

Riding the storm

Modern Brewery Age, March 23, 1998, by Peter V. K. Reid

As the craft segment is buffeted by the winds of competition, the Mass. Bay Brewing Co. has already been there and back.

The Mass. Bay Brewing Co.'s trademark is a harpoon, symbol of its namesake Harpoon ales and lagers. The nautical imagery is apt, since the brewery sits on the edge of Boston harbor, ensconced in a vast warehouse that was once part of the Boston Navy Yard. "This place was built by the Navy when they were turning out destroyers here," says marketing director Nick Godfrey. "It's got concrete flooring thick enough to withstand bombing, which has made cutting drums for the brewery a bit of a challenge."

Demand for destroyers may have waned since 1944, but demand for all-malt beer has demonstrably increased, and sometimes the twain still meet. The Navy yard is still adjacent, and U.S. Navy personnel occasionally wander over when their ships are in drydock. The primary surface-to-surface missile system of the modern navy happens to be called Harpoon, and Mass. Bay's Harpoon logo garments are much in demand by the missileers. "Those guys love our shirts and hats," Godfrey says. "It's non-regulation, but they tell us they even wear them when they're in action."

Just as Mass. Bay has become the unofficial brewery of the U.S. Navy, it has quietly evolved into the largest independent craft brewer in the Northeast. Founded in 1986, the company has been something of a hybrid in recent years, with draught production taking place in Boston, and bottled production contracted to the Matt Brewing Co. in Utica, NY. Now the company's Boston brewery is undergoing an expansion that will put capacity at 60,000 barrels by the end of 1998. Most significantly, Mass. Bay has reinstalled a bottling line, making it a bottling microbrewery again for the first time since 1990.

Life hasn't always been easy for Mass. Bay, given that the company grew up alongside the Boston Beer Co., the contract brewing wunderkind of the industry. To remain competitive, Mass. Bay shut down its original bottling line in '90 and adopted its contract\micro configuration, a novel arrangement at the time. As competition in the national market has become more intense, other small brewers have done similar things.

The key advantage of Mass. Bay's contract microstructure is flexibility. While capacity expansion is occurring at myriad other micros and regional crafters, the essential difference is that Mass. Bay's new capacity is basically presold. The brewery had sales of 58,900 barrels in 1997, almost enough to fill the brewery's new tanks as soon as they come on-line.

"Hopefully we can fill the pipeline with new barrels," company president Dan Kenary says, "but we can always pull capacity back in-house from Matt if we have to. The fact that our sales level is where it is means we can achieve operating efficiencies that smaller companies can't. If we weren't doing the numbers that we're doing, we couldn't have justified the kind of equipment we bought."

The new equipment includes a state-of-the-art Krones bottler and labeler. It's a far cry from the company's original ill-starred bottling line, which was pulled out in 1990. "That old line was a Jonah," says Kenary. "It almost put us out of business, and then we sold it to Buffalo and it put them out of business. It's probably still out there doing mischief somewhere."

The new line is made up of a Krones 36-valve VK2V double preevacuation filler, running at 250 bottles per minute (bpm) and a Krones labeler that can run up to 225 bpm. "When the bottle runs through the filler it is

raised up and a seal is formed," Marzi says. "All the air is sucked out, and then the process is repeated so all the air is pulled out twice. You have 99% of the air removed, and then it is filled with Co2. The beer is then poured in, using a spreader that pushes the beer to the outside wall of the bottle and fills from the bottom up. Using this system our air content has been very low, .25 or less. Anything over .5 will affect quality, and there are a lot of people out there with .8 or .9. And at that level you can forget about any kind of shelf life."

According to Marzi, the new equipment seems to be doing its job, extending the life of Harpoon bottled beer under even the most grueling marketplace conditions. "We've tested our beer for three months at 90 degrees Fahrenheit," Marzi says. "and we still had a nice clean product."

Shelf life also gets a boost from the company's Handtmann filter, which was installed on the line after a brief flirtation with cartridge filters. "We tried cartridge filters, but we felt they stripped too much flavor out," Al Marzi says. "The Handtmann effectively gives us sterile filtration. Our DE takes it down to 3-5 microns, and then the Handtmann brings it down to .45."

Marzi notes that the brewery is looking at centrifuge filters to replace the DE, a move he feels could provide substantial benefits. "They are expensive," he says, "but there are environmental savings, because you don't have to get rid of the diatomaceous earth. There are some good used Alfa-Laval units becoming available, and they will help with reconditioning and installation."

Mass. Bay's single-minded focus on quality control and shelf life is one more indicator of the cut-throat competition in the craft segment. "The public isn't as forgiving these days," Kenary observes. "When the market was up 50% a year you could afford to lose five customers because you had six new ones coming through the door. Those days are past. Consumers don't want to buy an expensive six-pack of so-called quality beer that isn't really high quality."

Quality assurance is ever more crucial, given the sudden burst of bottled Harpoon running through the plant. "We're ramping up production," Kenary notes "We're alternating single runs, at 1600 cases, with double runs. Double runs are challenging for our guys, but we'll be doing it more and more."

