

Oakshire Brewing: Can Successful Neighborhood Shamans Become Industrial High Priests?

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It was late Friday afternoon, the pitcher of brew was half consumed. Brewmaster Matt van Oakshire and Brewery owner Jeffery Pilshouse were philosophizing over their work. They had just poured themselves a second pint of their carefully crafted espresso stout. The fumes of local Cascade hops wafted from the containers and mingled with the heavy malted coffee aroma and hints of floating alcohol in a delicate balance. van Oakshire closed his eyes, as was his habit when sipping this concoction and continued:

We live in a world where capitalism, mass production, corporatization and bureaucracy have stripped away all sense of magic. Consumers have a deep longing for enchantment in their lives. Remember that paper I showed you? I read you the quote: "The enchantment of technology is the power that technical processes have of casting a spell over us so that we see the real world in enchanted form."* In the end Jeff, this is turning out to be far more about me than we ever expected. It is the brewmaster's art that imbues the beer with quality and soul. The craft brewer is a shaman dedicated to purity over profit. Beer transforms, connects and elevates us. We have for hundred of years held a very important role in society. (*Gell, "The technology of enchantment and the enchantment of technology")

Pilshouse replied to the brewmeister: You know I agree, and I'm ok with it and with you in the limelight. Your role, partly real, partly imbued and imagined by our followers, this whole enchanter thing you are talking about may be the base of our whole business. And I don't mean just me, us, this brewery my brother and I started. I mean the entire craft brew business, here and around the world. The idea of it, the idea of what we do, has gone beyond what we actually do. We've been swept up in the movement, in some kind social or cultural wave of need. We have become local herbalists, special, revered even. I am proud of this, you know I am, and you know I am honored to serve. But does this very boon at the same time limit what we can be, limit our ability to grow?

"What do you mean?" said brewmeister Oakshire. You are concerned, worried about something? I was only thinking that as long as we understand the true sources of value we provide, who we are, what we do, play our roles as holders of the secret potion, and authentically embrace who we are and what we provide, this can't go wrong. I was celebrating in my musings, not trying to concern you.

Pilshouse sat quietly for a minute. They had no problem sipping the brew in silence. Local is special, he thought. The local brewery has become a sacred gathering place where beer is the sacrament. Now it will be the local brewery and the local brew pub.

"The locals come to us tired and worn, yet excited and hopeful as soon as they cross the threshold," he said quietly, almost to himself. "We serve them something magic and they are uplifted, elevated when they drink our beer. So yes, we are in their minds the high priests that administer the hopeful potion. I just have a hard time embracing it. We just make beer, good carefully handcrafted beer yes, but it's just beer.

Oakshire swallowed and responded. "Well Jeff, I do feel the role, I feel like I am growing into it, or it is growing into me no matter what I want. And today, now, I feel it, athletically and truly I do."

Jeffery Pilshouse's business-owner perspective kicked in. "And how many of these local fountains of holy brew can we administer, my friend? How many and still remain in such inspirational and elevated esteem? What do we truly offer of so much value? Tell me, can we truly grow this little brewery enough to earn more than a pittance for our families, and be relegated to barely making payroll? To do so we have to be more than local

shamans, we would need to be regional high priests or something. If what you say is true, our local minions must always be first served. It is they who hold us up, they who present us as magical wizards, as enchanters and they who demand we embrace the role."

But we have to make money, Pilshouse thought to himself. How can we grow and become corporate so that we can serve more people and become financially secure, and at the same time keep this magical and honorable stature of local wizards?

