HAPPY CREEK DISTRIBUTORS

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Pricing Made Simple!

...Well, perhaps as simple as it can be.

At Happy Creek, we understand everyone's at a different place in their beer-making journey. If you are a seasoned pro or happen to be one of those math wizards that know exactly how much each and every batch costs you to turn into liquid gold, er…I mean, beer, and can easily calculate your margins, most of this guide just isn't for you. In that case, go ahead and skip on down to Show Me The Money!, and check out the pricing charts.

On the other hand, for all you tenderfoots, or those of you who slept through math class, keep-on reading-on. Hopefully, you will find a nugget or two hidden among these paragraphs.

Just as every brewery crafts its own unique beer, every brewery (and any business for that matter) has its own unique costs associated with doing business. The chance that your rent, labor, utilities, ingredient costs, etc. are exactly the same as other breweries, is extremely unlikely. Truth be told, nobody but you can know your true operating costs and the associated margins you need to make in order to run a profitable gold mine, er…I mean, brewery.

With that in mind, it can often be a bit daunting to figure out how to price your beer so you can maximize your profits yet place yourself competitively within an already competitive market.

It's also important to understand how the pricing you place on the product(s) sold to Happy Creek ultimately affects the price we charge the retailer.

Golden Goose Stealing M-Effers!

If your brewery currently produces and retails your beer exclusively out of your taproom the supply chain is quite simple. Once you step into the wholesale market, the arena gets quite a bit bigger, and consequently has a whole lot more mouths to feed. Breweries that sell their beer to a wholesaler charge a PTW (Price to Wholesaler). The wholesaler then sells the beer to the retailer and charges a PTR (Price to Retailer). The retailer, in turn, sets the PTC (Price to Consumer)... PTW-->PTR-->PTC

It's important to understand the pricing structure at each layer in the sales process, so we can sell your beer to a taproom or a bottle shop at a competitive price point while maintaining a proper margin.

Hold on, hold on...what in the world is this product margin you keep speaking of? Well, your product margin is the difference between what a beer costs you to make and what it's sold for expressed as a percentage. Your profit margin is an incredibly important number that helps to ensure you remain profitable and cash-flow positive.

It's also important to know that not all products in your portfolio are equally profitable. Keg beer and packaged beer, for example, can have drastically different margins. Meanwhile, the margins on a flagship beer may also be very different from one-off beers.

As an industry standard (and believe you me, nothing is really standard in this industry), your brewery should shoot for a 40-65% profit margin (or more, if you can get it). The wholesaler, (that's us), usually takes a 30% margin. We are currently set at 27.5% to help feed our beer habits, er... I

mean family, and the retailer is looking for…well, that's a bit more complicated. Most bottle shops are looking for at least a 30% margin for packaged beer sales, and bars/restaurants are looking to mark up their draft sales by, wait for it….. 200% or more. Say whaaaa? Those m-effers are trying to steal your golden goose!

I'll Show You Mine if You Show Me Yours!

Hold on there buddy! Get your head out of the gutter! We're talking numbers here. There's often a gap in understanding the path beer travels: grain to glass–specifically in how it gets from the brewery to the bar or bottle shop. In reality, it takes a whole lot more than just a warehouse and a truck on our end!

As a distributor, *we* are required to pay the state excise tax at 26¢/gallon (which is built into our pricing). We also have a lease payment and other fixed costs for our warehouse space, a delivery vehicle to fuel and maintain, and payroll for our sales and delivery team.

Simply put, our CTR (Cost to Retailer) for a 1/6 BBL sold to us (by you) at $72.50 comes out to $100. For all our effort, we make a whopping $27.50/keg. Keep in mind this figure doesn't take anything into consideration other than our initial cost of goods.

From there, we have to start subtracting our cost of doing business so we can see our true net profit. In the following example, we are assuming we are selling (10) 1/6 BBL kegs for a total of $275.00 ($27.50X10) in gross profit.

It all starts with a pick up at your brewery. The further your brewery is located from our warehouse in Front Royal, VA, the more expensive it is for us to deliver your beer. VA ABC laws stipulate that we must pick up your beer and hold it in our licensed and bonded space for a minimum of four hours. Therefore, we have to calculate the round trip time and

mileage between us and you before we can even consider the cost of delivery to the retailer. Let's assume our delivery driver spends two hours round trip and picks up (10) sixtels. If we pay our driver $12/hr, we have a total *pick-up* labor cost of $24.00 or $2.40 per keg.