New tankage is coming on line to bring the brewery expansion to fruition. Six new Mueller 120-barrel unitanks have arrived, along with one new 240-barrel bright beer tank. "These will be in service by mid-March," Kenary says, "and that will bring capacity up to 60,000 barrels. As soon as they are installed, we'll be filling them up. We'll be doing 20 brews a week, producing 1200 barrels."

Kenary was one of the founding partners of the brewery, along with current chairman and CEO Rich Doyle, but left his active post at the brewery in the early 1990s to join a biotech firm. He returned in 1995, when the partners decided to expand the business. "We decided it was time to do some things we'd been needing to do," Kenary says, "and we needed to hire someone with my kind of background. It seemed crazy to go outside, so I just stepped back in."

As it happened, the specialty market began its slowdown soon after Kenary returned. "At the end of the summer of 1996, we saw things slow down," Kenary says. "Chances are that 1998 will be even tougher. But we have been very conservative, so I think we can withstand any downturn. Unlike some of our competitors, we hadn't overextended ourselves by building some enormous brewery. We've had to reevaluate things a bit, but we should be well set up for the future."

According to Kenary, brewers that didn't plan conservatively may face problems. "Bad facility decisions may

cost some brewers their businesses," Kenary says. "Decisions made based on 1995 information are coming back to haunt people. I think because we had the crap beaten out of us for so many years by Jim Koch that we've always run our business very carefully. We prove that the business is there, and then we commit resources."

Chairman Rich Doyle echoes Kenary's conservative outlook. "From a strategic standpoint, it's either a great time to buy or a great time to sell," Doyle says. "And either way it's a great time to stop and take stock, both for the industry and for ourselves. It's important for us to have a reason for everything we do, and it's important to understand and appreciate customers - and know why they are buying the product."

This become ever more important as the market becomes more strictured, Doyle points out. "The market leaders are cutting SKUs," he says, "and you have other companies retrenching, pulling back into their home markets. Some of the established brewers are obviously having problems, and some people out there are flailing around for a flagship brand. Nonetheless, at the moment, strong brands have opportunities."

This makes Doyle cautiously optimistic. "There was lass trial in '97 than '96," he says, "but the bottom hasn't completely dropped out. Some people lost barrelage, and some people picked up some share. People who drank micros haven't switched to light beer or iced tea, but things have narrowed in on well-known brands. People still like to try different things, and we need to cut through the information vacuum. People have to know that we're the biggest craft brewer in New England.

"Some markets are saturated," Doyle continues, "but the people who are dropping out, that opens up a bit of volume. People who make good beer are solid, people who don't are not. There will be fewer entrants in the near future, less competition for attention. We don't have a patent on doing this, because anyone can come in and do it. It's just harder to come in than it was 10 years ago, and there are going to be a lot more exits. I think that some of the mergers we're seeing are precursors to exits."

This shakeup in the industry gives Doyle pause, but he sees light at the mouth of the kettle. "I think there will be fewer people in the market eventually," Doyle says, "Despite that, the specialty segment will maintain share. Unfortunately, I think some craft brewers are still punters - busily punting excess beer into other markets, hoping it goes far, but knowing they won't be anywhere near it when it lands. And all of these footballs, amber liquids, are falling on retailers."

The result, according to Doyle, is a retail segment awash with specialty beers. "I've likened it to a big car wreck," he says, "a pile-up that's happening at the retail intersection. People are saying customers are confused, but I disagree. I just don't think the customer ever had commitment to every XYZ brand that hit the market. Sales guys are selling thousands of cases, but when the customer stops buying it, the wreckage stays at the retail level. And all these brands have to get towed away before traffic resumes."

"I think there has been a flight to quality," Doyle says, "but people aren't switching away from micros, so I think the segment is still very strong - and it's the strong brands have gotten stronger. The bloom may be off the rose to an extent, but from consumer standpoint, there is more quality fresh beer at good prices than ever before

"Unfortunately, there's a danger that specialty beer is becoming a commodity," Doyle says, "and that's scary, because the sense of dissatisfaction with other commodity beer products started this. Consumers don't pay more for a commodity, and so commodities compete only on price. There are some great beers, and some not so good, but there are a lot of amber liquids floating around."

How to fight becoming a commodity? "Every brand has to be an individual," Doyle says, "and I think this period

is absolutely an opportunity for us. It's an opportunity to do what we do better, to tell our story, to get our product out in front of more people."

For Mass. Bay, tough competition is nothing new, especially after sharing a home market with the Boston Beer Co. for the past decade. Like a street kid that grew up on the tough side of town, Harpoon's early travails now stand them in good stead. "Some people in this industry had phenomenal growth right along," Doyle says. "When that stops they don't know what to do with themselves. We've had ups and downs. We didn't grow into a 60,000-barrel brewery overnight. We grew, then we grew a little more, and we can keep on doing that indefinitely."

*COPYRIGHT 1998 Business Journals, Inc. in association with The Gale Group and LookSmart
COPYRIGHT 2000 Gale Group*