

Greg Koch is one of the leading young Turks in an industry made up almost exclusively of young Turks. Greg and his colleagues at Stone Brewing Co. helped pioneer the potent, hop-forward ales that brought West Coast brewing to the next level during the late 1990s and early 2000s, and Stone is now taking these beers across the country to great acclaim. In talking to Greg, I was surprised to find that he reminded me a lot of Fritz Maytag, craft brewing's original young Turk. While Mr. Maytag is unlikely to ever put streaks of color in his hair or Twitter obsessively, the two California craft brewers share a similar philosophical outlook, an impressive intellectual breadth, and a fierce moral integrity. Our interview with Greg Koch follows.

Modern Brewery Age: I've noticed that Stone is doing an increasing number of collaborative brews with other craft brewers.

Greg Koch: Until recent years, we craft brewers concentrated on building our own brands, and creating our own identities. Now that we've done that—not that we're done by any means—but now that many craft brewers have successfully developed themselves as viable brands and viable companies, now I think we are feeling collectively able to branch out in some engaging ways.

Would these collaborative efforts lead to collaboration on general production?

I don't know that it is a natural progression from collaborating to co-habiting. It's almost like trying to create a band out of "We are the World." It's two completely different things. One is getting together and creating a one-off collaboration, and the other, well, let's just say contract brewing has not been associated with high levels of creativity in brewing.

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So you wouldn't produce Stone beer at someone's brewery on the East Coast? Is pride of place so important to your brands? Stone has to be brewed in Escondido?

Yes, Stone has to be brewed in Escondido, and pride of place is very much part of it. Contract brewing, and this is coming from someone who have never contract brewed, but I perceive it as a decision made by the accounting department. Where these collaborative decisions are made is on the creative side. But that said, as you know, we are thinking about building a brewery in Europe.

Have you talked to any of the possible host governments?

No, but they have talked to me. We've just put out a video on this. And we're working very diligently on our RFP (request for proposal). I've got a near complete rough draft on my desk right now. In the RFP, the story is about what we at Stone have accomplished. We looked at it, as "if I was a government administrator, what would I want to know?" And we wanted to convince those administrators to think, "Hey, we want that brewery in our country." When we floated this idea, I immediately got inquiries from embassies and economic development commissions from various regions. And I had to tell them to hold on until we got the RFP done.

Will an American craft brewery invading Europe raise hackles among European brewers?

No, I don't see why. In fact, the creative ones are extremely enthusiastic. I suppose it could raise hackles if we were coming in with some idea of showing the Europeans how to do it better, but that is not the case. We are going to do it our way. And we put this in the RFP. We like collaboration, and we like collaborative brews. Two thirds of the taps at the Stone World Bistro & Gardens are guest beers, and 97% of our bottle selections are guest beers. We love being part of the incredible worldwide craft beer culture. I think most craft brewers will be



Steve Wagner, Stone president and brewmaster and Greg Koch, CEO

From an entrepreneurial standpoint, I think both Steve and I are pretty excited about this [European brewery project]. We get to roll up our sleeves again."

excited, because we are all working together to raise the tide. And I think most non-craft brewers won't care.

Was building a brewery in Europe the logical next step?

I don't know, but it's exciting and full of potential. It's also scary, yet invigorating. From an entrepreneurial standpoint, I think both Steve [Steve Wagner, co-founder] and I, are pretty excited about this, we get to roll up our sleeves again.

We've been part of the Brewers Association's Export Development Program for about five years. For the first four or five years, we refused all export requests. Now we refuse 99% of them. The reason is that it is

extremely expensive to export beer. And, perhaps more importantly, the carbon footprint just doesn't sit right. In my talk at the CBC last year I touched on this. I think it is a flawed concept to ship commodities en masse from country to country. Especially products that are without differentiation. And yes, craft beer has differentiation. But even still, I don't think it makes a lot of sense. Freshness is also a huge factor.

Stone is an exporter to Europe on a kind of anecdotal basis. But if we did it more than that, our own ethics would push us towards brewing over there. So that's where we ended up. In the FRP we lay out our parameters. We're making this very public, everything is on-line. We're almost trying to crowd-source it, in a way, as we hinted in our video piece. But anyway, in the FRP, we lay out some basic brewery size parameters. We're looking for something not less than 50 barrels, not greater than 70 barrels. We want to be able to go and brew reasonable amounts of beer, and take an approach to growing naturally.