Once out for delivery, if our driver has to make 10 stops that are on average 10 miles apart, he/she would have traveled a total of 200 miles round trip. If he/she were to travel at an average speed of 45 mph, he/she would have driven for a total of 4 hours and 30 minutes. Then, assuming he/she can get in and out of each location in 20 minutes (unloading the keg, cleaning the draft line(s), gathering empties, & collecting payment), he/she would spend an additional 3 hrs and 20 minutes on location.

In this case, we are responsible for a total of 7 hours and 50 minutes of payroll and have a total *delivery* labor cost of $96.00 (8x$12) or $9.60 per keg. Once we add in our fixed costs (rent=$50/day, utilities=$15/day, van maintenance and fuel=$50/day), we have to tack on an additional $115 or $11.50 ($115/10) per keg in *overhead* costs for our delivery day.

In this scenario, it costs us a minimum of $23.50 ($2.40+$9.60+11.50) per sixtel to deliver, which leaves us with a whopping net profit of $4.00/keg ($27.50-$23.50). This doesn't even begin to factor in the time spent on sales, marketing, invoicing, accounting, or the million other tasks that need to be done to run a business. Wait a minute...come to think of it, why in the world are we even in this business if we make a lousy $4/keg? Simple. Like you, we are currently looking to provide distribution as a way to supplement our other business ventures, because they complement what we are already doing. For that reason, we can subtract out the rent and

utility cost so our delivery day really only costs us the price of labor + van maintenance and fuel.

Have You Done Your Batch Maths?

For those among us who are a bit challenged with the numbers, this section is for you. First things first, it's paramount to calculate your true batch cost for each type of beer you brew before you start pricing your beer for wholesale. This helps ensure you are charging enough to be profitable. It also lets you know how much wiggle room you have to price yourself competitively within the market.

Do you know exactly how much it costs to create each type of selling unit you produce? We reached out to a few craft microbreweries that brew on 10 BBL systems to find out how much it actually costs to brew a batch. Keep in mind, the numbers provided in this guide are based on an average, and your numbers may vary up or down (quite a bit) depending on the size of your brewery, the ingredients you are using, your general overhead costs (mortgage/rent, utilities, etc.), your payroll, etc. That said, we wanted to use real-world numbers so they have a chance to resonate with your operation. We also included a worksheet at the end of this guide to help you determine your cost per batch. We highly recommend working through this worksheet if you don't already have your recipe numbers figured out.

The labor rates in the following examples were calculated based on the following: Brew Master: 8hrs @ $25/hr = $200, Assistant Brew Master/QC: 7hrs @ $15/hr = $105, Cellarman: 7hrs @ $10/hr = $70 for a total of $375 per

10 BBL Batch. This includes all tasks associated such as: brew day prep, brew day, testing/yeast management, transferring/cleaning, & packaging.

Light Beer Styles (Blonde/Pilsner/Hefevisen, Lager)					
	10 BBL	1 BBL	1/2 BBL	1/4 BBL	1/6 BBL
Labor	$375	$37.50	$18.75	$9.38	$6.25
Ingredients	$900.00	$90	$45	$22.50	$15
Other Variables	$100.00	$10	$5	$2.50	$1.67
Total $	**$1,375.00**	**$137.50**	**$68.75**	**$34.38**	**$22.92**

American IPAs					
	10 BBL	1 BBL	1/2 BBL	1/4 BBL	1/6 BBL
Labor	$375	$37.50	$18.75	$9.38	$6.25
Ingredients	$1,135	$113.5	$56.75	$28.38	$18.92
Other Variables	$100.00	$10	$5	$2.50	$1.67
Total $	**$1,610**	**$161**	**$80.5**	**$40.25**	**$26.83**

Higher Hopped IPAs/ NE IPAs/ Higher ABVs					
	10 BBL	1 BBL	1/2 BBL	1/4 BBL	1/6 BBL
Labor	$375	$37.50	$18.75	$9.38	$6.25
Ingredients	$1,400	$140	$70	$35	$23.33
Other Variables	$100.00	$10	$5	$2.50	$1.67
Total $	**$1875**	**$187.50**	**$93.75**	**$46.88**	**$31.25**

Whoa-there-buddy…I'm sure your triple-backflip, monkey-poop-hop infused IPA easily costs four times that, but remember the examples are based on exceptional beer, regularly served by awesome microbreweries.