Growth is something Oakshire Beer had not found difficult. Their bottled ales had continued to penetrate the market. Twenty-two oz bottle sales continued to grow. With the help of good distributors, and good branding, their beverage line had been picked up by the large retailers – Safeway, Rite Aid, Albertson's, Trader Joe's, Fred Meyer / Kroger, etc. But getting shelf space was really hard and competitive. If sales didn't grow, distributors would not push and retailers would stop giving Oakshire valuable visible shelving. Oakshire also continued to penetrate the draft beer market, especially in Central West and North West Oregon, including the lucrative Portland area market. They were on the edge of making the decision to diversify their product mix, following a few other breweries in putting craft beer in cans. Pilshouse felt they had the opportunity to become the northwest leader in this higher margin category. They were already leveraging their existing distribution network to gain placements. More worries wrinkled his brow. Was it too soon to bet on cans? Was this the right way to move forward to gain margins, or should they just find ways to economize the existing business model? If it went badly, could the business even survive?

Growth sure was not easy. It was expensive and risky. Banks had been reluctant to help with financing, so Jeffery and his business advisor Doc Holliday had decided to find other sources of financing. They bootstrapped, they got micro investments from their loyal customers. They made due with borrowing less, and benefitting by controlling more. Somehow they had built up enough cash and credit to self finance a growth move so that could increase capacity by up to 5x in their existing building. Jeff again asked his key question: if it all went wrong, could he absorb the loss or would it kill us? Is the risk really worth the potential increase in revenue and margins?

And the risks were very real. Pilshouse looked van Oakshire in the eyes. "Matt, if we keep growing, how long will it be before we are removed from the hearts of our loyal followers, and labeled corporate charlatans rather than magical shamans? There are ten hopeful craft brewers just waiting to take our place, or to take their place as wise-ones among us. I am worried. We are already opening a brew pub. Who knows what the reaction will be?"

"And" he continued "what happens if there is another fire in Yakima and hops and barley prices shoot up again, and we've promised standard pricing up and down the west coast to all these big time distributors? What if our distributors fall in love with some other brewery, and we become old news? What if the locals drop us? We're dead meat!" Then, tongue loosened by the fine craft brew, his true and deepest worry about the brewery came out. He lowered his voice. "What if some new place makes you an offer so good that you leave, and your minions follow?"

van Oakshire had been listening, but only kind of. Pilshouse was a worrier, a dear hard working worrier. And this was the kind of conversation Jeff and Doc Holliday liked to have. van Oakshire usually just nodded his head and tuned out all this noise. People like beer, we make beer, our beer is very good. The brewpub would be fine, he thought to himself. It would sell even more beer and would grow their legend. But the idea of becoming bigger, and going national or international was disconcerting. No way, he thought, no way could they stay the same company with the same loyalties and culture. And yet he also knew, absolutely, that they had to move up to the next level, had to get out of the way of the brewers on their way up. The assistant brewers from Eugene

and Salem and Portland that he had trained, working for almost nothing, would be launching their own local brews.

"Ok Jeffery, I see your point. You are wondering how can we move up to be a larger production brewery with a much broader regional, maybe even national or international distribution, and yield some local market share and power to the next wave of microbrewers, and also remain locally connected and supported as authentic craft brew high priests, benevolent mysterious wizards and not corporate sellouts and manipulators. I get it. I do. But you know me, I think that we shouldn't plan too far ahead. Don't worry too much. Keep making good beer. As each season comes around, we see what we've got, see what's out there, then decide what to do with it. I don't know if that a strategy, but its been working for us Jeff. I don't know the answer to your big question, but I will tell you I am ready to be the High Priest if you need me. You and Doc Holliday decide what you want to do, I'll provide the magic.

Pilshouse had the following options in his mind for growing the business and was trying to balance it all in his head, the risks, the rewards, the economic realities, and the human sensitivities:

- Product line expansion: craft beer in cans. Cans fit better on shelves and increase shelf life, but they could hurt the micro craft brewery image.
- New market development: produce a brew for non-beer drinkers. Something like Malta Amstel or Vita Malt.
- Market scope expansion: build more capacity of existing product line and expand distribution to the whole western USA.
- Forward vertical integration: Get into the distribution business and distribute our own beer. Gain the margins appropriated by the distributors.
- Market line concentration: Stick to what we do best and defend it. Find the brew that is most popular and consistent and ramp up production of that single product and sell it nationally.
- Open brew pubs and expand that direction: avoid the distributors as much as possible and reap the extra margins through direct sales to end customers.
- Backward vertical integration: buy into hops and barley farms or grain roasters.

