gallo, 2009. Web. 10 Mar 2011. <http://gallo.com/>.

Euromonitor International. 2009. *Cider/Perry in the U.S.* International: Euromonitor Country Sector Briefing. Pp.1-13.

Fabricant, Florence. "Apple Juice with Grown-Up Fizz." *The New York Times*, January 29, 1997.

Facebook. "Samuel Adams-For the Love of Beer." *Welcome to Facebook*. N.p., n.d. Web. 30 Oct. 2010. <http://www.facebook.com/#!/SamuelAdams>

"Fall 2009 Media: Demographics - Head of Household." *MRI Mediamark Reporter* Fall 2010. n. pag. *MRI Plus*. Web. 10 Mar 2011.

"Glass Beer Bottles." *Freund Container and Supply*. Berlin Packaging, 2011. Web. 10 Mar 2011. <http://www.freundcontainer.com/product.asp?pn=45012-b>.

"Greening Beer." *BioCycle* July 2010, Regional Roundup sec.: 14. *ABI/INFORM Global*. Web. Oct. 2010.

Hjelmgaard, Kim. 2010. "Heady times for boutique beer; The rise and rise of American craft ale." *MarketWatch* (0:9) August.

Holz-Clause, Mary. 2003. *Hard Cider Industry Profile*. Iowa State University: Agricultural Marketing Research Center.

"Industry Profile: Breweries." *First Research*. Hoovers, 13 Sept. 2010. Web. Oct. 2010. <http://calpoly.firstresearch-learn.com/industry.aspx?chapter=0&pid=237>.

Kachra, Ariff, and Roderick E. White. "Know-how Transfer: The Role of Social, Economic/Competitive, and Firm Boundary Factors." *Strategic Management Journal*. (29-4). April 2008

Koeppel, Fredric. "America turns its taste buds to hard cider." *The Detroit News*, February 24, 1998.

McConkey, Dale. "Planning in a Changing Environment." *Business Horizons*. (31-5). October 1988.

McKeever, Mike P. 2005. *How to Write a Business Plan.* San Francisco: Nolo.

McTavish, Ron. “One More Time: What Business Are You In?” *Long Range Planning*. (28-2). pp. 49-60. April 1995.

Mercer, Chris. "Craft Brew Is the New Wine." *Just Drinks. Factivia*. Web. Oct. 2010.

Montgomery, Cynthia A. “Putting Leadership Back into Strategy.” *Harvard Business Review*. January 2008.

"Our History." *Woodchuck Hard Cider*. Green Mountain Cider Company, 2011. Web. 10 Mar 2011. <http://www.woodchuck.com/about-us/woodchuck-history.html>.

Palo Alto Software Co. 2011. “Sedibeng Breweries.” *Brewery Business Plan.*

Pearce, John II and Fred David. “The Bottom Line on Corporate Mission Statements.” *Academy of Management Executive*. (1-2). May 1987.

Perez, Agnes, Erik Dohlman, and Kristy Plattner. *Fruit and Tree Nuts Outlook*. United States Department of Agriculture, Economic Research Service. Washington D.C.: , 2010. Web. 10 Mar 2011. <http://www.ers.usda.gov/Publications/FTS/2010/Sep09/FTS344.pdf>.

Perry, Stephen C. "The Relationship between Written Business Plans and the Failure of Small Businesses in the U.S.." *Journal of Small Business Management*. 39.3 (2001): 201-208.

Robinson, James F., Woodward, C. F., Harrington, W. O., Hills, C. H., Hayes, Kirby M., Nold, Truman. 1977. *Making and Preserving Hard Apple Cider.* Washington D.C.: USDA Farmers’ Bulletin No. 2125. pp. 1-13.

Rowles, Kristin. 2000. *Processed Apple Product Marketing Analysis: Hard Cider & Apple Wine.* Rowles: Cornell University Department of Agricultural, Resource, and Managerial Economics. pp. 1-20.

“Real Estate for the City of San Luis Obispo.” *Community Economic Profile.* 2011. San Luis Obispo Chamber of Commerce. San Luis Obispo. 2011. Web. 10 Mar 2011.

“Tough times mean more boozing.” 2010. *American Agent & Broker*. (82: 9) September

"Wine and Beer Making Retail Store." *Fermentation Settlement*. Fermentation Solutions, 2009. Web. 10 Mar 2011. <http://www.fermentationsettlement.com/>.

APPENDIX:

RICHARD MANLY BREWING COMPANY BUSINESS PLAN