Overhead, Schmoverhead

What's not included in the figures: your fixed general overhead costs (mortgage/rent, any loan payment(s), utilities, etc.). Why not? Glad you asked! Those costs would vary dramatically from brewery to brewery based on your own particular circumstances. Furthermore, many small breweries are looking to distribute simply as a way to make money off the excess beer they can produce but can't sell in their taproom. For all intents and purposes, the overhead costs are already being covered by the taproom. For this reason, the fixed costs become way less important.

On the other hand, if you want to calculate how your fixed costs figure in, follow us down the rabbit hole!

First things, first. You should know that we are about to make a whole bunch of very general assumptions. Your numbers may be similar or they could be waaaaay off base. For this reason, you should work through the Fixed Cost Analysis worksheet to get a more accurate representation of your operating numbers. As a side note, you should not include things like your ingredient costs, payroll, etc., because these costs have already been calculated into your recipe batch-cost analysis.

In order to calculate your overhead costs into your batch costs, you will first need to know the following information:

1. Your fixed overhead monthly costs
    a. Rent/mortgage payment
    b. Loan payment(s)
    c. Utilities (electric, water, sewer, trash, interet, etc.)

    d. Any subscriptions (point of sale, keg tracking, Quickbooks, etc.)
    e. Any other miscellaneous fees you pay on a monthly basis
2. The difference in percentage of sales between your taproom and wholesale efforts
3. The Number of batches you produce each month

For our example, we are going to assume you have a monthly fixed overhead total of $10,000.

Hold on there buddy…why did you have to bring percentages into this?! Well, for good reason. If you do 70% of your monthly sales out of your taproom and 30% in wholesale, you would need to apply the proper percentage accordingly.

Ah-ite then, so how do I calculate my sales percentages? Easy peasy! First, you need to combine the monthly total in beer sales sold out of your taproom with your monthly wholesale sales. Then take the monthly wholesale sales and divide that by the combined total amount. For example, if you did $21,000 in sales out of your tap room and $9,000 in wholesale sales, your combined sales for the month would be $30,000. Next, divide $9,000 (your wholesale sales) by $30,000 (the combined total) which calculates out to .3 or 30% (move that decimal two places to the right). That wasn't so bad…right?

One last big assumption: You can produce 10 batches/month.

So here are our assumptions all summed up: You have a monthly fixed overhead total of $10,000, you do 30% or .3 (move that decimal back to the

left two places) of your monthly sales through wholesale, and can produce 10 batches of beer per month.

Once you have those numbers figured out, the math is fairly easy to calculate. You first need to multiply your fixed monthly overhead (FMO) total by the wholesale sales percentage (WS%) then divide that number by the number of batches you can produce in a month.

Here's the formula: FMO x WS% / # of Batches = Cost per batch

Let's crunch the numbers: $10,000x.3 (30%) = $3,000/10 = $300 per batch.

Okay, great...what do I do with that information? Well...our friends on a 10 BBL system can produce sixty (60) sixtels per batch. In this case, it would add a total of $5 ($300/60) to your Cost of Goods (COGs) per sixtel, no matter what type of beer is being produced.

On the other hand, if you are brewing on a 3.5 BBL system, you can produce twenty (21) sixtels per batch. The main difference here is your price per keg would increase by around $14 ($300/21).

As you can imagine, your fixed costs per batch will fluctuate wildly depending on your own overhead costs and how many batches you actually brew.

Let's Get Crackin'...er Calculatin'

Okay, so now you know your true cost per batch, it's time to apply that practical math your high school teacher warned you about and see how the numbers affect the wholesale supply chain. We're only going to cover pricing for 1/6 BBL, since they are the most popular amongst nano and micro-breweries. Just keep in mind, the math is exactly the same no matter what size keg you plan to sell.

