

Brewbound Voices: Assessing Brand Value

Kevin O'Brien & Cody Jennings | October 28, 2015 at 3:48 PM



Editor's Note: This week's installment of [Brewbound Voices](#) comes to us from Kevin O'Brien and Cody Jennings, a pair of beverage-focused advisors at Zeponi & Company, a Santa Rosa, Calif.-based merger and acquisition advisory firm providing transaction services to clients in wine, beer and spirits sectors.

O'Brien, who recently joined Zeponi & Company, has worked with more than 200 craft beverage producers throughout his career as a financial advisor, consulting clients on strategic planning and exit strategies. Jennings, who began with Zeponi in 2009, plays an active role in the firm's transaction review and assessment process, performing business valuations and market analysis.

O'Brien and Jennings will join the [Dec. 3 Brewbound Session](#) financial planning work sessions to discuss brand valuation and seller considerations. [Sign up today!](#)



The Value of Brand from an Investor's Perspective

The combination of low interest rates, explosive growth, and a surplus of buyer capital has led to a transformative time in the craft beverage alcohol industry, particularly in craft beer. As transaction advisors to the beverage alcohol industry, we've worked on numerous transactions over the last several years. This experience has afforded us the opportunity to understand the investment rationale of buyers as they evaluate entering, or growing, in the beverage alcohol industry. While there are many factors that are considered when making an investment in a beverage company, one common thread in all transactions is the strength of the brand. Brand strength is not just a catchy logo (see: late 90's "craft" brand bust), it is a combination of factors that contribute to the overall success of the business. Below, we focus on three key brand considerations in craft that tend to be universally evaluated amongst buyers of all types, and how each relates to value.

Authenticity: In today's marketplace, consumers are savvier and more skeptical than ever. Nowhere is this truer than with craft beer, an industry which is defined by authenticity and distinctiveness. Because of this, perhaps the single most important contributor to brand value is a brewery's ability to create a memorable and authentic impression in the mind of their consumers. This authenticity can relate to sense of place (Deschutes' Northwest branding), sense of purpose (Firestone Walker's quality commitment), or sense of passion (Dogfish Head's off-centered ales). Without some semblance of authenticity a brewery becomes just one more option in the ever expanding sea of quality craft beer in the marketplace. It is no longer the case that making great beer will create a successful company, it is a requirement to ante up into the game. The secret

BREWBOUND®

CRAFT BEER NEWS, EVENTS & JOBS

sauce of successful breweries is that they've combined world class product with a story that connects to the core of their consumers. This clarification is important because any investor that is going to put money into a brewing enterprise understands that without an authentic brand identity there isn't a solid platform for future growth.



Second Sale: The craft beer industry contends with a hyperactive consumer that wants greater selection and continually new offerings. While this is part of the fuel that has driven craft's growth, it's also a significant challenge for breweries looking to establish a regional presence. It's not uncommon for new breweries to get initial placements, only to be rotated out when the next hot local brew comes along. Rapid growth when a brewer first hits distribution can provide a significant boost to the bottom line, but its ability to sustain market share is a far more attractive trait. The tell-tale sign of a defensible and standout brand is its ability to get the repeat placements (the "second sale"), which offer not only immediate profitability, but opportunity for longer term growth. Investors want to see consistent placements and re-orders to feel comfortable about the established nature of the brand. Additionally, we've heard from many buyers that the ability for a brewery to establish a very strong presence in their own "backyard" is particularly attractive because it indicates the strength of the brewery to continually grow in a market that has consistently been exposed to its brand.

Brand Footprint: If a brewery has a good story and strong brand recognition, it likely has legs to grow on. How it manages that growth can also have a significant impact on brand value to potential investors. For breweries which operate in the three-tier system, the rigid nature of beer franchise laws often result in a brewery's distribution network becoming a de facto component of the brand. Strategic investors place a heavy premium on the ability to control this aspect due to consolidation synergies (in the case of macro domestic breweries), or greater relevance within the three-tier system (in the case of foreign and craft breweries). Non-strategic investors, such as private equity, may not be able to reap such immediate benefits, but most will have a particular growth strategy in mind. A portfolio of difficult-to-terminate contracts can pose a significant challenge to achieving those goals. This isn't to say a brewery should limit its expansion into new markets, but owners should be cognizant of the fact that distributor relationships can have a significant impact in terms of a brand's marketability.

"Brand Value:" The three components above have significant impact on the value of a brewery's brand. The empirical evidence regarding this value is in the financial performance of the brewery (revenue, growth trajectory, profitability). Any investor, strategic or financial, will typically conduct financial due diligence first and then dig deeper to get a sense of brand strength. The combination of solid financial results with a defensible, scalable brand is what makes a brewery attractive to investors. Regardless of size, the common thread among the recent market transactions is that each brewery had well-defined brand strength. When considering a transaction, or just planning to grow your brewery, remember these words regarding brand value provided by an industry peer: "It's all about the beer, but it's not ALL about the beer".