

» Global Edition

INTELLIGENCE FOR THE GLOBAL DRINKS BUSINESS

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BEVERAGEWORLD



THE *Philosophers* STONE

Stone Brewing's Greg Koch and Steve Wagner envision a world brimming with "better beer."

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ARROGANT?

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Not really

While some might disagree, Stone Brewing is really so much more than the name of its most famous product.

By Andrew Kaplan

Call them bold. Call them edgy. Even call them controversial. But arrogant, as in the notorious Arrogant Bastard Ale that remains one of their best-selling beers? Well, the folks at Stone Brewing Co. might want you to think they are. But in actuality it is hard to find a more down-to-earth group.

After all, how many other companies devote as much time to the well being of the industry to which they belong—in this case, craft brewing—rather than just themselves? How many others pay as much attention to issues like sustainability, installing a solar power system on the roof of its newest brewery, for instance? And how many others foster such a creative and diversified work environment?

True, talk to Stone's founder and CEO, Greg Koch, and you might come away



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« **THE RISK TAKER AND THE MORE CONSERVATIVE** blend in the personalities of Stone's CEO Greg Koch (l) and its president Steve Wagner, making for a combination that's brought years of growth to the brewery.

thinking, 'Well, maybe just a tad arrogant?' After all, it takes some arrogance to insist that the beer your company brews "is just better" than approximately 95 percent of the rest of the beer currently sold in the United States. Or to insist that consumers would jump at the chance to convert to it if only they tried it.

"I believe in good taste and I believe in a consumer's ability to appreciate good taste," explains Koch, who can sound like a genuine philosopher when it comes to the craft beer movement and its larger meaning. "I think we came out of the industrial revolution and it was all about commoditizing. I mean we commoditize everything in the United States. We've commoditized cheese, bread, even coffee—we've learned to freeze dry the stuff and put it in a vacuum-packed can for God's sake. And now we're pulling

out of those dark days. We are in the age now of re-differentiation.

"You know that old H.L. Mencken quote: 'Nobody ever went broke underestimating the taste of the American public?'" he continues. "At Stone we actually decided from the get-go that we were going to completely disregard the consumer who was willing to be underestimated. And that's still a large percentage of the population. But, you know, that's changing. That's what I'm really focused on."

So, rather than play down to the masses, Stone has decided to play up to those consumers ready to accept it.

"Stone Brewing in a way is the opposite of say, *American Idol*," says beer columnist for *The Washington Post* Greg Kitsock. "It's not geared towards the mass market, not something that people

A Rising Tide Lifts All

Stone's CEO Greg Koch has become a leading spokesman for the craft beer movement in recent years, whether through blogging, posting videos online or by speaking at industry events. Greg Kitsock, *The Washington Post*'s beer columnist explains the strategy behind this: "Craft beer only accounts for a little over 5 percent of the market, so there's still tremendous room for growth and Greg Koch's way of looking at it is that let's consider craft beer as one brand instead of a lot of little competing brands. Let's try to grow the category as a whole because if a customer likes one of our brands, he's probably going to want to try others."

One example, a video co-created by Koch in 2009 for that year's Craft Brewers Conference, "I Am A Craft Brewer," has done wonders to define the still-blossoming industry and distinguish it from the mainstream brewers. The video, a collaboration between 35 craft brewers, has been viewed on YouTube some 30,500 times and counting. It also has a namesake accompanying website where viewers also can watch Koch's full keynote address to the conference.

"I am a Craft Brewer.com is the result of Greg Koch," says Julia Herz, Craft Beer Program Director-Brewers Association. "That work was because Greg Koch commissioned that project and was fully behind it and made it happen." Herz also recalls the impact of Koch's speech to the conference. "Just being in the room while he gave that talk, you could just see how inspiring he was to the other brewers in the audience," she says.

Herz also cites Stone's work when it comes to pairing beer with food as being particularly important in expanding the way consumers perceive beer. Of particular impact has been a series of beer versus wine videos that Koch has participated in. "Greg appeared in a series of these videos," she says. "It's not just the craft beer in the glass to Stone, it's definitely how the craft beer goes at the dinner table as well."

Another, more recent video by Koch, at sellingcraftbeer.com, aims to educate bar owners about the profitability of craft beer. It makes the case that owners can get a higher ring from selling craft beer because of the resulting increase in customer loyalty coupled with the deeper pockets of craft beer lovers. —A.K.

vote on, but it's specifically the owners' vision in putting it out and saying 'take it or leave it.' And it happens to be a very good product."

And apparently there are a growing number of consumers out there who like Stone just as it is—faux arrogance and all. "Our sales have always been on an upward path," says Arlan Arnsten, VP of sales. "We've never had a down year, we've never had a slow year. Or, I guess it depends on what you'd call slow."

Compared with the rest of the beer industry at least, Stone's sales have been anything but. Stone sold 115,000 barrels in 2010, a 17 percent increase over the 98,500 sold in 2009. And this is craft beer, priced higher than mainstream domestic and imported beer, and during a recession to boot. The company's sales rose to over \$60 million in 2010 from \$48 million the year before. "If it wasn't for reading headlines I would not be aware of it," says Koch about the worst economy since the Great Depression.

In fact, it seems like whatever Stone—ranked the 15th largest craft brewer in 2009 by the Brewers Association—touches turns to gold these days. There is a 400-seat restaurant at the brewery that, despite having no sign on the door, is in need of a kitchen expansion to keep up with demand. The company has its own distribution operation that, while originally started out of necessity to get Stone's beers into stores, has seen phenomenal growth. And there is even a retail store selling Stone-branded merchandise, with another one in the works.