In order to calculate your margin, you first need to know two very important numbers. Your Cost of Goods (COG) and the PTWP (Price to Wholesaler.) Wait a minute...aren't we trying to figure out what to price our kegs? Exactly! In order to do so, we kind of have to work backwards, starting with the PTR (Price to Retailer). The beer produced by most independently owned nano and microbreweries in the State of Virginia is selling to the retailer (PTR) for somewhere in the $80-$130 range. I know, I know, your triple-backflip monkey-poop-hop-infused IPA could easily fetch three times that, but we are sticking with the norms here, ah-ite?

To make things as easy as possible, we have provided handy-dandy easy to read charts in the "Show Me The Money!" section of this guide that should easily help you determine your PTW (Price to Wholesaler). You simply need to locate the amount you think your beer should fetch on the open market in the PTR row, then look above to see what you should set your PTW. For instance, let's assume you have a good "talking beer" something in the 5% range that fits well within the COG of our Light Beer Style Cost Analysis

above, and you figure a 1/6 BBL could fetch a price of $80 at market; your PTW would be $61.50.

Okay, so now we know our COG for our “talking beer” is $22.92 and our PTW is $61.50; we can calculate your gross margin.

For all you math nerds that “need” to see the formula to calculate your Gross Profit Margin, here you go!

Gross Profit Margin = (PTW - COG)/PTW then Multiply by 100 to express as a percentage.

In this example, we subtract our PTW ($61.50) from our COG ($22.92) which equals a difference of $38.58. (Coincidentally, this is the actual Gross Profit you will receive from selling that keg.) We then need to divide that number by our original PTW, so $38.58/$61.50 equals .6273. We then multiply .6273 by 100, or simply move the decimal point two digits to the right (but I’m sure you math nerds already knew that) to express the number as a percentage. In this scenario, our margin comes out to be around 62.5%.

Pretty dang good right? This margin fits well into the upper range of the “industry standard” yet falls well within a reasonable price range that our retailers will be willing to fork over for your amazing “talking beer.”

Is this still all Greek to you? Our friends over at www.omnicalculator.com have an extremely easy-to-use margin calculator. Heck, you can even put in your COG and the margin you want to make, and it will spit out the PTW faster than you can blink. No working backward here! For instance, if you are shooting for a 50% margin, and sticking with our COG at $22.92, the

calculator shows your PTW should be set at $45.84. Now reference the chart below, and you will see our PTR comes to... well, it's off the charts! In this instance, it wouldn't be advisable to align yourself with what a sixtel of Bud Heavy costs. So, go ahead and reap the rewards of the higher margin. You deserve it!

Now, let's look at the other end of the spectrum and price out a Hoppy Double IPA with a higher ABV, let's say somewhere in the 8% range. Our retailers are willing to pay a bit more for a higher ABV or specialty beer, but they also cost you a bit more to make. In our example above, our COGs for Higher Hopped IPAs/ NE IPAs/ Higher ABVs a sixtel come in at an average of $31.25. In order to maintain the same margin (62.5%) of your "talking beer," you would need your PTW to come in at $83. In turn, that would result in a PTR of $115. Keep in mind, the higher our PTR, the harder it will be for us to sell. In this case, you may want to consider dropping your PTW from $83 to $76 so our PTR is $105/sixtel, making it a bit easier to place. You would still earn around a 59% margin but chances are we would sell a lot more of them.

You Hold All The Cards (Or Most Of Them Anyway)

Believe it or not, as a producer, you have a huge say in what the consumer ultimately pays for your beer. Once you set your PTW (Price to Wholesaler), the rest kind of falls into place. If you set your PTW too low, you are leaving money on the table, and the value placed on your product may suffer. On the other hand, set your PTW too high, and it will be very difficult to move your product.

In our handy-dandy pricing chart, we color coded the PTR (Price to Retailer) to reflect how easy we feel we can sell a beer simply based on price alone. This data was produced through interviews with multiple restaurant/bar managers on what they were willing to pay for a keg of beer. A sixtel produces 41 pints of beer no matter what you put in it. From the retailer's perspective, beer priced within the dark green section of our chart is a no-brainer when it comes to craft beer. If you are able to price your beer within that section, we'll be selling your beer all over the place in no time! On the other hand, the further you move up the chart the harder it's going to be to make the sale. Sure, things like special seasonal brews and higher ABVs will add value to the overall sale, but keep in mind, like in your taproom, the retailer probably has a small dollar range they price their draft beer, and the lower they can purchase a keg for, the higher their profit margin becomes.

