Waking the slumbering giant: A new team of managers seeks to bring Genesee/High Falls back to life

Modern Brewery Age, May 19, 2003, by Peter V. K. Reid

The Genesee Brewing Co., now known as High Falls Brewing Co., is a sleeping giant of the American brewing industry The brewery sprawls across 28 acres in downtown Rochester, NY, a living reminder of the days when big regional breweries still walked the earth. Genesee brewed three million barrels at its peak in the early 1980s, although that volume has been slipping away ever since. Now a new management cadre has determined to revive the brewery with new brands and new marketing strategies, with an ultimate goal of waking the slumbering giant.

The Genesee Brewery was founded in 1878, on the banks of its namesake Genesee River, which flows through the center of Rochester. The brewery was built on a bluff, just across the river from a high waterfall, which gives the brewery its current name, High Falls.

Fittingly, the brewery's new name came in with the new century. In the year 2000, a group of managers bought the Genesee Brewing Co. from the Genesee Corporation. Genesee Brewing Co. had been run by the Wehle family for decades, but declining profitability eventually forced the family to a hard decision--closing a family-run brewery that had been operating since 1878.

In the late 1990s, as the Wehles weighed their decision, it seemed inevitable that Genesee would fall by the wayside, to join the shades of other defunct family breweries closed or subsumed in the past few decades--all the proud old names like Ballantine, Ruppert and Christian Schmidt. But oddly enough, the brewery didn't close, thanks to a couple of unlikely idealists -- Tom Hubbard and John Henderson.

Genny couldn't have found a pair of white knights any closer to home. Hubbard and Henderson were businessmen who met while working for a regional paper distribution company; before that, Henderson worked for Xerox and Hubbard was a banker. Most important, they were Rochester natives, with a stubborn belief that the local brewery should not be allowed to shut down.

"John and I decided to get into the business in 1999," Hubbard says. "The brewery was on the brink of closing, but the more we peeled back the onion, in terms of looking at the business, the more we came to believe that there were good reasons for keeping the brewery open. We had a good distribution platform, and high quality products. We thought we could reduce costs, and we also wanted to do something for the community, by saving 500 jobs." As they made their decision to take over the brewery, Hubbard and Henderson began to do some serious research on the brewery and the industry.

Henderson, an operations specialist, began to meticulously examine the brewery. "The brewing capability at this plant was very good," Henderson says. "The packaging operations had seen investment under the previous owners, and the facility had been very well maintained. We liked what we saw."

The brewery had been modernized progressively from the 1960s through the early 1980s. In the mid-1960s, Genesee got industry-wide notice with the installation of the largest lauter tun in the world. "It's not the largest in the world anymore," notes brewer John Fischer, "but a 34-footer is still a very big vessel."

Genesee's grand plan envisaged two brewhouses producing ten brews a day to feed into the massive lauter tun. One new brewhouse was installed when Genesee reached its peak sales in the late 1970s and early 1980s. And, in 1984, they removed the copper kettles in the original brewhouse, and installed a new Vendome stainless kettle.

However, when sales slipped in the later 1980s, the modernization was put on hold, with only one cooker and masher operational. As a result, production maxed out at 13 brews a day, using both new and old brewhouses.

The packaging side had received steady upgrades through the late 1990s, Henderson found. The brewery features one 1300-can-per-minute can line with a multi-packer, and four bottling lines, one of them a high-speed line installed in 1997. An older line is fitted with a bottle washer, and handles all refillables. "The packaging operation is impressive," Henderson says, "and the engineering people and packaging specialists are very proficient."

While Henderson assessed the brewery, Hubbard was looking at the macro picture. "We saw industry fundamentals moving in our direction," he says. "Capacity had been rationalized at that point, and prices were moving up. We felt we could improve the operating costs. We also believed that the extra capacity we have would become attractive to, not only our current contract customers, but others too. We created a dual strategy. Take the extra capacity, and sell it off to credit-worthy customers, take the cash flow generated off that, and reinvest it in the existing portfolio and the development of new brands. And for me, the driving underlying reason was to try to save the jobs.

"Upstate New York has taken its lumps," Hubbard notes. "This town had been very prosperous, with Kodak, Xerox, Bausch & Lomb. But in the last four or five years, those big three have downsized. The community has done a good job regenerating jobs through the service sector, tech and biomedical. But the jobs that were here at the brewery would have had a hard time relocating."

So Hubbard and Henderson marshaled their forces for a management-led buyout. They put together a group of 22 management personnel to invest in the brewery's future, and a group of outside investors as well. "The management team now owns the majority of the company," Hubbard says, "but we wanted to have it broadly held, so we sought out other investors who have a stake in the community."

Hubbard saw saving the brewery as a win-win for the community, for the state, and for the county. "In addition to the jobs saved," he notes, "the first year we had it, this operation threw off $25 million in state, federal and municipal revenues. In my view, there were lots of good reasons to keep this business running."