How do you think European consumers will respond to Arrogant Bastard Ale?

When I went to Germany in 2002, I brought some Stone Ruination IPA. By the way, in 2002, Stone Ruination IPA to my knowledge was the first filtered and bottled Double IPA. That was eight years ago. Now, I go to brewpubs in Norway, Italy and Japan, and they all have Double IPAs.

I've talked to German brewers in the last year or so, and they didn't seem aware of the IPA style, much less the West Coast IPA style...

The reality is, not only are they not aware of American styles, they won't even brew a beer associated with the town an hour away!

But that takes me back to my story. So I get the Ruination to Germany. And we're sharing it at the Oktoberfest in one of the tents. These are brewers, and beer geeks, knowledgeable people. And I ended up in an argument with a German brewer. He kept asking me what I put in the beer. I said it was

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brewed to the Reinheitsgebot—malz, hopfen, wasser, all that, but he starting getting red and yelling "What do you put in this!?" He was basically accusing me of lying. He didn't believe you could get that profile with just barley, hops and yeast.

Yeah, they are bound by tradition...

Not just bound. Shackled!

But you said you have found growing knowledge about American craft in many parts of Europe...

Yes, we were shooting a video documentary this year at the Great British Beer Festival. I had the same guys who shot "I Am A Craft Brewer" for the CBC last year, over there at GBBF. We wanted to do a different style documentary, with the idea of finding out what British beer industry people and international beer writers think about American craft brewing. And I was looking for a balance of opinions, you know, the good and the bad, but I could not find anyone who had anything but glowing things to say about the American craft brewing industry. I was caught off guard by how glowing it was. The general sentiment was "I wish our brewing community was more like the American craft brewing industry...I wish we weren't so constrained by tradition...I wish our brewers made more creative beer styles." And I was thinking "what a change!" Thirty years ago, American beer used to be the butt of jokes. Now it is known to be the most dynamic brewing culture in the world.

So craft bestrides the world. What next?

We ourselves our only limitations. My warning to craft brewers, and my message, is that we have been successful by not acting like a commodity. We have to be mindful of how we got here. Brewers that change course could find themselves aground on a rocky shore. But to extend the metaphor even further, if we continue to sail the clear and open seas of righteousness, our potential is almost limitless. But if we decide to be



Signifying Stone's jump into the big time, the company recruited head brewer Mitch Steele from A-B a few years ago. Mr. Steele had brewed for A-B's specialty brewing group, but also had large-batch process experience, a skill of increasing importance for the rapidly growing Stone. LEFT: The ultra-modern Stone brewery's footprint is 55,000 square feet, including an 8,000 sq foot refrigeration area, and a brewhouse centered around a 120-bbl brewing system built by Rolec in Bavaria. The company sold 98,500 barrels in 2009, up from 83,000 bbls in 2008, and 67,841 barrels in 2007. Below, a representative from a lucky local theater group collects a donation of several cases of Stone beers from the brewery loading dock.



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pirates, free to target each other, and pillage and plunder, then we destroy ourselves in the process.

We are entering the Chicago market this week. We all know the reputation of Chicago. A brewer friend of mine, who's brand is very strong and is distributed in Chicago, told me that he is losing tap handles at good accounts around the CBC conference hotel, purchased by less-than-ethical wholesalers.

I believe that a craft brewer allowing wholesalers to use unethical methods for replacing handles is f#@%* bullshit. You can write "Greg Koch says emphatically, pounding his fist on the table."

How do you prevent this kind of thing?

One, by demonstrating how it can be done right. San Diego, when we started out, was a much dirtier market. And we absolutely refused to participate in any of it, ever. Two, you beat them at their own game. Some of the old school wholesaler ways of doing business are obsolete; some of these companies are becoming dinosaurs. Look at the craft guys who are coming up, who work on merit. And the beer bars and gastro pubs who refuse to take on a beer unless they like it. Chris Black at Falling Rock, in Colorado, another pretty dirty market, has been saying that for years. He tells them, "No, you charge me the appropriate price, and let me figure out how to make money on it."

And that works. The place down the street from him, the one that takes kickbacks, is almost empty except at Happy Hour when they're charging nearly nothing and making nearly nothing. They don't have anything compelling on tap. As craft brewers, we can be compelling. We don't have to play those games.

