Trouble Brewing: Risk Management for Breweries

It begins with a starry-eyed dream. You promise yourself, and your pals, that one day you will open your own brewery. You convince distant family members and acquaintances to contribute start-up funding. With some luck, a few good recipes and the laws of supply and demand on your side, you are soon the person at the party receiving looks that drip with the pangs of middle-age envy.

You are a brewmaster.

But somewhere between that first fantasy and a toast with your latest beer, a real business has been born. But no matter how enviable the work may seem, there are still risks to consider.

The Beginnings

In the 1870s, there were 3,200 breweries in the United States. Prohibition would later sound a death knell for most, but about a century after the original boom days, the craft brewer has made a comeback.

The Boulder, Colorado-based Brewers Association defines a craft brewer as “small, independent and traditional.” This boils down to a business that is not owned by a large conglomerate and makes less than six million barrels a year (using all malt in at least one flagship beer). This far-ranging category encompasses everything from the hobbyist brewer in his converted garage to the world-renowned Samuel Adams brand made by Boston Beer Company.

Today there are more than 2,000 such craft brewers operating in the United States. These numbers, and the dollar figures attached, are attracting attention.
While overall beer sales have decreased over the last several years, craft breweries have enjoyed success. In 2011, the industry grew 15% over the previous year to reach $8.7 billion in retail sales. And although craft brewers remain a small fraction — just below 6% — of the American beer market, their piece of the pie grows each year.

Beer drinkers are not the only ones who have taken notice. The insurance industry knows a good market when it sees one. In recent years, craft brewers have increasingly found themselves as the debutantes at an insurance ball with carriers “presenting themselves as entities that can stave off potential dangers to our livelihoods,” according to Dan Mitchell, president of Ithaca Beer Company, Inc. in Upstate New York.

**Living the Dream**

For brewers, risks are everywhere. The result is that many now sit at a crossroads between successful expansion and complex business hazards. For each brewery, the question is whether or not it has cultivated enough risk management savvy to continue to thrive.

The smallest start-ups — those that produce fewer than 15,000 barrels a year — worry primarily about survival. Each year, they, along with brewpubs, comprise the largest portion of brewery closures.

“Small and mid-sized breweries are often happy to just have their dream come true,” said John Bricker, an insurance agent and owner of Three Barrel Brewing Company in Del Norte, Colorado. “But you need to include risk management, I tell them, because we want you to stick around.”

Bricker notes that even with smaller operations and equipment, craft brewers are just as vulnerable as their larger counterparts, which makes coverage like commercial general liability, commercial property, boiler and machinery essential. Business interruption and product recall coverage can similarly improve the chances of long-term survival. If the workforce grows beyond an owner/operator configuration, it also falls within workers compensation requirements. And any brewer, regardless of size, needs to secure liquor liability insurance. Although regulations vary in each state, a brewer may be liable for the actions of someone consuming its beverage — regardless of where the drink was consumed. Liability could even arise from a keg donated to a charity event.

There is hope for brewery survival, however. In what is perhaps reflected in the decreased number of small brewery and brewpub closures in 2011, even the smallest start-ups have shown a sophistication and business know-how that many lacked in the last microbrewery boom — and subsequent demise — in the early 1990s.

Peter Whalen, owner and president of Whalen Insurance Agency, which specializes in coverage for craft breweries, says the latest crop of dream-struck newcomers are coming to him with experience, business plans and a true understanding of the whole picture of running a business. “They are a smarter group,” he said. “I’ve been really
impressed."

Well-run establishments make for an appealing business to insurers, which has led to plentiful coverage options for the craft brewing industry as a whole.

**Getting Bigger, Getting Riskier**

The transition from small to serious risk consideration passes quickly. Whether increasing the amount of beer produced, moving into new facilities or expanding across untapped markets, the compounded exposures of the larger craft brewery do not necessarily correlate to the scale of its growth.

As an entrepreneur makes the transition from glorified homebrew kit to regional brewery, threats to the business become not only more severe but more complex. And it happens on an exponential scale. The same insurance required when it was a start-up now encompasses — and costs — much more. Essential coverages, such as auto, workers comp and umbrella, must be added. And each risk may be subject to renewed, finite inspection: that quaint, oak-lined tasting room can suddenly become a threatening liability.

As the larger craft brewers polish their risk image, a cultural dilemma arises: How do you mix the laid-back attitude of craft brewing with the straight-laced world of risk management?

“Most businesses have their heart in the right place,” said Matt Stinchfield, a brewery safety consultant. “People enjoy the work at any level. It’s a cool job to have. And the happier workforce does relate to lower safety incidents.”

But when it comes to laying down the risk management law? “It’s like parenting,” he said. “Pick your battles. Be consistent. And start early.”

The craft brewing industry by and large has room to improve the consistency of its risk management enforcement. As Whalen notes, when struggling to meet product demand, there is not a lot of time to put together a formal risk management plan. This puts those that start risk-centric planning in an operation’s infancy at a distinct advantage as it grows.

Still, the industry has become more attuned to the issue. At the 2012 *Craft Brewers Conference*, Bricker gave a presentation on risk management. To his knowledge, this was a first at the event. And Stinchfield notes that attendance at conference safety sessions has grown from a handful to hundreds in just a few years. Back at the factory, larger craft breweries have begun to carve out safety management positions.

