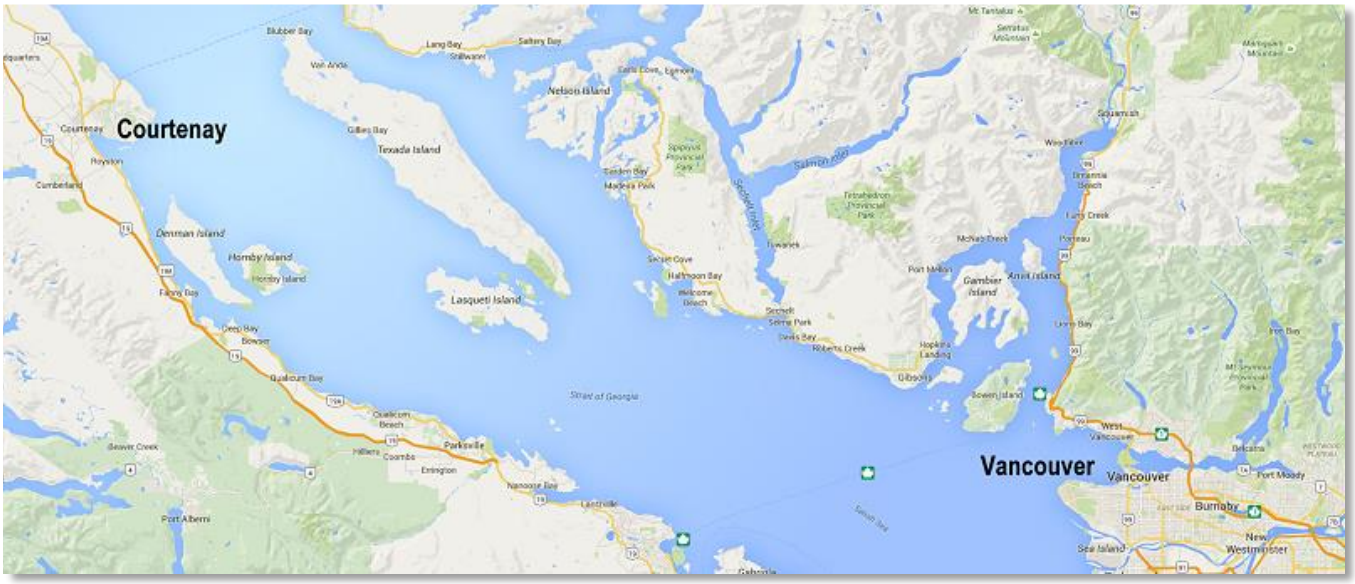
Coast Craft Brew Restaurant

Coast Craft Brew is a new micro-brewing beer business starting in the city of Courtenay, located on Vancouver Island in British Columbia (BC), Canada. Janice Rosen, the owner, is debating a major decision. Should she buy fully-automated brewing equipment that needs no expert staff, or manual equipment that requires staff to operate it. This would be an expert "Brewmaster" and at least one other well-trained staff person in her case. These people would manually start and control the brewing process until the output is a high-end "craft beer", a premium product that can win awards if it is superior quality.

About Coast Craft Brew Restaurant

Janice Rosen is a trained chef, specializing in contemporary west coast cuisine, including signature seafood and vegetarian dishes[1]. After many years as a head chef in the high-end restaurant in Vancouver, BC, she has decided to change her life direction. Selling her house in Vancouver recently netted her significant wealth – over $4 million – thanks to rapidly rising house prices there. With this capital in hand, she is choosing to move to a smaller city to start her own micro-brewery and soon afterwards, a restaurant integrated with the brewery.

Courtenay, some 143km (90 miles) from Vancouver across the Salish Sea (Strait of Georgia), is on Vancouver Island, a growing tourist and lifestyle destination for outdoor enthusiasts, families, professionals, and retirees. Accessed by ferry, highway, and a full-scale airport, Courtenay is poised to



[1] "Contemporary west coast cuisine" means food that is fashionable right now on the "west coast" of North America – California, Oregon, Washington State, and British Columbia. "Signature dishes" means an meal that customers tell others about. "You have to try Janice's _____!" Signature dishes may also be featured in food and tourism magazine and online reviews.

grow rapidly in the next decade. With its sister city, Comox, the population of the greater Courtenay area is 65,000 residents, ideal for those wanting a smaller city to live in.

A business for current times

Micro-breweries are very popular right now. When integrated with a good restaurant, the combination attracts local residents and tourists alike. Some aspects of this business:

- Locally produced beer is part of the larger "buy local" trend in North America. Customers who live near a micro-brewery take pride in buying beer produced in their community.

- The integration of a restaurant creates a destination for a variety of purposes: To have a casual drink, to meet with friends, to have a meal, to feel part of a community, and for visitors, to connect to the local culture and local people.

