



# Business Prospectus: Microbrewery

Created by Battle River Economic Opportunity Committee  
(BREOC)

2021



**Mandarina IPA**  
340ml  
R140 for 6 pack  
R280 for 12 case





## Business Prospectuses

### Microbrewery

#### Disclaimer

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## Microbrewery

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## Microbrewery

### Overview

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The Battle River Economic Opportunities Committee (BREOC) is a partnership of seven communities that have taken ownership of driving and leading economic prosperity in their region. The region spans two counties in East Central Alberta the County of Paintearth and Flagstaff County, which house the municipalities involved: Castor, Coronation, Halkirk, Forestburg, and Heisler.

BREOC has developed a comprehensive strategy to diversify, strengthen, and facilitate long-term success for their regional economy. An aspect of this plan focuses on support for private sector development and inbound investment to diversify the economy and generate local opportunities. This included creating business prospectuses for different opportunities within the region for investors to develop new ventures.

BREOC has identified eight (8) business ideas that they feel represent high potential opportunities in the region. Business prospectuses were developed to explore the details of creating and operating new ventures.

The following prospectus is focused on creating a microbrewery within the BREOC region. With the craft beer industry thriving in Canada, and Alberta specifically, the opportunity exists for an entrepreneur to start a brewery.

There is an established culture of beer drinkers that continues to grow and take pride in the product that they consume. No longer are individuals only purchasing big industry beer labels. On the contrary, they are considering a variety of factors in their purchase decision, such as production location, ingredient location, product labelling, and brand, amongst other considerations.

BREOC, having no breweries, is a fantastic place to make an authentic locally brewed product. However, where does someone even begin when figuring out how to start a brewery? The following prospectus has been created to provide information to help answer that question.

### The Concept

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Microbreweries can exist in a variety of fashions, but they essentially can be divided in two categories.

1. They can be a production and distribution facility for larger brewing companies, or;
2. They can incorporate a bar/pub style venue, or tasting room, for individuals to congregate, purchase, and sample different beverages.

This prospectus will discuss the second model, which allows for direct engagement of the local population through the bar/pub setting, as well as the possibility of accessing a larger market through wider product distribution. In either model, a microbrewery hosts an array of brewing and packaging equipment that is used to create different products for consumption.





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Creating a brewpub venue offers possibilities in creating a powerful customer experience. For example, the business owner may choose for the brewery equipment and production area to be placed behind windows to add to the aesthetic of the venue. They can create a

comfortable, yet unique area for individuals to enjoy their beverages and engage in a social activity. These powerful customer experiences can create loyal customers, as well as a large draw for visitors to the region.

## About the Industry

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The brewing industry in Canada produces alcoholic beverages, such as beer and malt liquor as well as non-alcoholic beer, using water, barley, hops, yeast and other occasional adjuncts (IBIS World, 2020). Craft breweries, or 'microbreweries', produce smaller batches of beer, or 'micro brews', which allow them to increase variation by frequently changing ingredients, flavours, and brewing techniques. Typically, a craft brewery produces less than 6 million barrels

annually (one (1) barrel is 119 L). There are four types of craft brewery outlined below.

Keep in mind, the brewpub microbrewery format will be developed throughout the prospectus for its benefits regarding local distribution as well as its access to larger markets. This format also has the potential to grow into a regional craft brewery or contract brewery, should the business have the capacity to expand.

## Types of Breweries

**Microbreweries:** Production over 15,000 barrels and minimum 75% of production is sold off-site

**Brewpubs:** Production over 15,000 barrels and minimum 25% of beer is sold on-site

**Regional Craft Breweries:** Production between 15,000 and 6,000,000 barrels and usually distribute beer in multiple provinces

**Contract Brewing Companies:** Their production ranges between 15,000 and 6,000,000 barrels. They produce, bottle, package, and send beer to the base brewery, but they do not market, sell, or distribute their production.

## Key Industry Drivers

Entrepreneurs looking to get involved in this industry should be aware of the key drivers within the microbrewery industry. In Canada the key drivers are as follows:

**Price of Aluminium** – Aluminum is a key packaging material for breweries. The price of raw aluminum will affect the price of packaging materials, influencing monthly operating costs.