The new managers faced a daunting task. The plant was in good shape, but Genesee, once a household brand name in the Northeast, had been forced to retrench its main brands in the New York/Pennsylvania markets. The old Genesee brands--Genesee Beer, Genesee Cream Ale and Genny Light--still had strong name recognition in these bastions, but were rarely seen elsewhere. J.W Dundee's Honey Brown Lager and Michael Shea's Irish Amber, 1990s quasi-specialty introductions, also enjoyed broad distribution elsewhere in the country, with the exception of the far west coast. All the Genesee brands had a reputation as quality beers. Unfortunately, the brands also shared another distinction -- they were all in decline.

To turn that around, Hubbard and Henderson looked to Dave Boggs, vice president of marketing and Don Cotter, vice president of sales. Before coming to High Falls, both had worked for Canandaigua Wine Co., the big New York State vintner.

Just as Henderson and Hubbard had researched the prospects for the brewery, Dave and Don sounded out the extent of the task before them. "Before we came, we decided to drive around and find out about the brands," Don recalls. "So we went into all kinds of accounts, and we heard a lot of negative things -- packaging hasn't changed in ten years, they used to have TV ads, they used to have people in the market. But then, we'd say, 'tell us about the beer.' And they would say, 'Oh, the beer is great.' And we got back from that trip, and we started talking.

Dave, who's a marketing guy, said he could take care of the packaging and advertising. And I was thinking that once we had a sales force, we'd be able to take care of the other stuff."

Cotter and Boggs signed on for the task, and have been working at rebuilding the High Falls brand portfolio ever since. Once he got into it, Dave Boggs noticed that some of the High Falls brands seemed to have stumbled through no inherent fault of their own. "These brands didn't benefit from a natural cycle," he says. "If you look at the numbers, you see that there was a dramatic drop in support. If you take Honey Brown as an example, you see it building, building, building, and then they pulled support. And it dropped off, but in our view it was unnatural drop-off Now we're supporting these brands again, and we'll bring them back."

Cotter agrees. "Honey Brown is now doing better," he says, "and of all brands, this has been the biggest challenge to bring back. Honey Brown was flying until the previous owners pulled back resources. Now we are putting resources back against the brand, and we see it having an effect."

Honey Brown peaked at about 400,000 barrels in 1998, but then dropped off as the previous management cut spending to examine their options for the brewer's future.

The Genesee brand family remains the largest part of the High Falls business. Of these older brands, Genesee Cream Ale has been the best performer. It has benefited from revamped packaging, and is now distributed through most of the High Falls quasi-national geography "Genny Cream has the most brand ID across the conntry," Hubbard notes. "We get e-mails from California on a weekly basis, asking 'when are you bringing Cream Ale out here?' Cream Ale is doing well and Genny has shown improvement."

The brand management team is also now looking at Genny Light with new focus. "We felt that Genny Light deserved a great deal of emphasis," Boggs says. "So we split it off from the rest of the Genny packaging, and we began to run taste test challenges. We felt there was a void in the light beer segment. People were looking for a light beer with a little more flavor and body Genesee Light has 96 calories, but it has a lot of taste."

According to Boggs, the taste test challenges have reawakened New York and Pennsylvania consumers to the excellent local light beer in their midst. "Genny Light wins taste tests on a regular basis," he says, "and that quality message spills over to the rest of the line, benefiting Genesee beer and Cream Ale. We are sending the message that Genesee is not just about price, it is also about quality."

To a certain extent, Boggs says the Genesee brands could benefit from the generational nature of the beer business, in that Genny is so old it could be new again. "The fact that a beer was your father's beer and your grandfather's beer, and your great-grandfather's beer should just tell you that they had good taste," Boggs says. "1 think Genny Cream Ale is a blank check to a lot of new consumers, and if we had more resources, I would put them behind Genny Cream."

Boggs says he is encouraged by latent strength and arrested decline of the Genesee family, but is also looking towards other avenues for growth. "There is some evidence that older brands can revive, and in some markets I think that's happening with Pabst a bit, but we can't just wait around," he says. "We also have to be proactive with new products."

The first new beer out of the High Falls pipeline is Kipling. The name is not a belated tribute to the neo-imperialist British author, but a newly-minted brand name that tested well with consumers. "We tested a lot of brand identities with light beer consumers," Boggs says. "We didn't want to be the umpteenth Irish beer, and Kipling was different. That fit the product, which is also a departure. It's a dark light beer with 99 calories at a super premium price point. We think that premium quality with an emphasis on taste has been a growing trend, ever since the craft brewing boom started in the early 1990s. Consumers told us they liked the idea of a darker light beer. It's not just another light beer."

Kipling was launched in Rochester initially in February, with plans to expand further this summer. "We started in February in the greater Rochester area," Cotter says. "Based on initial performance, we will expand further in New York state, and one market outside home base to see if it can fly. Once we have a reading on test markets, and have that data, we will go to other distributors. We started our TV support about a month ago. We are in this business long term. We want to do it right every step of the way. Distributors are chomping at the bit for Kipling."