As a wholesaler, it is our job to educate bar managers on ways to increase their profit margins by selling craft beer over the domestic behemoths. Interesting fact: a craft keg that costs twice as much as a domestic, will produce $41.50 in additional revenue for the retailer even though they sell the exact same amount of pints.

Don't believe me? Here's the math:

$45 Sixtel: 41 Pints @ $4 ea. = $180…$180-$45 = $135 in gross profit.

$90 Sixtel: 41 Pints @ $6.5 = $266.50… $266.50-$90 = $176.50 in gross profit.

$176.50-$135 = a difference of $41.50. See…I told ya so!

Now, let's say you have a trendy beer with a high ABV, the retailer can raise the price per glass to say $8 and limit the pour to a 12-oz glass. In this case, they just might be interested in paying $130 for that sixtel. Here's the math on that one.

$130 Sixtel = 55 12-oz pours sold at $8/glass for a total of $440. $440-$130 = $310 in gross profit, which is nearly double that of the craft sixtel at $90! Now, who wouldn't go for that? Well...bear in mind, an $8 12-oz pour will be much harder for the retailer to push than a $6 craft pint, no matter how good your triple-backflip, monkey-poop-hop infused IPA is.

What's In It For Me?

So why in the world would you ever want to "undercut" your taproom sales and sell your beer for pennies on the dollar? Good question! After all, if you sold your triple-backflip, monkey-poop-hop infused IPA in a 12-oz glass for $8, you would get to keep that $440 all to yourself! You certainly want to sell as much beer through your taproom as you possibly can and with good reason. But what happens if your brewery can produce more beer than you can serve?

That's where we come in! Imagine for a moment that your brewery can produce an extra 10 BBL of beer each month over and above what you can move through your taproom. That's an excess of 120 BBLs per year. Should you only produce ⅛ BBL kegs, you could produce 720 kegs for wholesale. If we look back at one of our previous examples, we would see that each ⅛ BBL keg would result in a gross profit of $38.58. 600x$38.58 = $27,777 in additional yearly revenue. Now that's something you can take to the bank!

So what does all of this mean for you? Armed with the information of how much it actually costs you to produce a batch of beer, knowing your proper profit margins, and having an idea of what the retailer is willing to spend to put your beer on tap or on the market shelf, you are ready to go to battle with pricing your beer for distribution.

Show Me the Money!

If your brewery is just breaking into the wholesale market, the difference between your margins pouring that “liquid gold” out of a tap in your taproom versus selling it through a wholesaler can seem like you're selling it as... well... scrap metal.

To make pricing your beer as simple as possible, we’ve provided a chart for each of the main types of selling units (1/2 BBL, 1/4 BBL, 1/6 BBL, 6/4/16oz-case, 4/6/12oz-case) that shows how we derive our PTR (Price to Retailer). Simply locate the price in the appropriate chart for the sales unit that you plan to sell to Happy Creek within the blue PTW (Price to Wholesaler) row. The amount under it in the PTR (Price to Retailer) row shows how much we will then charge the retailer.

The charts are color coded based on the ease of the selling price to a craft-beer friendly establishment. A beer price marked with a green background means it will be fairly easy to sell; if marked as orange, it will be moderately hard to sell; and red will usually be quite difficult to sell. If you skipped on down here, you may want to check out the section on how pricing affects the retailer.

KEGS!

1/6 BBL KEG										
PTW	$50.5	$54	$58	$61.5	$65	$68.5	$72.5	$76	$79.5	$83
PTR	$70	$75	$80	$85	$90	$95	$100	$105	$110	$115
PTW	$87	$90	$94	$97	$101.5	$105	$108.5	$112	$116	$119.5
PTR	$120	$125	$130	$135	$140	$145	$150	$155	$160	$165