**Disposable Income of Consumers** – Consistent purchasers of alcoholic products depend on disposable income to purchase luxury items, such as alcoholic beverages.





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**Canadian Effective Exchange Rate Index** – This is the weighted average of bilateral exchange rates for the Canadian dollar against the currencies of Canada’s major trading partners.

**Per Capita Alcohol Consumption** – Consumption is the main driver for sales and has stayed relatively consistent throughout 2020.

## Market

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The market for a microbrewery was analyzed by assessing expected industry trends, and the customer base within the BREOC region.

### Industry Trends

Though modern micro-breweries have existed for as long as larger brew companies, their popularity only saw a significant spike in North America in the past decade. With this spike, the world has seen a culture grow around the manufacturing and consumption of IPAs, Amber Ales, Wheat Beers, Sour Beers and much more. The prevalence of craft beer festivals, bars, conferences, and friendly gatherings are telling of an industry that has a large and committed following fuelling a bright future.

The growth of microbreweries experienced globally includes significant growth in Alberta. According to the Alberta Gaming and Liquor Commission (AGLC), between 2015-2020, the number of microbreweries in Alberta increased from 30 to 130. Over that same period, the growth has been congruent with the steady increase in domestic beer purchases within Alberta which increased from 82.7% to 89.3% of the total market share for beer sales. There is a sense of pride in creating and purchasing a local product.

### Customers

Customer segmentation within the beer consumer market is assessed by gender as well as age in the following section.

#### *Gender*

As expected, consumption of brewery products is dominated by male consumers. Since 2015, an estimated 59% of beer purchased in Canada were made by males (IBIS World, 2020). Within the craft beer segment, it is estimated that this number is even higher. Since 2015, there has been increased effort to create and produce

brewed beverages targeted towards women such as fruit beers, light beers, and other sweet beers. As a result, the contemporary consumer market has shifted slightly with a greater percentage of women consuming beer products than in years past. Therefore, women should be considered in market and product creation strategies.





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#### Age

Figure 1 illustrates the market segmentation of brewery products within consumer age groups. The information in Figure 1 demonstrates that the 18–49-year-old demographic contribute 68.6% of beer purchases. This is due to a variety of factors including disposable income, willingness to try different products, and consumption habits. There is a dip in the fifty (50) and up

age group most likely due to the purchase of alternatives, such as wine, non-alcoholic beverages, and distillery products, as well as shifts in lifestyle to prioritize health choices. This information provides insight on the target markets that should be focused on within marketing, promotional, and branding efforts.