- Like wine, beer has passionate enthusiasts who are willing to travel to experience special types of beer. A pilgrimage is made to the city of Pilsen in the Czech Republic by the most serious beer enthusiasts, for example, to visit the home of Pilsner beer and taste the beer there.

- Enthusiasts and locals alike are interested in the particulars of beer making – the details of how it is made, special techniques, etc. Beer enthusiasts love being connected to the brewing process, as do wine enthusiasts for vineyards, types of grapes, and the wine making process.

- A trend toward demand for “experiences” rather than “things” has led to a rapid rise of interest in the “micro-brewery + restaurant” experience. The number of these establishments is growing rapidly in North America and Europe. Now is very good timing for Janice to start this business.

The Coast Craft Brew *Restaurant*

Janice’s real goal is to have her own high-end restaurant within the next 2 years. This will be a classy, gourmet restaurant with the micro-brewery attached. So, her business will have two aspects: The micro-brewing business, which produces beer to be sold in her restaurant, and the restaurant business. They are connected because one drives sales of the other. Beer enthusiasts will have a meal and drink lots of Coast Craft beer and those wanting a gourmet meal will likely wish to try the Coast Craft beer with their meal. Two target markets served by one business.

Her projected timeline:

3 months: Have the brewery and pub building designed and approved for construction. Janice owns the land already.

12 months: Have the building completed and the micro-brewery set up.

14 months: Have the brewing business operating with test batches.

16 months: Have the "Coast Craft Brew Restaurant" operational, selling its own beer as well as offering customers a gourmet dining experience.

Janice's plan of action:

Janice is a chef, not a brewer. Until now, she has never run her own full pub/restaurant operation. Instead, she was head chef at her previous restaurant in Vancouver. This is a central role in a restaurant, but not the only key role. Because of her experience with a professional high-end kitchen operation, she plans to have a fully integrated computer information system for Coast Craft Brew Restaurant. This includes:

- The use of the online system "waitlist.me", which allows customers to make online reservations from anywhere in the world and up to months and even years in advance. This is a great feature for tourists and those wanting to book a formal occasion or large group meal. Waitlist.me also has a seating waiting list feature where those who don't have a reservation can enjoy the large bar at Coast Craft Brew Restaurant and receive a text message when a table is available and ready for them.

- An industry standard customer order entry computer system for the serving staff.

- A kitchen order management system that displays orders to the chef and kitchen staff when the orders are entered into the customer order system by the serving staff.

- Automatic online food supply ordering. The system keeps track of raw material food inventory based on sales and automatically informs suppliers of delivery needs.

- Instant financial reporting. Janice will be able to track overall sales, sales by product type, and sales by customer order on an hourly, daily, weekly, monthly and annual basis.

In other words, this will be a professionally run operation with the latest *restaurant* automation systems available, allowing Janice to manage the whole business efficiently and effectively.

The equipment decision

Janice has two choices. From her research she could purchase either nearly fully automated micro-brewery equipment and system or she could purchase a more manual one, which would cost less but require more staff.

Some considerations of Option 1 - The automated equipment option

- See Appendix 1 for a photo of what modern, small-scale, fully computer-controlled (automated) micro-brewery equipment looks like.

- The cost of the equipment in this option is $1,050,000, including delivery and set-up by the German manufacturer.

- This equipment can produce 3 batches of beer at one time, 12 times a year (a total of 36 batches a year). Each batch is approximately 400 litres in volume. Typically, the 3 batches being produced at the same time would be one light beer, one medium darkness beer, and one

darker beer, a type that is often favoured by serious beer enthusiasts.

- Raw materials – malt, yeast, hops, and water – can be sourced very easily for this equipment. Janice or one of her restaurant staff could be trained to operate the equipment. It is very automated and does not require a highly-skilled Brewmaster or other highly-trained staff.

- Costs of the raw materials, electricity, and bottling supplies is about 25% of the average retail price of $7 per pint of beer of craft beer made this way. (A pint = 0.473 litre).

- The equipment produces very good (but not exceptional) beer.

- The automated equipment has some very powerful features, including producing data on the process of brewing each batch. This data can be used for the following:

    - The data can be linked to Janice's business web site. Customers could visit the web site and track what types of beer are currently being brewed, when a batch will be finished and ready for sale, and even see more in-depth statistics on each batch during the brewing process. Beer experts and enthusiasts would understand this information. In other words, potential or regular customers could engage online with Coast Craft Brew Restaurant's actual beer making operation, creating a sense of ownership, such as might be felt in supporting a local sports team. "I'm going to Coast Craft Brew after work. Their IPA beer is ready today and I want to try it right away!"