Stone also is looking to expand its footprint way beyond its headquarters in North County San Diego (Escondido, Calif. to be exact) by opening another brewery overseas. In a move that would result in the history of brewing going full circle, Stone would become the first brewer in the States to reverse a recent trend and actually invade Europe for a change. As of this writing, the company



PHOTOS: STUDIOSCHULZ.COM



« THE STONE BREWING WORLD BISTRO & GARDEN is the largest restaurant purchaser of local, small-farm organic produce in San Diego County. It also has 32 craft and specialty beers on tap.

had narrowed the location down to two sites—one in Bruges, Belgium and another in Berlin, Germany. Koch says the reasons are twofold: to ensure the freshest product over there while also avoiding the environmental impact that comes from shipping beer overseas.

And speaking of sustainability, Stone also is looking to purchase an organic farm a short drive from its restaurant to supply it with fresh produce. All of this is not too bad for a brewery that turns just 15 years old this July.

Hummable Beginnings

Koch and his co-founder, Steve Wagner, Stone's president, first met in 1989 in the music business. Koch was a "wannabe rock star," as he puts it, and had opened a

rehearsal studio facility in Los Angeles where Wagner was a tenant. The two had met briefly, but it was a few years later, circa 1992, when they coincidentally found themselves in a UC Davis extension class called "A Sensory Evaluation of Beer." There they discovered they shared a deep passion for brewing. Wagner, who had previously worked at Pyramid in Portland, Ore., had also become an avid home brewer over the years. "So I began home brewing with Steve, as his assistant home brewing lackey," recalls Koch, a self-described 'beer geek gone pro.' "And we started talking about, 'Hey, maybe we are the right two people with the right two backgrounds and skill sets and such to perhaps start a brewery together.'"

The first years were extraordinarily difficult, the two recall. Wagner took on the role as brewer, inventing the recipes, designing the brewery and focusing on the production. Koch focused more on the vision for the company and its marketing approach and distribution.

Part of the company's success in the ensuing years can be attributed to the fact that their two personalities just seem to fit. "Greg is more of the classic entrepreneur and has a high tolerance for risk," says Wagner, who identifies as more conservative. "I'm a more detail-oriented person, which is a good skill to have in a brewer. I think it's somewhat true to paint the picture of Greg pulling me forward and me slowing him down all day and somewhere in the middle is kind of that sweet spot that we've hit."

Arnstien was one of the early employees to join Stone, in February 1997. While he says the early years were "long hours, knocking on doors," eventually Stone turned a corner when it expanded beyond San Diego by landing the Vons chain of 300 supermarkets in Los Angeles. Today, Stone is sold in 35 states, and is expanding to Minneapolis/St. Paul and the state of Missouri this spring.

Kitsock recalls his first encounter with Koch at the 1997 Great American Beer Festival. "He had a brand called Arrogant Bastard, which is a great name for a beer—that attracts attention right away," he says. "But in order to try it he said you had to work your way up—you had to try first his Pale Ale and then his Porter. To prove yourself worthy, so to speak."

"I think there are a lot of things that went into the success of Arrogant Bastard," says Arnstien. "One of them is when we released the beer it was pretty unique—it had this really big, strong malt character and then this really over-the-top, citrusy, sort of grapefruit hop character that goes right next to it. And you experience both of those things at the same time. You get both experiences simultaneously."

Arnstien also credits the beer's "challenging" label. "We challenge people to think differently about the ads they see on TV and we challenge them to think differently about the beers that they've always known, what they thought beer was," he says.

Stone Pale Ale, the very first beer the company made, has been its No. 1 draft seller in southern California since the beginning. While another, Stone IPA, has begun to take off in recent years. It's a 100-point Beer Advocate rated beer and is currently the company's No. 1 in overall production.

Koch has set some high standards for the business. "He insists on full value for his

« A SELECTION OF STONE'S INNOVATIVE BEERS. The brewer likes to lead with its bolder offerings when first entering a new market, and follows up with its more kinder, gentler brews later.

product," says Kitsock. "When he does promotions he will not allow his distributors or retailers, for instance, to give T-shirts or glasses away. There has to be some value obtained for them. He feels that would cheapen his product if it's given away. He doesn't want his beer or anything he makes associated with something that would be cut-rate, that you would drop prices just to get rid of."

Explains Koch: "The value that other people put on our beer, both retailers and consumers, is highly influenced by the value that we put on it ourselves. And I put a high value on my beer."

Like many craft brewers, Stone tries to appeal to the younger demographic. But it by no means stops there. "We watch people going to our restaurant and we see every possible walk of life," says Arnstien. "We see the guys in the black Metallica T-shirts walking up, we see the professionals, we see people that are older come in, grandmas.

There's a bunch of old ladies in their 70s and 80s who come in once a month wearing purple to have a bite to eat and drink our beer."

It all makes it a bit difficult to put a label on today's craft beer consumer. "If we had to classify our demographic," says Arnstien, "it would probably be people that care. People that care about what they're putting in their body and about the choices they make."

That "caring" is something that permeates every aspect of Stone. For too long, Koch believes, the beer business has belonged disproportionately to the advertising execs, and not enough to the brewers who love good beer. "I must fully admit that I feel a bit of a

revolutionary," he says. "I'm an angry young man, even though I'm not quite as young a man anymore."

He continues: "When I discovered Anchor Steam and other good beers in the late 1980s, I had two reactions. Half of me was ecstatic and thrilled about this discovery to find out that good beer could taste like that. And then half of me was pissed off because I felt that I had been lied to. I felt that I had been kept in the dark about what was possible and I had valuable beer drinking and beer enjoying time stolen from me that I could never recover again."

Koch is on a mission to make sure that doesn't happen to either himself, or anyone else, again. **BW**



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