Major Market Segmentation

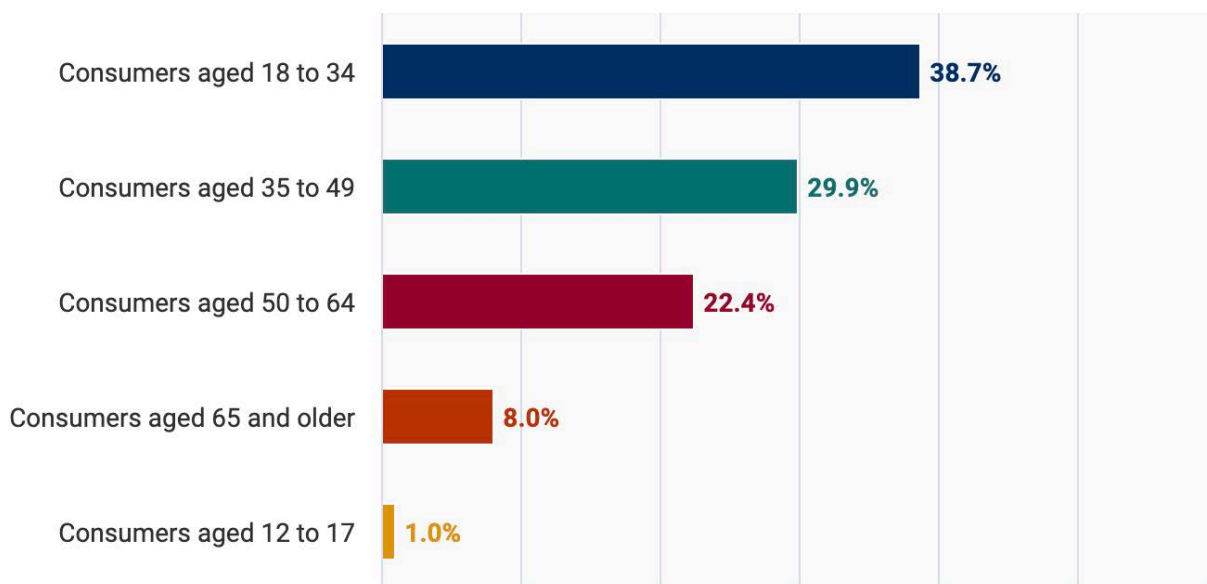


Figure 1. The market segmentation of consumers who purchase brewery products in Canada (IBIS World, 2020)





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### BREOC Regional Market and Trade Area

The counties of Flagstaff and Paintearth contained 5,753 residents in 2020 of which, approximately 4,222 were of legal drinking age (Alberta Regional Dashboard, 2020). However, the trade area that a brewpub will affect, if placed within a BREOC municipality, is much larger. Research suggests that individuals will drive to communities up to one (1) hour away for a variety of reasons. In these communities, they will access services like restaurants, and brewpubs frequently. Figure 2 shows a one hour driving radius within BREOC, using Alliance as the geographical centre of the BREOC region. This trade area includes a large list of communities, including Bawlf, Daysland, Strome, Killam, Sedgewick, Lougheed, Hardisty, Amisk, Hughenden, Galahad, Forestburg, Heisler, Bashaw, Stettler, Gadsby, Halkirk, Castor, Fleet, Hanna, Coronation, and Veteran.



Figure 2 - BREOC Trade Area (1 hour driving radius)







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## Operations

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Operations of a microbrewery can be divided into three (3) subcategories;

1. Rules and regulations
2. Physical operational considerations
3. Human resources

### Rules and Regulations

Legislation and regulations surrounding alcohol production and distribution are extensive in Alberta. Federal, and provincial legislation must be observed, or the business

While operational requirements will need to respect the specific business model that the entrepreneur(s) wishes to pursue, the following have been provided for key operational considerations.

owner will incur fines, be subject to suspension of licences, or be shut down completely. <sup>1</sup>

### Canadian Federal Legislation

Federal legislation, better known as the Brewery Regulations, can be found at the following link.

[https://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,\\_c.\\_565/index.html](https://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._565/index.html).

These regulations govern production, refunds on destroyed beer, excise duty payments, loss allowance, information required on labelling for containers, and exports. These laws can also be found in Appendix 1 in detail.

### Province of Alberta Legislation

Provincial legislation is enforced by the Alberta Gaming and Liquor Commission (AGLC). If you intend to produce, sell, distribute, or serve alcohol, you must register for a licence with the AGLC.

The type of AGLC licence required depends on the service you intend to provide, and the application process could take between one and three months. A brewpub requires three licences which are described in the table below.

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<sup>1</sup>The Rules and Regulations were determined using secondary research and are subject to change. The entrepreneur is responsible for the

adherence and knowledge of all pertinent rules and regulations.





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Table 1: The descriptions of licences required by AGLC to run a legal brewpub

Licence Class	Purpose of Licence
Class A	Required to serve and sell alcohol on your premises
Class D	Required to sell alcohol off of your premises
Class E	Required to produce alcohol

The process of becoming licenced includes a preliminary assessment, an application, an advertisement of the application to individuals in your region, final documents, and an inspection. Production cannot occur before the final inspection, so it is vital to start this process early and ensure that the operating facility meets requirements.

Once the business is licenced with AGLC, the product(s) that will be manufactured and sold must be registered. All sales will be subject to a \$1.25/L fee payable to the AGLC.

### Operational Considerations

The physical considerations of facility size and necessary equipment to effectively operate are below. The size of the facility and

#### Facility Size

Many industry experts estimate that a small brewery will require a roughly 4,000 square foot facility. This provides ample room to start and improve efficiency of operations, while leaving space to grow. A common mistake for brewers is to start too small.

