

MICROBREWERY IN NORTHWEST, ALBERTA



Microbreweries, otherwise known as Craft Breweries are a popular local business opportunity the world over, however no such business is currently active in Northwest Alberta. As a result, the Regional Economic Development Initiative of Northwestern Alberta (REDI) has explored the opportunity to promote Microbrewery investment as a great opportunity in the regional economy. REDI presents the following business case in order to demystify the requirements for operation of a microbrewery by identifying the costs and considerations that one needs to review before making an investment. If you are a local entrepreneur or investor, get ready to consider your involvement in building a microbrewery close to you.

BACKGROUND

Canada has many competitive advantages for making world-class beers: proximity to malt barley, large freshwater supply, educated workforce and more than 10 million local beer drinkers. (Beer Canada, 2018)

Craft beer has become a growing part of communities in Alberta as many towns and cities have one or more breweries, each with distinct brand identities with strong community support.

Alberta is considered the most accessible craft beer market in Canada thanks to availability of quality ingredients and a fairly easy regulatory environment. There are currently over 120 Microbreweries in operation in Alberta (Alberta Small Brewer's Association, 2022) ranging in size from small production tap rooms to proven brands that can be found in liquor stores across Canada.

A microbrewery can be a family friendly addition to the local economy, a creator of jobs, and supports current and future restaurants and entertainment options as these are natural extensions of neighbourhood investment.

In this sense, REDI promotes microbreweries as an investment opportunity in the region.



LOCATION, BRAND AND LAND USE REGULATIONS

Like any business, choosing the right location for a microbrewery is key to ensuring its future success, so there are several key considerations that need to be addressed before getting too far into the process.

- ✓ Land Use / Zoning
- ✓ Available and suitable building space for operations and storage
- ✓ An understanding of liquor control regulations
- ✓ Adequate parking
- ✓ The potential for foot traffic and the proximity to complementary services

While it may be tempting to consider locations that have lower operating costs, a more important factor in choosing the location is the neighborhood appeal and access. In Northwestern Alberta, communities with suitable locations can be found in downtown commercial districts.

Downtown areas feature character spaces with foot traffic and other business services with attractive rental / lease rates. Such locations can also provide opportunities to partner with other businesses. This is especially true for those involved in food services and entertainment. Microbreweries can revitalize downtown areas and are complementary to other businesses, serving as trendy social hubs for the community.

Building sizes starting at 5,000 square feet (about the area of a basketball court) would suit the entire operation of a microbrewery, though it is possible to run a production location and serving location in two separate locations (one for production and one as the taproom). A decent size operation is a 10-barrel system (1,589 litres) that would produce a new batch every 3-4 days at full capacity followed by kegging, canning and cleaning before repeating the cycle with another batch.

MARKET ASSESSMENT

Depending on the specifics contained within a microbrewery's business plan, considerations about the local market need to be made during the decision-making process. An early assessment of the community's history of support (or lack of support) for pubs and bars is a good starting point, however considerations around the range of beverages that have market potential should also be made.

Consulting with local liquor stores can inform what is most and least popular. In this early stage an aspiring microbrewery owner/ operator can also decide whether they would like to produce nonalcoholic beers, sodas and kombuchas in addition to a variety of local craft beers and seltzers to broaden the range of drinks on offer.

As there currently are no microbreweries in the region, there is a good case for the establishment of a microbrewery. Communities in Northwest Alberta that offer a receptive business climate to a microbrewery should consider the potential for this opportunity.

The Town of High Level, or locations near High Level hold the most promise for the development of a successful microbrewery since this is one of the highest density locations in the REDI region. High Level also has the largest volume of hotel rooms thanks to ongoing business activities in the area. This lends itself to also converting business visitors and tourists into regular supporters, or even future fans of a local microbrewery in the area.

MARKET OPPORTUNITY

As the beer market has evolved in the past 10-15 years, consumer support for microbreweries in North America has continued to grow. While there is support for international brands produced by Molson Coors and Anheuser-Busch / InBev and the like, microbrewery produced beers have greater social appeal and community support than their multi-national business cohorts.