On the sale front, Cotter is encouraged. "When we took over the brewery," he says, "all the brands were in decline. With all the brands, we have managed to improve trends. We have decreased the decline on these brands. The brewery was heavily draft-oriented, so the decline in draft has had heavier impact than on some other players. We are growing the brands in certain channels, but still struggling with the impact of declining draft business. Still, if you look at the national A.C. Nielsen numbers, Genny is a growth brand; Genny Light, a growth brand; Honey Brown, in most markets a growth brand; Cream Ale, a growth brand. In this market, draft for Genny, Cream Ale, Light and Honey Brown is growing. In this market, draft and packaged are growing, but in other markets, packaged is growing, and draft is in decline."

Cotter says that he had three priorities on the sales side. "First, take the brands we inherited and get them righted," he says. "We are in the process of getting those brands growing again. These are substantive brands, and we want to get them growing again.

"Second," he says, "we want to take new brands like Kipling Light, and execute them in the field, get them introduced in the right fashion. I came from Gallo originally, and they are kind of the Anheuser-Busch of the wine world. Their philosophy is if you are going to introduce brands, go out there and do it right. We did Kipling right in this market. We had 80% distribution in marketplace within two weeks, and we have built a base to grow.

"Third, we have sales platform that covers much of the United States with the exception of the West Coast,' he says, "and that can be used in lots of other ways. One, we can introduce our own products, and two we can take brands under contract, and have those products sold by our sales force. We could also do that with other brands, or even imports, and overlay those. There are other contract producers, but nobody contracts and represents. So we are in unique position."

As Cotter observes, the opportunities for contract production may increase as excess capacity leaves the business. "We're one of the last brewers on the East Coast with significant capacity to serve other people," CEO Hubbard says. "We're looking at this as a combination brand business and service business. We are within easy reach of 35% of the U.S. population. That seems to us to be a definitive advantage. We have one thing that others don't, a nearly national sales force. We can make product for some people, and make and sell product for other people. We reach everywhere but the far West Coast."

In 2001, soon after the new managers took over, they landed a particularly lucrative contract brewing job. Guinness UDV needed a brewery to produce a fast-growing new malt-based cooler. The brand was called Smirnoff Ice, and kept High Falls humming nicely through 2001 and into 2002.

The Smirnoff contract seemed to confirm Hubbard and Henderson's business plan, but unfortunately, not all the old excess capacity was out of the system. The Stroh Lehigh Valley brewery came on the block, and Guinness bought it to handle anticipated malternative production. Nonetheless, Smirnoff Ice had given High Falls a nice boost.

"We had a very good first year," Hubbard says, "and Smirnoff Ice was an important factor. Contracts will remain an important part of our business. We would love to fill up this brewery with our own brands. We'd love to do that, but in lieu of that, given geographic location, the cost efficiency of this facility, and the service orientation we have, we think we can be the premier contract brewer on the east coast. Expanding that part of our business is our primary objective."

To hone its productive capabilities, High Falls installed a new packaging line with two-pressure sensitive labelers in August 2001. The first product ran in that newest line in June 2002, and the line is now operating at 85% efficiency.

When Hubbard and Henderson took over the brewery, all Genesee draft beers were still packaged in Hoff-Stevens kegs. "We had to switch all Genesee brands to Sankey," Henderson says. "It was a $3-1/2 million investment, but there were productivity gains, and from a customer retailer perspective, the Sankey is much preferable."

Sales v.p. Cotter says the first quarter of 2003 has been fruitful from a sales perspective. "The growth is in our category," he says. The consumer is price conscious, and we have a high quality product that targets the price conscious consumer. We're very encouraged. We had a sense that this brewery lost its way for a few years while it was trying to sort out its future. We're getting it back on track. The operations people here have always been strong, and we are rebuilding the marketing and sales capability."

Hubbard concurs that the brewery is on plan. "Our current sales objective is to get Genny Light going and have a good start with Kipling," he says. "Our biggest challenge is to allocate our resources, human and manufacturing to those projects that have greatest chance of success. There are many things we could do with our resources, and we have to choose wisely We are also trying to build a culture here, open and team oriented, and if we do that, we can create a superior service organization. This is important for us. We are dependent on our contract customers reordering and our distributors paying an appropriate amount of attention to us. We have our challenges, no question. We are a mid-sized player in a business dominated by a few enormous players and a lot of niche players. We are challenged to figure out how to go down this path of being a hybrid, a contract and brand business. But we believe there is room for a company making good quality regionally-made beer. We have been enormously encouraged by trial we've gotten with Kipling. Not just because it's a hometown beer. Our guys have done a terrific job, and the whole plan has come together, It is a long build, but we have a great tasting product, in a fabulous package."

And Hubbard reports that Kipling is only the first in a line of planned new brands, possibly including a new ale. "Kipling Light represents the beginning of a new wave of high quality brews that people can expect to see from us," he says.

It's been a tough couple of decades for regional breweries in the U.S., but the sector is no longer the waiting room for the morgue. Diverse players like Yuengling and New Belgium are showing that regional brewing operations can br profitable and dynamic, and High Falls is poised to join that club, with new brands and a new spirit. The sleeping giant has awakened, just in time.