Unbeknownst to Mr. van Oakshire and Mr. Pilshouse, across town at Ninkasi Brewing, at Eugene City Brewing and at Steelhead Brewing; in Springfield at Hop Valley Brewers; in Portland at Amnesia Brewing, at Hair of the Dog, at Lompoc, at Bridgeport similar friday afternoon musings were brewing. Strangely, mysteriously, magically really -- these odd philosophical conversations were occurring -- as if by chance. And yet, they were all were eerily the same.

"Another pint, Father Jeffery?" asked Oakshire.

"Yes Father Matthew" Pilshouse responded to with a worried smile.

Appendix:

A large ecosystem has evolved around the breweries to create a fully specialized craft beer industry supply chain and distribution chain. Here are some examples of those most dependent upon the success of Oregon and Washington state craft breweries:

- **Technology Providers:** Prospero Corporation and the Brew Pro Technology was a major supplier to the craft industry, with the motto: “from grain to glass, we do it all.” Palmer Canning provided equipment and expertise to the industry, helping the move to canned craft beer.
- **Raw product providers:** The Country Malt Group with offices in Vancouver Washington offers a full line of high end bagged malts and craft brewing specialty products. Craft Canning and Bottling provides 12 and 16oz cans as well as the popular 22oz craft beer bottles. Willamette Valley Hop provides premium local hops and hop rhizomes. Mountain Rose Herbs has the worlds largest selection of herbs spices & botanicals for brewing, including a huge array of leaf, bud and pelletized hops.
- **Shipping:** Firms like Carton and Carrier Company, Inc. are primary sources of custom cartons, carriers and containers for craft brew display and distribution.
- **Advertising:** There are all kinds of specialists attracted by the growth of the industry: even neon sign handcrafters, such as GasNglass dedicated to serving the craft brew industry.
- **Risk Management:** There are now a growing range specialty brewery focused insurance products offered by innovative companies like Bell-Anderson Insurance.
- **Homebrew industry:** The homebrew industry is growing right along with the broader craftbrew industry. F.H. Stienbart Company, Hopstiener, Brew Brothers, BosaGrape, Larry’s Brewing supply, Mainbrew, Corvallis Brewing Supply... the list goes on, are all growing quickly to satisfy the retail supply needs of home brewers.
- **You Brew:** Companies like The Cellar Homebrew in Seattle, and Portland U-Brew are examples of businesses supporting new entrants and interest in microbrewing, combining retail supplies, rentable production facilities, teaching venues and brewpubs.

Jeffery Pilshouse:

- I’ve led the company from the beginning – my brother was primarily and assistant and is no longer part involved in day to day operations.
- My imprint on the business is a measured and consistent approach to growth. This is applied to my own professional development, to growth in barrelage

Matthew van Oakshire

- Matt joined the brewery on March 29, 2009 – by July, he had our beer in bottles and shipping out to distributors – I managed our distributors at this time
- Matt then won Oakshire’s first big award in 2009, a Silver Medal at the GABF for the Overcast Espresso Stout
- Very talented brewer of a variety of beer styles and is open and accessible for consumers who “want to get to know their brewmaster”.