In this sense, microbreweries command a niche market with consumers that are willing to pay more for a superior product. When you consider that the average adult Canadian drinks about 79 liters (about the total volume of a mini fridge) of beer each year, this translates into between \$300 to \$1,000 per person based on an average cost per beer between \$2 and \$7 per pint. The local population of adults can be used to build out the market potential for each community with a 5-10% market share target. There is also an additional potential for canning a range of beverages for sale in other markets, whether in local liquor stores, or in other markets across Canada, or beyond.

It is also important to note that when planning for a future microbrewery, it can take 1-2 years before the first batch of beverages is available for sale. The timeframe is dictated by the time it takes to secure a location, receive permits and approvals and get the necessary equipment before production. Another significant factor is the learning curve and time that it takes to know the unique nature of a microbrewery business.

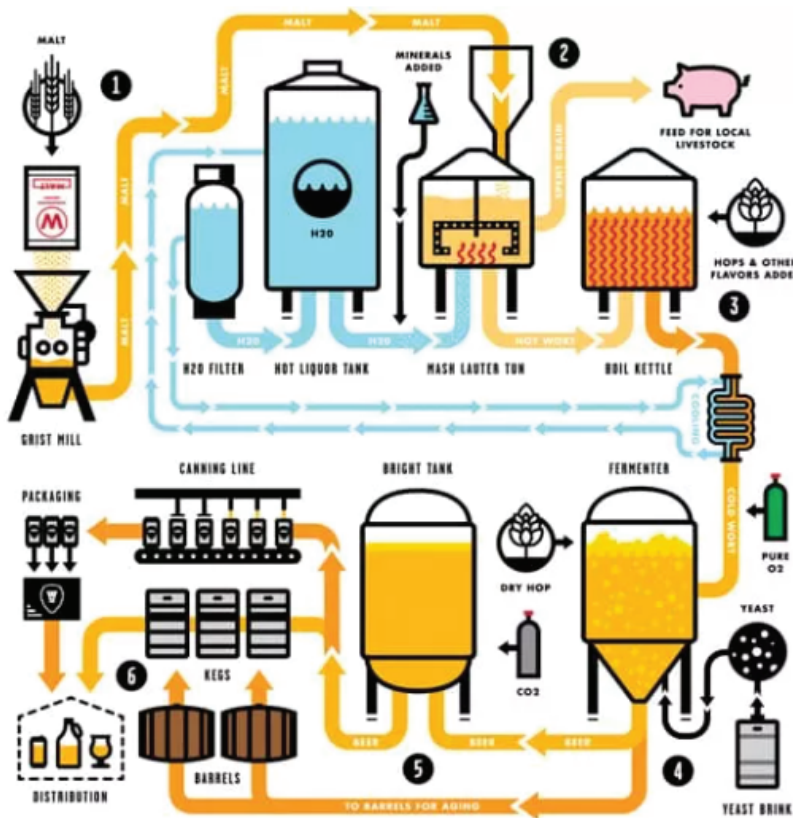
MACHINERY AND EQUIPMENT COSTS

Depending on the volume of production and whether a tap room is part of the development, buildings and equipment needed for a microbrewery can range from under \$200,000 to over \$2.5M in costs. The biggest factor in figuring out costs is the production capacity and whether a location is being purchased, leased, or repurposed in a space that is already owned for another purpose.

These amounts can vary, depending on how equipment is sourced. Some go directly to vessel manufacturers in China at a greatly reduced cost, while others choose to buy from North American manufacturers and/or distributors. Canadian businesses often buy equipment from China and perform quality assurance testing before configuring the equipment on site. This can also generate added cost savings.

Producing beer requires the following equipment.

- ✓ Grist Mill
- ✓ Mash Lauter Tun (vessel where hops are added)
- ✓ Boil Kettle / Whirlpool (vessel)
- ✓ Hot Liquor Tank (vessel)
- ✓ Fermenter (vessel where yeast is added)
- ✓ Bright tank (vessel where beer is finished)
- ✓ Canning and packaging equipment (optional)
- ✓ Water Filtration system



It should also be noted that microbreweries may use equipment and facilities that can produce soft drinks, such as sodas and kombucha (fermented probiotic tea drinks). This can help to diversify the range of beverages to include consumers who favour soft drinks, and makes it possible to gain brand recognition and market share in grocery and convenience stores.