1. The size of the brew system
2. Annual production capacity
3. Number of beer types a brewer intends to produce
4. The need to accommodate kegging, and canning and bottling lines
5. If the operator intends to run a nano-brewery with a taproom and no distribution
6. If the facility will operate as a Brewpub serving on-site consumption only

The AGLC maintains a reporting program, involving both inventory reporting and financial reporting that must be followed. This is done to effectively track sales so AGLC can collect the mandatory \$1.25/L, maintain quality and safety standards, and support the industry.

In addition, there are labelling, ingredient, and advertising guidelines to be followed.

For more detailed information and a step-by-step process for everything mentioned here, visit <https://albertamadeliquor.aglc.ca/>.

necessary equipment are up to the discretion of the entrepreneur, and they will vary heavily depending on the business model chosen.

Many brewers begin with facilities of roughly 2,000 square feet, and their capacity quickly outgrows the facility.

However, the decision on facility size should be based on:





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#### Necessary Equipment

The brewing system is vital to the success of the microbrewery business. The larger the system, the more beer you can produce and sell. However, over-investing in one set of brewery equipment will limit your flexibility.

1. Malt milling unit
2. Brewhouse unit
3. 20bbl (barrel) hot liquor tank
4. 10bbl fermentation unit
5. Beer filter unit

Creating multiple types of beer requires multiple brewing systems. Below is a list of equipment that creates a comprehensive start-up brewing system essential for a start-up brewery:

6. 10bbl bright tank unit
7. Cooling unit
8. Bottling/Canning machine
9. Belts and other process equipment
10. Case and tray packaging

#### Human Resources

The following are the main departments and individual functions that need to be considered when building a team for a brewpub. Many of these functions do not need to be hired individually as they can be merged into various positions.

##### *Production*

- Head Brewer/Brew Master
- Quality Assurance/Quality Control
- Brewer
- Packaging/Cellarman
- Equipment Technician

##### *Administration*

- Accountant and Bookkeeper
- Marketing Professional
- Human Resources Management

##### *Sales*

- Sales Representative/Sales Director

##### *Venue Staff*

- Serving Staff and Manager
- Kitchen Staff
- Maintenance Staff

Within a brewery setting, hiring personnel with the correct experience is more crucial than in many industries. The production staff, led by the head brewer will largely have control over the quality, ingredients, and flavour of the final product. They are the artist and creative individual driving much of the business's value proposition ; therefore, the choice of head brewer is an important one.

A marketing manager must also be prioritized. As the industry becomes increasingly competitive, a new product entering the market must have an effective marketing strategy that seeks to create differentiation, strong messaging, and strategic positioning.





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## Marketing

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As a microbrewery, a comprehensive marketing strategy including outward promotions needs to be a top priority. Business is generated through having a quality product that is well communicated and recognized in the local and trade area markets.

### Product/Services

As mentioned previously, one of craft beer's biggest differentiators within the industry is the local, hand crafted nature of the product. However, there are other product differentiators within the industry that should be kept in mind when creating the product. These include:

**Quality:** Quality of ingredients and brewing process is recognized and respected by potential customers in the final product.

**Style:** Craft breweries are known to have a unique style when it comes to the packaging and messaging of their product. Almost all breweries have a unique or quirky name, logo, colouring, and slogan that set them apart from each other.

Listed below are things to consider when creating a marketing plan, products, setting pricing, driving promotions, and establishing channels of distribution. These are all important aspects upon which marketing is built.

**Scale:** Batch size, even within craft breweries, is a differentiation tactic as it can drive a 'fear of missing out' on an uncommon or rare beer amongst consumers. Small craft breweries refer to their beers as special and unique, which increases the desirability of their product.

**Passion:** Passion is demonstrated by the brewery to their consumers by providing messaging that communicates how they are committed to brewing quality beer and helping create a good experience for the beer drinker.

**Humour:** Some craft breweries create a persona through their brand and use humor to attract and retain their customers.

Considering these product differentiators, the following table presents a potential product list.





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Table 2: The product list for a brewpub within the BREOC region

Product Type	Product
Brew Pub Products	Simple Bar Food and Snacks
	Draught Beverages: 12oz/ 16oz/ 20oz
	Beer Flights – 4x6.5oz
	Growlers
Distributed Product	Packs of 4 (500mL)
	Packs of 6 (250mL)
	Packs of 12 (355mL)
	Packs of 15 (250mL)
	Packs of 18 (355mL)
	Packs of 24 (250mL)
	Packs of 24 (355mL)

### Pricing

The following pricing guide matches the product list above and is comparable to standard pricing within the industry.