    - On a rare occasion batches fail – they come out spoiled or bad tasting. The data from each batch is monitored in real time over the Internet by the equipment manufacturer in Germany. If a batch does not work out, the company will instantly inform Janice of this and tell her what adjustments need to be made to the ingredients so it doesn't happen again. This constant monitoring dramatically lowers her risk in the making of beer and removes any worry about if a batch will work out or not.

- The equipment is not as visually attractive as the equipment in a more manual operation. Most micro-breweries have a window so customers can see the operation. As Janice wants to be operating a 'brew restaurant' as her real goal, the less attractive automated brewing equipment would not be shown centrally in her place as an attraction.

Some considerations of Option 2 - The manual equipment option

- See Appendix 2 for a photo of what more manual micro-brewery equipment can look like.

- The cost of the equipment in this option is $775,000, including delivery and set-up by the Victoria, BC manufacturer called Specific Mechanical Systems, Ltd.

- This equipment can produce 4 batches of beer at one time, 8 times a year (a total of 32 batches a year). Each batch is 500 litres in volume. Typically, the 4 batches being produced would be of differing specialties chosen by the Brewmaster, after determining market demand throughout

the year.

- Raw materials are sourced by the Brewmaster to meet their specific requirements for each batch. This takes time and expertise in the choices of the ingredients. There are many secret techniques that expert brewers use, including careful aging of the raw materials, additions of special ingredients that create a unique taste, ongoing adjustments during the brewing process, and more.

- Costs of raw materials, electricity, water, bottling supplies, and labour (the Brewmaster and one assistant) is about 60% of the average price of $9 per pint of beer of this kind of craft beer, when calculated over a year's worth of production and sales.

- The manual equipment produces potentially *exceptional* beer. If the Brewmaster is really an expert they can produce "trademark" batches which are prized by beer enthusiasts. Janice's restaurant could become a destination for beer enthusiasts from around the region and around the world. This would greatly reduce her operating risks such as the impacts of seasonality (summer tourism is much bigger than winter) and reliance on the small local customer base. Revenue for the business as a whole could be higher with this option.

- The manual operation does not have any information system "data" aspects other than the Brewmaster's in-person connection with customers. A Brewmaster who is friendly and willing to connect with customers and the community can build a large and loyal customer base in the area. A Loyal local customer base would be a big win for Janice as local customers patronize a restaurant year-round, not just in the high tourist seasons (summer activities and winter skiing). On the other hand, if the Brewmaster cannot connect well with the community, doesn't create loyal customers, and/or quits before another expert Brewmaster can be found, Janice's operation could suffer significant image, loyalty, and financial losses.

- The equipment is very visually attractive, including copper clad tanks. Janice would feature the brewing equipment centrally in her restaurant as it would add to the authenticity and ambience ("feeling") of her restaurant.

How the combined brewery and pub/restaurant business will make money

In a typical high-end restaurant, alcohol sales account for the majority of the business' profits. This will also be the case at Coast Craft Brew Restaurant. However, the choice of whether to automate the brewing operation or not will have a significant impact on revenues, costs, and risks. Janice projects the following revenue source breakdown if everything goes perfectly:

- Food sales: 40% of revenues

- Craft beer sales: 20%-40% of revenues, depending on the choice of automation or not. A higher percentage would result from having an expert Brewmaster manually creating beer.

- Other alcohol sales: 20%-40% of revenues. Mass market beer, wine, and hard liquors are very profitable and risk free because they are of consistent quality, cost, and supply.

Janice will only sell Coast Craft beer through her restaurant, not to the public outside of the restaurant. Selling “retail” is a very different business that requires complicated licensing, distribution, packaging, and marketing. Janice is not interested in doing this business as she wants to focus on her restaurant first and foremost.

Janice has sufficient capital to choose either brewing equipment option, build the micro-brewery/restaurant, buy all the restaurant equipment, and fund all working capital for at least 2 years of operation after she starts the business. She is not under financial pressure.

Stakeholders

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Questions

Answer the following questions to help Janice make her decision of whether to go with the fully automated equipment option or a manual operation.

1. Create two diagrams identifying the stakeholders in both equipment options. Identify who the most important stakeholders are in both diagrams (power & responsibility) and explain why they are the most important ones.
2. Create a list of the criteria Janice can use to decide whether to buy the automated equipment or the manual equipment. Explain which criteria are the most important, and why they are the most important criteria.
3. Do a cost/benefit analysis using the criteria and importance rankings you created in question 2.
4. Recommend which option Janice should choose and explain the 3 most important reasons for your recommendation.
5. Implementation: What important implementation considerations arose from your analysis in the previous questions? In other words, what must Janice *do well* in her business, as a result of your recommendation, if she is to succeed?

Appendix 1: Micro-Brewery Equipment – Example of modern, small-scale, fully computer-controlled (automated) micro-brewery equipment

Appendix 2: Micro-Brewery Equipment – Example of manually controlled micro-brewery equipment