It is suggested that proponents expect at least 4-6 months of time for the Alberta Liquor, Gaming and Cannabis Commission to review an application. This could add more time to secure local approvals. Anyone seeking a location should factor these steps into their process.

Securing a head brewer is also critical to the success of any microbrewery. The Brewmaster and Brewery Operations program at Olds College has been a popular training ground and source of brewmasters in Alberta.

EXAMPLE

Hawktail Brewery

Rimbey, Alberta (population 2,500)



Hawktail Brewery's location off Highway 53 in Rimbey, Alberta is a good example of a small tap room establishment with a canning line. The craft brewery has the flexibility of serving locals a high-quality product while also having the ability to sell beer to liquor stores both inside and outside of the region. To keep its operation simple, it provides customers with a range of pre-packaged food products and by doing so, it meets the AGLC regulations for serving food where liquor is served.



NORTHWESTERN ALBERTA ADVANTAGE

Northwestern Alberta produces high quality grains and hops that are essential ingredients in the brewing process. Good access to ingredients is just part of the story. The current absence of competition in the craft beer market in the REDI region means that a craft brewery would most certainly find local support. The potential to add craft soda and/or kombucha production to this opportunity could generate wider appeal within the market as grocery and convenience stores could also carry nonalcoholic beverages in locations across the Northwest. This would increase the total volume of sales while featuring unique varieties and flavours that underscore an original local beverage experience.

REQUIRED FINANCIAL INVESTMENT

A microbrewery needs at least enough capital to purchase brewing equipment and outlay a taproom for future customers. The location could be as simple as a repurposed agricultural building, commercial, or industrial building or a purpose-built location in the heart of downtown. The sizing of equipment and the cost of building renovations are the two biggest financial factors for the operation which is why the range of cost can be from \$200,000 to \$2.5 million, depending on the features of the space and whether food service is included in the business model.



POTENTIAL KNOCK-ON BENEFITS

There are often positive knock-on effects when a microbrewery is in a central business district as it can create increased commercial traffic that spills over to local restaurants, shopping, and entertainment offerings. Additionally, breweries rely on the purchase of local barley and crop development including the need for hops and other farm-grown ingredients in support of local growers and suppliers.

While microbreweries rely heavily on support from the local market, they are also sought after by visitors and seasonal workers as each microbrewery creates its own brand experience through the character of those that are most connected to it.

Microbreweries are reliable contributors to regional tourism as beer enthusiasts appreciate the opportunity to try new tastes in different geographical areas while traveling. As a result, microbreweries can lengthen hotel stays and there is good potential to pair microbrewery tours with other local tourism activities, thus increasing the tourism footprint in areas where they exist.

An alliance with the Mackenzie Frontier Tourism Association (MFTA) would be a natural extension of this opportunity.

Some microbreweries will also include managed food services in the form of restaurants, food trucks, or food supply agreements with local restaurateurs which can generate added profit, while also adding another layer of complexity to overall operations.

Current liquor serving regulations require that food must be available on the site where liquor is being consumed. Luckily, food service in microbreweries is very flexible. Options include access to food delivery services with a local restaurant, or the availability of pre-packaged food items for minimal food preparation. Partnerships with local restaurants benefit both the microbrewery, which can act as a responsible host which increases the likelihood of longer brewery stays and the restaurant that benefits from the increased volume of food delivery services.

CONCLUSION

There is a strong business case for the establishment of a microbrewery in Northwest Alberta. REDI and the communities within the region can give further insight into the next steps to start a microbrewery in the area. Further work would need to be done in order to secure a future suitable location, equipment, skilled workers, management and financing. The next step for an aspiring Microbrewery operator would be to begin the work of putting together a detailed business plan that will position an owner / operator to move forward on an excellent business opportunity that can create additional employment and business opportunities to the REDI region.

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