



*DESTIHL Restaurant & Brew Works' beer hall;
located in Normal, Illinois.*

IN THIS ISSUE:

LOOK BEFORE YOU LEAP!
HAVING A PLAN FOR
YOUR GROWING BREWERY
BUSINESS

CRAFT BEVERAGE
MODERNIZATION AND
TAX REFORM ACT

7 Things to Consider When Expanding Your Brewery

You've dreamed of the day when consumers want to enjoy the beer you brew. Once people start to learn about your talents, growth can happen quickly. This can be exciting and a little scary at the same time.

Once you're ready to make your move and expand your brewery – whether moving it out of your garage and into your first facility, or moving from your first location into a building that offers more square footage – you may feel like you need to move quickly. But careful planning and forward thinking before the project starts can reduce headaches and financial strain.

Here are seven things we recommend considering as you expand your brewery ...

1. WHAT FUNCTIONS DO YOU WANT TO INCORPORATE (NOW AND LATER)?

Don't just plan for "right now," but plan for what may happen down the road. A good example: Is your water line going to provide enough service if you grow? If not, you may end up tearing out a perfectly good system in a few years.

What other functions will you want to incorporate? Think about:

- Food service
- Space for receptions or parties
- Corporate offices
- Retail areas to sell canned/bottled beer and other items (apparel, gift cards, etc.)

Craft Beverage Modernization and Tax Reform Act

On December 20, 2017, the 115th United States Congress passed legislation that includes a two-year provision of the Craft Beverage Modernization and Tax Reform Act (CBMTRA), which lowers the federal excise tax (FET) for breweries, wineries and distilled spirits producers. CBMTRA went into effect January 1, 2018.

Under the bill, the federal excise tax (FET) will be reduced to \$3.50/barrel (from \$7/barrel) on the first 60,000 barrels for domestic brewers producing less than 2 million barrels annually, and reduced to \$16/barrel (from \$18/barrel) on the first 6 million barrels for all other brewers and all beer importers. The bill would maintain the current \$18/barrel rate for barrelage over 6 million.

Disclaimer: The information included here is intended for general information only and is not intended to be tax or legal advice. Please consult your tax advisor.

Source: <https://www.brewersassociation.org/government-affairs/craft-beverage-modernization-and-tax-reform-act/federal-excise-tax-overview/>



Keep future growth projections in mind – not just in terms of production, but also in terms of public space. If you think you'll eventually need a taproom that can hold 100 people, plan accordingly so there's room to expand when needed. Thinking about these things early also reduces the possibility of project scope creep and change orders.

It's okay to start small – just make sure you don't paint yourself into a corner by spending too much, moving into a space that's too small, or designing something that can't scale to accommodate growing production needs.

Emily Adams, business development manager at Crawford Brewing Equipment, says the same holds true for brewery equipment. "When we first started in this business, we focused on 15-barrel systems. Now we see more requests for smaller, seven-barrel systems. This gives people who don't want to jump right in to 15- or 30-barrel systems the opportunity to still move forward."

When Matt Potts, CEO and brewmaster at DESTIHL Brewery in Normal, IL, built his first brewpub in 2007, he knew it was just the first step. In 2011, DESTIHL opened

its second brewpub in Champaign, IL. Then in May 2013, DESTIHL opened its first production brewery in a leased 20,000-square-foot warehouse. To allow for future growth options, the lease term was five years with an option to renew. DESTIHL grew successfully in that location then reached capacity by the end of 2015.

Plans were developed and announced in early 2016 for a new brewery to be built as a next major step in DESTIHL's growth. In 2017, DESTIHL opened its new 47,000-square-foot facility to ramp up production and welcome more customers in its massive beer hall. "The new building not only meets our needs today, but will also meet our needs as we grow," says Potts.

For example, a second-story barrel floor designed to store oak foeders had additional square footage that wasn't being used when the brewery first opened. This allowed DESTIHL to move 200 barrels from the first-floor barrel room up to the second level, opening the first-floor barrel room for events. "Now we don't have to turn down weddings," explains Potts. "We went from having no event space to being able to accommodate more than 225 people, without adding more square footage to the facility."



2. WHO WILL MANAGE WHAT?

With all of the specialty equipment it takes to bring a brewery to life, it's important to identify who will be responsible for it all throughout the project: the client, the architect, or a consultant? Where are the boilers coming from, and are they the right capacity? Who's specifying the fermenters, brew kettles and tanks? Who will coordinate and rig them when they arrive?

There's no right answer in terms of who should manage the process – it's just important to know that someone knowledgeable is dedicated to taking care of it.