I admit to being surprised when I heard what was happening in Chicago. You would think that the area around the Craft Brewers Conference would be more hallowed, but it's a battleground of all these people using illegal means to get tap handles. I would ask craft brewers in Chicago to be aware of this.

You are entering the Chicago market right around the conference, have you told your wholesaler about your concerns?

Two words: "Ad Nauseum." In Chicago last year, I talked to many leading retailers. At the time, we were just thinking of going to Chicago. I told them it would be Case One, Keg One pricing. No volume pricing, no discounts, no T-shirts, no \$100 hamburgers, no one-on-five, nothing like that. And I asked them: "Should we stay home?" And I figured, if this doesn't work, that's O.K., Chicago is not the right place for Stone. But you may have seen our Chicago opening week list. It's compelling, it is a list of the leading retailers, and the leading specialty places.

In our way of thinking, we are giving retailers something of value when we sell them a special keg of very expen-

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sive beer. They, in turn, can charge a lot of money for every glass. And the consumer is delighted to have it. Consumers are saying "I've got to have this!" And it's all very reasonable. The consumer is getting real value, it's a win-win-win.

To continue that thought, is that perceived value the reason why craft is still growing in this climate?

Absolutely. Popular price brands from the major brewers and craft have both had success. In my opinion, popular price brands are growing because the perceived value and the actual value match. With craft, it is the same thing, the perceived value and the actual value match. For the "premium" segment, the actual value may not, well, you know where I am going with that. What this means to me is that people are looking to make intelligent decisions about spending money, especially when money is tight. They are making better quality decisions.

It is also because craft brewers are growing. We are getting better at this business, and the wholesalers, retailers and consumers understand us better. Coupled with the recession, it has actually worked out in a way that has caused more consumers to discover us.

I'm amazed that a lot of younger consumers, who don't necessarily have a lot of disposable income, are also choosing craft...

Yes, but I think the idea of disposable income works better in a commodity world. The commodity world is designed to liberate you from your cash. To paraphrase some old phrase, "marketing is about convincing people to buy stuff they don't want and don't need."

I've never wanted to sell our beer to anyone who doesn't want it. Nobody needs it. And if they do, perhaps they need some professional counseling. We want people to buy our beer by choice. Our mission is to show somebody that if they choose to buy our beer, it was a good decision. By making tasty beer, the value proposition becomes beneficial in all directions.



"[Craft brewing] is on a growth curve, the only thing I don't know is where we are on that curve"

Huh. "Value proposition," that's a really good marketing term. See, the marketing-speak happens to me too.

Market access has always been the rub, are you starting to run into more problems as consolidation continues?

Market access is still a huge issue. Not long ago, Stone IPA six-packs were DC'd by a major supermarket chain in California. That package is number one in San Diego County, and number three in Southern California. This is the number-one selling craft six-pack, and number one in profitability. This problem with the DC'ing was rectified as store managers reported their dissatisfaction about not being able to get Stone in their stores.

It seems counterintuitive for that chain...

Counterintuitive would be the nice way to put it. But as small craft brewers, we don't have access to the decision makers, the category captains being from the major suppliers.

I've always thought the whole concept of category captains seems to invite conflict of interest...

Um, yeah. [laughs] I learned a lot more about this by watching "Beer Wars." Between the two major brewers, they have what, 85-90%? The overwhelming number of category captains are from those two suppliers.

How do you work for a more level playing field?

You do your best to compete fairly. Going back to Chicago, there are rumors of craft brands using underhanded techniques to take tap handles in restaurants and bars close to the CBC. If we start preying on each other, if that becomes the norm...

But you won't see it from us. Not from us! You can say I pounded my fist on the desk again. I will NOT participate in that.

If someone ever wants a clue on how to compete with Stone, well, we don't do freebies, we don't do giveaways and there are no under-the-table discounts. There you go, that's all the ammunition you need. But we will still win, slow and steady. Because you won't make money doing that. You can't run a stable and profitable business doing that. Maybe you can make O.K. beer, but I will beat you by continuing to make f#@%& awesome beer!

How does Chris Black at Falling Rock engage his customer base so well? And there are similar examples all over the United States. Chris is a decision maker. He makes decisions on a qualitative basis. The customer can come in and have a beer, and he knows that beer has been vetted. That legitimate vetting process is how consumers get engaged. If someone just tries to buy themselves a slot on stage, they eventually get disengaged from consumers.

If craft brewers are resorting to preying on each other, does it mean competition has reached a new pitch in the segment? Is it getting too cluttered?