Table 3: The pricing list for the aforementioned products

Product Type	Product	Price (\$)
Brew Pub Products	Simple Bar Food and Snacks	\$10-\$15
	Draught Beverages: 12oz/ 16oz/ 20oz	\$6.5/\$8/\$10
	Beer Flights – 4x6.5oz	\$12.00
	Growlers (64oz)	\$20.00-\$24.00
Distributed Product	Packs of 4 (500mL)	\$16.00
	Packs of 6 (250mL)	\$18.50
	Packs of 12 (355mL)	\$22.50
	Packs of 15 (250mL)	\$26.00
	Packs of 18 (355mL)	\$36.00
	Packs of 24 (250mL)	\$45.00-\$60.00
	Packs of 24 (355mL)	\$55.00-\$70.00

### Promotions

The following are promotional strategies that could be effective for a microbrewery within the BREOC region.

**Website** – All businesses today require a website to have an online presence. It is key for customers to have an awareness of hours, services available, and the general brand. In addition, a website can serve as a virtual storefront and sales channel.

**Social Media** – In the marketplace today, it is crucial for businesses to have a strong social media presence. Particularly for a microbrewery, the brand must be established and communicated via Facebook and Instagram. These two platforms are the most important in the BREOC region.

**Centres of Influence** – Important pillars within a community such as hotels, real estate agents, financial advisors, and other business





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owners, are key to referring visitors, new citizens, and friends, to businesses. Providing these individuals with promotional materials, or even creating and maintaining a strong relationship can be a promotional tactic in itself.

**Sponsor Local Events** – Host, sponsor, or create local fundraisers, and community building events. This will get the company's name into the community and position it as a community leader.

### Channels of Distribution

The main advantage of modelling this business as a brewpub, is that it increases the channels of distribution. Both the wholesale distribution channel and retail distribution channel remain directly available to the operator.

**Brewpub:** Customers can sample the different products created. If they desire, they can purchase packaged product to take home. Through direct distribution a customer might have a small discount.

**Wholesale Distribution to Retailers:** By selling to liquor stores in larger markets, a microbrewery can increase their trade area and customer base.

## Financials

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The following are tables outlining basic financial information for a microbrewery in the BREOC region.

### Start-Up Costs

Generally, most breweries will require \$130,000 to \$1,000,000 to start-up. The cost of starting a microbrewery, however, will depend on the business model, the size of the brewery, its production levels, level of sophistication of the equipment, and location.

It is important to understand this initial investment as the entrepreneur will want to recuperate that money. Once recuperated, the entrepreneur is considered even on their investment and should consider an ongoing investment strategy to upgrade equipment and/or expand the business.





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**Table 4:** Start-up costs for a microbrewery

Item	Cost
Building Rent (Average Cost per Square Foot)	\$8.00-\$12.00
Building Purchase	\$150,000-\$500,000
Building Build	\$350,000-\$750,000
Microbrewery Equipment	\$100,000-\$150,000
Insurance	Dependent on business model
Liability	Dependent on business model
Errors and Omissions	Dependent on business model
Building and Equipment	Dependent on business model
Licencing/Regulations	Research
Initial Packaging Materials	\$5,000
Initial Raw Materials	\$10,000
Professional Fees	\$2500-\$4500
Legal	\$1500
Accounting	\$1000
Consulting	\$0-\$2000
Marketing Budget for Launch	\$5,000
<b>Total</b>	<b>\$130,000 – \$1,000,000</b>

### Operating Costs

In operating a microbrewery, the costliest expense are the salaries associated with the brewing and production staff as well as the marketing team. As shown in the table below, it is estimated that a microbrewery will cost approximately \$34,000 to \$40,000 monthly without insurance and licencing fees

considered. The final operating costs will depend heavily on the business model chosen by the entrepreneur. These monthly operating costs represent an operating break-even point. It is important to know these costs as they equal the amount of revenue needed to keep the lights on.

