

Fast mover: the Deschutes Brewery bucks the trend with continued rapid growth

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The craft segment may be rocked by competition and wracked by overcapacity, but someone seems to have forgotten to tell the folks at Deschutes Brewery. Deschutes is still seeing the kind of growth that microbrewers took for granted during the boom times. The brewery was up almost 20% in '98 against a flat craft segment, and will be up again this year. The company is projecting shipments of 88,000 barrels in 1999, and has recently completed a capacity expansion to 120,000 barrels at its Bend, Oregon brewery. Hubris is not fueling this particular brewery expansion - just simple demand.

Bend was a small town when Deschutes Brewery opened in 1988, and Deschutes was a small brewery pub. Deschutes' ascent into the ranks of regional craft breweries followed a trail pioneered by other small breweries, but nowadays the stow has become more interesting. As other crafters have faltered, Deschutes just keeps growing. Its Black Butte Porter has been the number one draft and packaged porter in the Pacific Northwest for the last couple of years, and its Obsidian Stout is the number one stout package. Demand for these hot brands has been fueling Deschutes' continued expansion.

"Our plan is to grow 10,000 barrels a year," founder and president Gary Fish says, "but we're not planning to open any new markets. All the brand equity was built here, and we realize that these brands don't necessarily translate into new markets."

A restaurateur by vocation, Fish entered brewing through the brewpub door. He had participated in numerous restaurant startups, and during the mid '80s watched with interest as the pub brewing segment became hot. "My father had been in the wine industry as a grower," Fish notes. "After he retired, he and I started talking about the brewpub concept, and how capital expenditures could be more easily amortized by making beer on-site. So essentially we started thinking about a restaurant-brewery concept."

Then Fish's friend Ed Brown announced he was starting the Rubicon Brewing Co. in California. "I offered to work for Ed, basically for free, just so I could learn about the micro and pub industry," Fish recalls.

All the while, Fish was looking for a likely place to start his own brewery. "My parents had been raised in Oregon," Fish says. "They had passed through Bend a few times. On theft suggestion, I came up here to look around."

At that time, Bend was undergoing a dramatic decline in its logging business. The town's big sawmills had closed down, and there were more tourists than lumberjacks walking the streets. Fortunately, Bend made the transition to a more service-based economy with reasonable smoothness. Scarcely ten years ago, the population was 12,000. Now it's 50,000, with 700 new homes built in town during the past year. With myriad golf courses and a benign summer climate, Bend attracts more than its share of retirees. Add in proximity to vast expanses of National Forest and a designated Scenic & Wild River, it's not surprising that Bend is attracting emigrants from all over the country. "Tourism is now the number one industry in Bend," Fish says.

When Fish opened his brewery pub in 1988, however, it was hard to find good help. "I had done all the setup, and I was prepared for an onslaught of applicants when we started hiring," Fish says. "I got stacks of pads, pens and pencils, and I ran an ad, expecting to be bombarded by people. But no one called, and no one came. Eventually I had to hire 12 out of the total of 15 applicants, and the quality of that group was not especially high. I had to fire my kitchen manager after two weeks. I was working seven days, open to close."

On the brewery side, Fish was fortunate to find John Harris, later of the Full Sail Brewing Company. Hams would stay four years at Deschutes, and formulate Black Butte Porter and Mirror Pond Pale Ale, among others. "John is a great, talented brewer, and an honest guy," Fish says. "He was everything I needed right then. We were sitting in the pub after I hired him, and he asked me what his job description would be. I pointed to the wall between the pub and the brewery, and I said, 'everything on the other side of that wall is your job description'."

Early on, there were some teething problems, Fish recalls. "December of 1988 was Black September for us," he says. "There were some design flaws in the brewery, and we were turning out bad beer. We had to dump batch after batch, and we couldn't find the infection. We were down to two taps, and this was at a time when Mt. Bachelor ski resort had just agreed to pour our beer. That was a tough Christmas, sitting in the brewery nursing a batch of beer with lagging ferment. It was one of those times when you do a lot of soul-searching."

Fish brought in Dave Logsdon, a brewery consultant, to take a look at the brewery. "He tore the whole place apart and rebuilt it," Fish says, "and he found and fixed a number of flaws."