3. TYPES OF UTILITY AND BREWING SYSTEMS

Planning well in advance for the utility and brewing systems you'll use will streamline the project and provide more accurate upfront costs. Electric, steam, or gas-fired brewing systems, for example? Your answer will determine how much square footage and what types of process piping you'll need to accommodate the system.

Depending on the type you choose, your utilities and brewing systems can also impact one another. Gas-fired brewing systems can work well in small breweries, for example, because of their cost efficiency and small footprint. But they also generate more heat, which can create HVAC challenges.

4. CODE COMPLIANCE

You may have great ideas regarding the number of people you'll be able to fit into a space – but the local building code officials may have a different idea. Building codes will dictate how many people you'll actually be able to accommodate.

From ventilation to fire separations, every city has different code requirements that must be followed for safety and compliance purposes. If they aren't planned properly, your brewery could face significant delays and additional costs.

5. THINK VERTICALLY

When you consider your options for future growth, don't just think in terms of square footage – think vertically. DESTIHL, for example, has high ceiling heights to accommodate additional volume capacity and brewery tanks.

"In our old production brewery, we maxed out at 8,000 to 10,000 barrels per year," says Potts. "By moving from a 20,000-square-foot to a 47,000-square-foot facility, and going vertical with higher ceiling heights, our new brewery is capable of about 150,000 barrels a year."

6. PRODUCTION CONTINGENCY PLANS

You may have retail customers who expect to receive your products even though you're transitioning into a new space. Most start-up breweries choose to operate only one brewery at a time to maintain the same permits (although there are ways around this, including temporarily maintaining an old permit at the existing location and getting a new permit for the new space).

Timing is important to make sure that you don't experience unplanned production downtime. Build in a buffer between when you move out of your existing brewery space and into your new one. Partial occupancy of a facility under construction is also an option, but this means that you'll be in production with contractors nearby.

7. WHAT DO CUSTOMERS WANT TO SEE?

Some of the draw in visiting a brewery is so patrons can see how the production process works. So why not highlight that in your space? Not only is it something for you to be proud of, but customers will be interested in it, too.

Create open spaces for them to look into, or windows that allow visitors to peer into behind-the-scenes production spaces. This helps turn your brewery into a destination spot where people want to spend several hours – not just trying the beer, but also enjoying the entire experience.

Craft Brewery Growth & Positive Impact on Economy

According to the "How Craft Breweries Are Helping to Revive Local Economies" article in the February 27, 2018 *The New York Times*:

- In 2016, there were 5,301 craft breweries. That figure rose from 4,548 in 2015, when the country surpassed its historic high-water mark of 4,131 breweries, set way back in 1873, according to the Brewers Association, a trade group.
- In 2016, craft breweries contributed about \$68 billion to the national economy.
- The Northeast, Midwest and West still represent much of the industry, but 36 states doubled their production of craft beer from 2011 to 2016.

Source: <https://www.nytimes.com/2018/02/27/business/craft-breweries-local-economy.html>



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“American-made equipment is also something that people like to see when they visit a brewery,” says Adams. “When patrons visit local breweries and support a local business, they like to know that the beer they’re drinking was produced using equipment and systems made in the United States.”

AND DON'T FORGET ABOUT ...

The Exterior

So much time is spent thinking about a brewery's interior that it's easy to forget about the exterior. Things like landscaping, irrigation, patios, parking lots, pergolas, and outdoor seating add up quickly – but they help communicate your brand from the moment people pull up, so don't put them on the back burner.

Technology

Most patrons will expect wireless connections and access to outlets so they can charge their devices. “It seems simple, but you can never have enough – especially in consumer areas,” says Potts.

Many breweries plan for larger production outlets, like 208VAC or 480VAC and three-phase outlets, but forget to plan just as carefully for traditional outlets.

The Feel

Upbeat? Relaxed and chill? The type of environment you create can help dictate the surfaces and finishes you use. Hard surfaces create louder spaces; sound panels can help absorb sound if you're going for more of a laid-back feel.

HOW DO I GET STARTED WITH MY BREWERY?

Consulting with an architect from the very start will help ensure that you comply with all applicable codes and regulations. Bringing in an expert early on can also help make sure that you plan with future growth in mind. Need to make sure that systems are sized and placed appropriately? Want to design with short-term goals in mind, but the ability to bring longer-term goals to life when you're ready? An architect can help with that.

“Having architects and engineers all under one roof helps your brewery project move faster,” says Potts. “The architects are able to work closely with engineers, and vice versa. It helps improve coordination and communication with you, your contractor and regulatory authorities.” —†