I have never seen competition at a "low" in my life. In my 14-year career in beer, I've never walked into an account and seen an empty tap handle. O.K., when they are changing a keg or something. But those empty

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tap handles are never ready and waiting for you. The same way you never find off-premise shelf space ready and waiting, ever. The landscape is competitive. But if you are buying your way in, I have one word for you: Lazy. You are lazy, and unskilled and without merit.

When Steve Hindy recently spoke to Congress about regulatory changes, franchise law was right at the top of his list. But it's one of those things a lot of people don't want to talk about.

As a wholesaler ourselves, we have no problem talking about franchise laws. The funny thing about franchise laws is that often some aspect of franchise law can come around and bite a wholesaler on the ass. For example, when they want to acquire a brand—a legitimate acquisition that makes sense for the company and the brand—and they can't. That's what I would like to see, some provision for "when it makes sense." But how do you write that into a law?

Franchise laws were written to protect wholesalers from big giant brewers. When a lot of these laws were written, they didn't contemplate a country populated by 1500 small brewers. But we have the same rules for brewers that are less than 10% of a wholesaler's business and brewers that are 60% of a wholesaler's business.

So you are looking for some common sense in franchise law?

Yes, sure, common sense. What we have gotten is a lot of posturing and digging in of heels. I understand this. But in wholesaling, just as in brewing, when you try to hold the shifting sands with an iron grip, it becomes impossible. It's a moving, changing world, and that change is occurring at an ever greater pace. Things won't be the same for you as they were for your dad or your granddad. That's just reality. And our businesses need to reflect the realities of the marketplace.

Recently, Graham Mackay of SABMiller commented that US retailers were being overenthusiastic about craft, and allocating it more space than it should get..

Oh jeez. I heard about that. I would say in response, do we really need another configuration of 30-pack suitcase? If you want to talk about SKU proliferation, let's talk about SKUs

"Craft brewers today are at the top of their game... We are universally making great beer."

where all the contents are virtually the same. Oh, and by the way, the ones where the margins are shrinking. And, by the way, the ones where the customer who buys them has a lower check average and lower basket rings. The retailer that believes that stuff is the one that wants to make less money. Comments like that are misleading, as the retailer that acts on those comments will find to their detriment. If you are a supplier, why would you want to hurt your retailers?

You have said something to the effect that we are seeing "a historic shift" towards craft..

Yes. We are on a growth curve, the only thing I don't know is where we are on that curve. We will only know that through hindsight. For craft brewers, and wholesalers and retailers of craft beers, the curve is upward. It is benefiting all the tiers. But the future will come down to how we choose to behave as an industry. I can't place enough emphasis on that. What shape the curve will take is up to us. If we make the wrong decisions, we could cripple ourselves.

As craft keeps growing, what do you see as continuing to drive it?

It's multipronged. It's a combination of factors. First, I would say craft brewers are healthier, and more engaged, and better at making beer than ever before. The craft segment is stronger than it has ever been. We've gotten very good, and everyone has noticed. We had a bubble in the mid-1990s, and we suffered as a category. But not at Stone, I would note. We started in 1996, right in the midst of that, and it was actually very good to be born then. It taught us to be lean.

Craft brewers today are at the top of their game. We have a very compelling proposition. We are universally making great beer. For the consumer, this means that it is no longer a surprise to find a great beer on tap. It's a disappointment when a beer isn't so great. What that means is that the norm is now fantastic beer, being brewed on a regular basis. That engages the consumer. They say "O.K., I'll try this craft." They find something compelling about it.

I've heard this more times than I can count: "I don't like beer, but I like this." What that means is that someone didn't know they liked beer, because they had only had the commodity stuff, and that didn't engage them. And now they can say, "I didn't think I liked beer, but now that I've had craft beer, I like that quite a bit."

In my experience, what that does, even from the perspective of the big guys, is that they see a positive aspect. Craft brewers put a good, positive, personal face on beer, by producing beer that is compelling. I think they recognize that up at the top corporate level at the big brewers. I'm not sure how it manifests itself at the street level, although you have my prior example of a category captain seeing something at the top of the list, and promptly discontinuing it. You might say that lacks a certain consistency, but then humans lack consistency. For example, we make food that is killing us. I could talk about that all day. As a matter of fact, I'll be talking about that at CBC, this Friday.

We'll look forward to it, thanks for your time, Greg