Despite the setback, the problems were quickly resolved and the brewery was soon turning out good beer. At the time, of course, the craft beer market was really percolating in the Northwest, and John Harris decided to test the waters in the fast-growing Portland market. "John knew Jim Kennedy of Admiralty Distributing, and he sent him some beer," Gary recalls. "A couple of weeks later Jim called us and said the tavern owners really liked it and wanted more. Our cash flow was pretty bad at that point, and we had extra capacity. So we rounded up some old Golden Gate kegs, and piggybacked them on a distributor's truck that was taking a load of aluminum cans to Portland."

With Admiralty/Columbia's help, Deschutes gradually built its presence in the Portland market. Fish rented a building behind the pub to serve as a warehouse, and beer shipments began to take off. But by the mid-1990s, Deschutes was rapidly outgrowing its old facility. "We started to get letters from the city about loading semis in the downtown area," Fish says, "so we knew we had to start looking around."

In 1995, Fish bought a 3-3/4 acre site in Bend and began to build the new Deschutes Brewery. From the beginning, the brewery was viewed as a four-phase project. The first thing to go in was a four-vessel JV Northwest brewhouse. "At the time it seemed ambitious," Fish says. "now it just seems small."

The expansion project has gone like clockwork, almost perfectly anticipating demand. Phase III was complete in late 1998; Phase IV is almost complete as of Fall 1999. All the brewery tankage is fabricated by JV Northwest in Canby, Oregon. The first phase tankage featured six 100-barrel fermenters, and 100-barrel bright beer tanks. "Later we added more 100-barrel fermenters," Fish says, "and then we started adding larger ones - first 200-barrels, then 400-barrels. Bright beer tanks were originally 100, then 200 and now all 400."

The first phase bottling line was a used and reconditioned unit, installed in 1995, but a state-of-the-art Kronos line came with Phase IV. A new IDD keg line also came on-line in 1998, as the brewery made the shift from Golden Gate to Sankey kegs. Brewing operations are supervised by Dr. Bill Pengelly, director of brewing. The good doctor spent 12 years teaching microbiology, and has been at Deschutes for six years.

"All of our bottled products are bottle conditioned," Pengelly says, "because we believe that it ensures superior quality. The stability we get is great, since the oxygen gets eaten up. It doesn't prevent staling, but it certainly helps."

Sales and marketing tasks are now handled by John Bryant, a native Northwesterner with extensive big brewery experience. Bryant's charter is to bring a new professionalism to the company's sales and marketing operations.

Given the brewery's strong staff resources and expanded capacity, Fish might be tempted to expand the Deschutes marketing area, but this is a temptation he plans to resist. "We do about 50% of our business in Portland and the Willamette Valley," Fish says. "And another 20% in Seattle and King County. A relatively small part of our volume is in Bend and the surrounding area. We're committed to Northern California, but we're building that market like we built the Northwest - one account and one customer at a time, doing festivals and tastings, no mass media. We went into San Diego last year, but we withdrew. I think the idea that craft brewers could expand into new markets without undertaking a long-term market building process was unrealistic."

According to Fish, the craft slowdown was almost preordained once the IPOs began. "The breweries actually changed," he says, "especially the larger ones. They changed how they went about things. Small boot-strap companies suddenly had more at risk - they were financially leveraged into these big new breweries, and some of them fiat didn't have the expertise. I've said often that we're not here to make money, we're here to make beer. If we make good beer, the money will take care of itself."

Fish is conscious that Deschutes' continued strong growth puts it in a fairly select club. "If you look at the craft companies, only a handful are growing," Fish says. "I see certain similarities between them - companies like Sierra Nevada, New Belgium and Anchor. They are doing what they want to do - they have a firm commitment to product, and they are in business because they want to be, not to make money and get out. We look to those companies for characteristics we would like to emulate."

For Fish, focus is the key "We don't always need a new package or a new marketing angle," he says. "The point is commitment. You have to have faith even when the numbers don't look rosy. One of the benefits of being privately held is that we don't care about next quarter - my horizon is farther out. I think the Busch family is the consummate example for brewers in the United States. As adept as they are at the business end, they have maintained a passion for beer. People in our industry tend to deride what doesn't fit their preconceptions, but there's a lot to admire about a company like Anheuser-Busch."

For the near term, Fish says the company will continue to grow into its Phase IV expansion. "We will execute our current plan," he remarks. "Once we're through this phase of our expansion, and we get our debt load under our belt, then there will be time to examine opportunities. We probably won't build another brewery - what that means, who knows."

Despite the naysayers, Fish sees latent strength in the craft segment. "I think this industry has more credibility now, not less," Fish says. "It has grown, and the overall quality of the beer has improved. Failures? That's just business, not a fad gone awry. We still think there are very good times to come for this industry."

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