1/4 BBL KEG										
PTW	$79.5	$83	$87	$90	$94	$97	$101.5	$105	$108.5	$112
PTR	$110	$115	$120	$125	$130	$135	$140	$145	$150	$155
PTW	$116	$119.5	$123	$126.5	$130.5	$134	$137.5	$141	$145	$148.5
PTR	$160	$165	$170	$175	$180	$185	$190	$195	$200	$205
PTW	$152	$155.5	$159.5	$163	$166.5	$170	$174	$177.5	$181	$184.5
PTR	$210	$215	$220	$225	$230	$235	$240	$245	$250	$255

1/2 BBL KEG										
PTW	$116	$119.5	$123	$126.5	$130.5	$134	$137.5	$141	$145	$148.5
PTR	$160	$165	$170	$175	$180	$185	$190	$195	$200	$205
PTW	$152	$155.5	$159.5	$163	$166.5	$170	$174	$177.5	$181	$184.5
PTR	$210	$215	$220	$225	$230	$235	$240	$245	$250	$255
PTW	$188	$192	$195.5	$199	$203	$206.5	$210	$213.5	$217.5	$221
PTR	$260	$265	$270	$275	$280	$285	$290	$295	$300	$305
PTW	$224.5	$228	$232	$235.5	$239	$242.5	$246.5	$250	$253.5	$257
PTR	$310	$315	$320	$325	$330	$335	$340	$345	$350	$355

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CANS!

6/4/16 oz										
PTW	$30.45	$33.5	$36.54	$39.59	$42.63	$45.68	$48.72	$51.77	$54.81	$57.86
PTR	$42	$46.2	$50.4	$54.6	$58.8	$63	$67.2	$71.4	$75.6	$79.8
PTC	$10	$11	$12	$13	$14	$15	$16	$17	$18	$19
PTW	$60.9	$63.9	$67	$70	$73	$76.1	$79.1	$82.2	$85.2	$88.3
PTR	$84	88.2	$92.4	$96.6	$100.8	$105	$109.2	$113.4	$117.6	$121.8
PTC	$20	$21	$22	$23	$24	$25	$26	$27	$28	$29

4/6/12 oz										
PTW	$16.25	$18.25	$20.3	$30.8	$22.3	$26.4	$28.4	$30.4	$32.4	$34.5
PTR	$22.4	$25.20	$28	$30.8	$33.60	$36.4	$39.2	$42	$44.8	$47.6
PTC	$8	$9	$10	$11	$12	$13	$14	$15	$16	$17

Complete this section if you plan to include your fixed overhead costs into your batch pricing. Once you have completed this section, your overhead costs/batch will not change from batch to batch (remember they are fixed), so you can simply apply the total batch cost to each recipe. NOTE: If you have a taproom, you will want to figure out the percentage of sales that your taproom produces in comparison to your wholesale efforts and apply the wholesale percentage to your total annual costs. For example, if your monthly mortgage/lease is $5000 and you do 70% of your sales in your taproom and 30% in wholesale, you would record 30% of that amount x 12 in your total annual cost. In this case, your total annual cost for your mortgage/lease would be $5,000 x 12 x .3 = $18,000. Wash, rinse, repeat for the other fixed costs.

FIXED OVERHEAD COSTS (If you plan to include them in your cost analysis)			
	Total Annual Cost	**# Batches/year**	**Total Cost Per Batch**
Mortgage/Lease			
Utilities (Heat, Electric, Internet, etc.)			
Water/Sewer			
Insurance			
Monthly subscriptions (PoS, Quickbooks, etc.)			
Other			
		TOTAL	
		Batch Total (Ingredient Cost + Labor Costs + Fixed Overhead Costs)	

You will need to work through this section for each recipe you brew.

BILL OF MATERIALS (BOM) BOM=What goes into the beer and what it costs to make.			
INGREDIENTS			
	Amount (lbs/oz)	**Cost Per Pound**	**Total Cost**
Malt			
Hops			
Yeast			
Other (Cleaning, Nutrients, Clarifiers, etc.			
		TOTAL	
LABOR COSTS			
	Total Hours	**Rate Per Hour**	**Total Labor**
Master Brewer			
Assistant Brewer/QC			
Cellarman			
Other(s)			
		TOTAL	
		FIXED OVERHEAD COST/BATCH TOTAL	
		BATCH TOTAL (INGREDIENT COST + LABOR COSTS + FIXED OVERHEAD COSTS)	