**Table 5:** Monthly operating costs for a microbrewery firm based on the concept presented throughout the prospectus

Item	Cost
Rent/Lease/Mortgage	\$2,000-\$3,000
Salaries/Benefits	\$20,000 - \$30,000
Building Maintenance and Pest Control	\$200
Utilities	\$1,000-\$2,000
Chemical Supplies	\$250-\$500
Uniforms and Safety Gear	\$75
Equipment Maintenance and Upgrades	\$1,000
Insurance	Research Here
Ongoing Licencing and Fees	Research Here
Cost of Goods – Raw Materials, Packaging	\$8,000
<b>Total</b>	<b>\$30,000 – \$40,000</b>





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### Income Statements

Below is an income statement showing the average cost of goods, and net profit within the microbrewery industry in Canada. The numbers represent percentages of revenue with the goal of determining net profit. It should be noted that although the industry average shows a net loss, there are many

start-up businesses currently involved in the industry. Due to the substantial up-front costs, a start-up brewery should be prepared to post a loss for a couple of years before turning a profit. This is the nature of starting a business.

**Table 6:** Income statements based off the industry average of microbreweries, presented in percentages of revenue

<b>Revenue</b>	<b>100%</b>
<b>Cost of Goods Sold</b>	<b>48.7%</b>
Wages and benefits	11.1%
Purchases, materials, and sub-contracts	39.6%
Opening inventory	8.8%
Closing inventory	10.8%
<b>Operating expenses</b>	<b>57.9%</b>
Labour and commissions	20.2%
Amortization and depletion	7.7%
Repairs and Maintenance	1.8%
Utilities and telephone communication	2.3%
Rent	6.3%
Interest and bank charges	2.7%
Professional and Business Fees	1.9%
Advertising and Promotion	3.7%
Delivery, shipping and warehouse expenses	1.2%
Insurance	0.9%
Other Expenses	9.4%
<b>Total Expenses</b>	<b>106.5%</b>
<b>Net Profit/Loss</b>	<b>-6.5%</b>

### Critical Success Factors

The following section explores factors that are critical to business success and survival once the firm is operational.

**Exceptional Customer Service:** Creating an exceptional customer service experience will create a place of business in which referrals are common. When a customer enjoys a high-quality product in a high-quality venue that provides an enjoyable social environment,

they are likely to come back and come back with friends and family. It is the pillar on which the business will drive success and sustainability.

**Unique Customer Experience:** Microbreweries ensure the customer experience is unforgettable by adding little quirks to their service, product, and venue. This may be adding a unique beer, providing a themed







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venue, or displaying their brewery equipment. Whatever is chosen, ensure that it impacts the customer experience.

**Optimizing Cost of Goods:** For most microbreweries, profit margin is tight. In order to create a profitable business, cost of goods need to be well-tracked and prioritized.

## Conclusion

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The surge in the number of micro and craft breweries within the previous decade in Canada and Alberta, are synonymous with the culture and consumer loyalty that has grown with it. As a result, microbreweries have enjoyed an increasing customer base who are willing to pay a premium for a unique, high quality product. For this reason and others, while the start-up costs to start a brewery are significant, there are opportunities to grow a brewery into a successful venture within the BREOC region.

With a strong local customer base and access to larger markets, a brewpub would be able to operate in the BREOC region and maintain a high rate of market accessibility, while enjoying the perks of rural operating costs compared to inflated urban prices. Beer consumers are always looking for a new, local, 'made in my backyard', product to sink their teeth into, and it's time that there is one in the BREOC region.





## Business Prospectuses

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## Contact Us

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The Battle River Economic Opportunity Committee is here to help. If you are interested in further exploring this or any business opportunity within the region, contact us today. There are tailored one-on-

one business supports for business start-ups, buying/selling a business, growth and expansions of businesses. The first step is to contact your local Economic Development Officer using the information below.

Economic Development Department – Flagstaff County

(780) 384-4100

[ecdev@flagstaff.ab.ca](mailto:ecdev@flagstaff.ab.ca)

### ***Carol Thomson***

Economic Development Officer – County of Paintearth

(403) 882-3211

[cthompson@countypaintearth.ca](mailto:cthompson@countypaintearth.ca)