The Oregon Craft Brewing Industry:

Currently 169 Brewing
Facilities in 61 Cities

- 58 Breweries Operating in Portland; More Than Any Other City in the World
- Annual Oregon Beer Industry Economic Impact:

• \$2.44 Billion

Source: Oregon Brewer's Guild

Source: Oregon Brewer's Guild

The Washington Craft Brewing Industry:

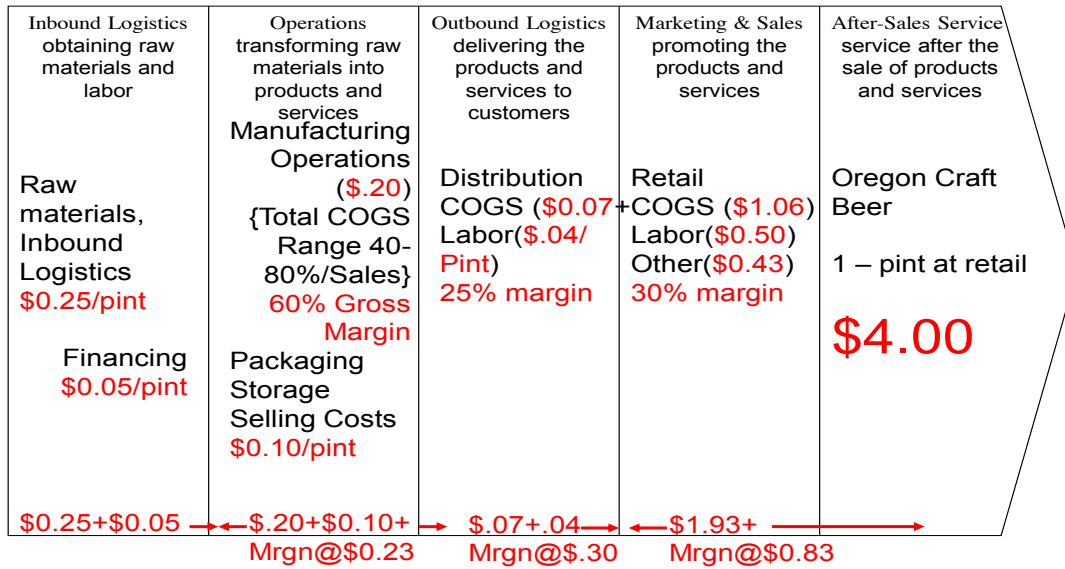
Currently 179 Brewing
Establishments

- 42,160 industry jobs
- Annual WA Beer Industry Economic Impact:

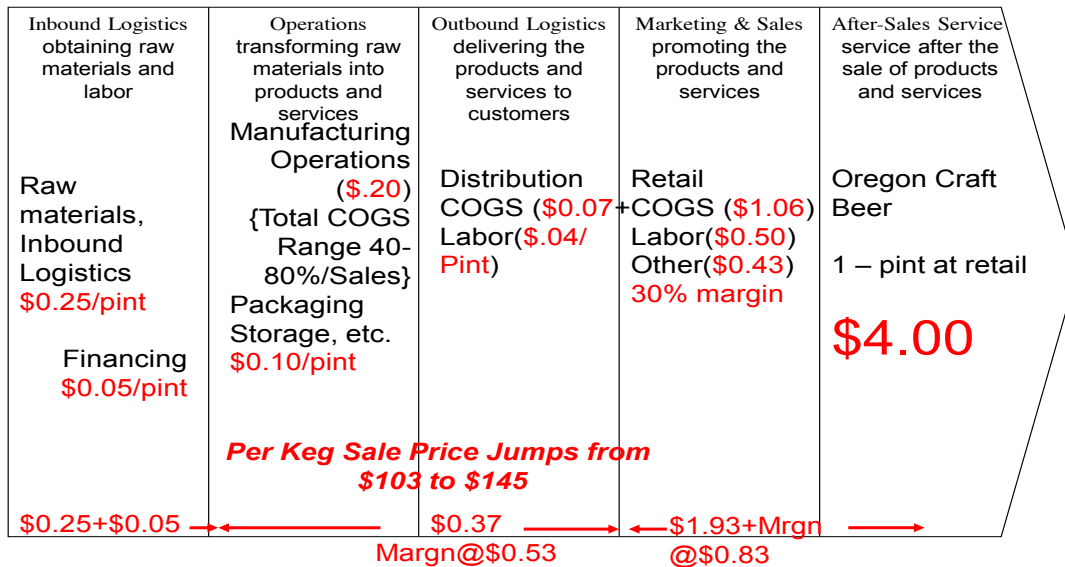
• \$4.86 Billion

Source: Washington Beer & Wine Association

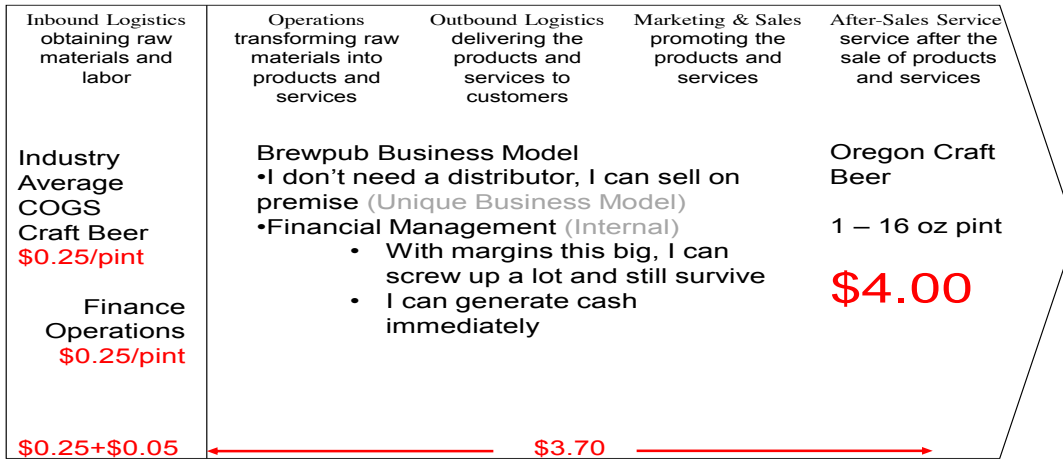
The Value Chain for Craft Breweries: Traditional Distribution Model



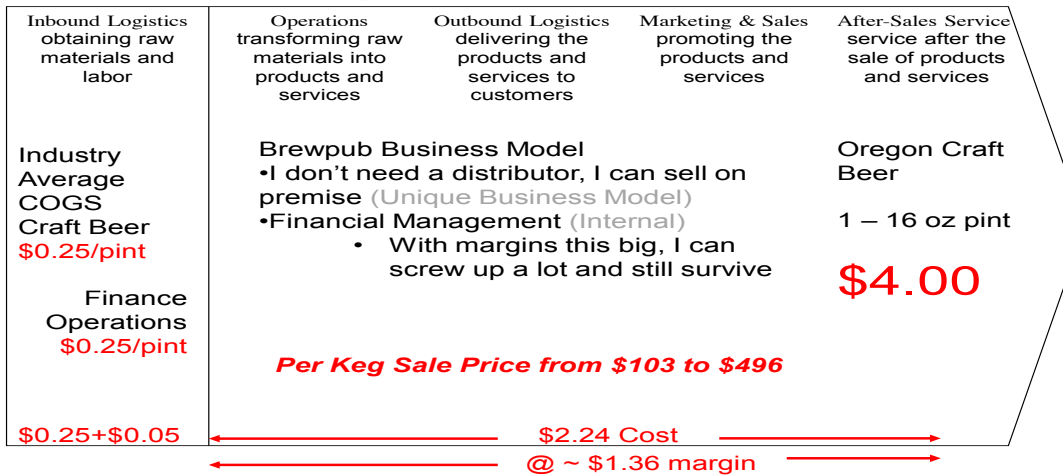
The Value Chain for Craft Breweries: Self-Distribution Model



The Value Chain for Craft Breweries: New Innovation: Brewpub



The Value Chain for Craft Breweries: Brewpub Business Model



The Value Chain for Craft Breweries: Brewpub Business Model