**Safety Is the First Ingredient**

The close-knit community also lends itself to risk management lessons through oft-repeated stories. Did you hear about the brewer who was changing out hoses while wearing shorts? When the valves unexpectedly opened, boiling liquid poured over the tops of her boots and she ended up in the hospital with third-degree burns on her feet. How
about the brewpub whose neglected, clogged pressure valves led to a tank explosion? Or the brewery where fumes from a whiskey barrel used for aging beer ignited and blew the barrel across the room?

As such, worker safety is a common area of concern. Although recorded injury rates for the craft brewing industry are favorably low, tragedies do occur. In April, for example, a worker died when a keg exploded at the Red Hook Ale brewery in Portsmouth, New Hampshire. Despite incidents like this, some believe that many other accidents go unreported, reflecting underdeveloped risk management policies within many operations.

Whalen used to warn clients about another safety risk with a hypothetical example: glass chips in a bottle of beer. When this actually happened in 2008 to the Boston Beer Company, maker of Samuel Adams, leading to a recall that cost more than $20 million, he found his cautionary tale for the need to procure recall insurance unfortunately justified.

Swapping these near-miss and horror stories often does inspire a new interest in risk management and insurance. When breweries do institute a new risk management protocol, however, they try to stay hip. “We can manage a risk without turning everyone into safety cops,” said Jeff Fanno, environmental health and safety manager at Stone Brewing Co. in Escondido, California.

His approach is to make risk important to each employee. Follow these standard operating procedures, he tells workers, so your friends and family do not get the call that begins with “there’s been an accident.”

“Developing an effective risk management program across all areas of the company allows craft brewers to focus more on the cool side of craft brewing,” said Eric Ottaway, chief operating officer of Brooklyn Brewery in New York. “The more time spent dealing with risk crises, the less time there is to be creative.”

Safety, however, is not necessarily the most unique challenge larger craft breweries face. Regulatory issues that vary from state-to-state offer a dizzying array of ever-changing requirements that affect everything from labels to what kind of beer you can produce. And the simple task of procuring ingredients can be harder than you might imagine.

Supplies are increasingly difficult to come by as the craft brewing industry grows, according to Ithaca’s Mitchell. Larger brewers with purchasing power, he explains, use long-term contracts for everything from hops and malt to kegs and bottles.

The “forward hop contract,” for example, sets a price and amount of specific hop varieties that a brewery will purchase from a producer in the years ahead. Given the vagaries of the hop market, the farmer benefits from guaranteed sales and the brewery has to do some maneuvering to make sure it is first in line to receive the ingredients essential to the unique taste and aromas of its carefully crafted beers.

**Beer Emergency**

Whether due to freak accidents or the unforeseeable wrath of Mother Nature, sometimes no amount of risk management can insulate a company from loss. At times like these, the craft brewing industry benefits from its particular personality.

Creativity is the core of any successful craft brewery, whether it is the collaboration of ideas for the perfect recipe or the irreverent jokes generated for label designs and beer monikers. And the craft brewers’ community of artful cleverness has proved inspirational to crisis management and loss mitigation.

In May 2009, at the Drie Fonteinen brewery in Beersel, Belgium, a thermostat suffered a fatal spasm. In a storeroom stocked with one year’s worth of aging specialty sour beers called lambics and gueuze, the temperature spiked to sauna-like levels for 36 hours. More than 13,000 gallons of beer were ruined and 3,000 bottles exploded. The small, family-run operation faced bankruptcy.
But a creative turn of mind and the close-knit brewing community came to the rescue. First, volunteers — brewers, neighbors, beer-loving tourists — uncorked 100,000 bottles and poured out 36,000 liters of beer. Then, inspired by a friend’s suggestion, owner and brewer Armand De Belder distilled the spoiled booze, turning it into 6,000 bottles of Armand’Spirit, a premium fruit brandy known as eau de vie. A simple case of turning lemons (undrinkable beer) into lemonade (a high-end 80-proof liqueur) saved the brewery and has De Belder contending with happier problems like developing a succession plan so he can one day retire.

This is far from the only tale of creative risk management in the industry. Last August, John and Jen Kimmich, the husband and wife owners of the Alchemist Brewery in Waterbury, Vermont, watched raging floods tear through their town. When the Winooski River waters retreated, they faced floating beer vessels in their basement brewery and the loss of approximately $200,000 in equipment, ingredients and product. The limits of flood insurance offered little assistance for their financial and emotional heartache, but once again the culture of community among the craft brewers would save the day.

From the Harpoon Brewery in Windsor, Vermont, general manager Steve Miller sent empty kegs to fill with what beer could be salvaged. He then offered to keep them in cold storage at the Harpoon facility. Later, with some ingredient calculations from another local brewer, the beer was bottled and sold at Rock Art Brewery in Morrisville, Vermont, by founder Matthew Nadeau. The $15,000 they raised helped Alchemist survive the ordeal, allowing it to open a previously planned new facility and live to brew another day.

“The money was not only needed, but a great psychological boost at a time when we were struggling with our insurance claim,” says Jen Kimmich. “At the end of our challenging experience, we felt more fortunate than ever to be a part of the national and local brewing communities.”

The lesson: never underestimate the psychological boost of a good risk management response and don’t forget that good risk management can spring from creativity and community. Now that is something worth toasting — preferably with your favorite craft beer.

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