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### Hit Brewery

Trevy Kiy

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## **Executive Summary**

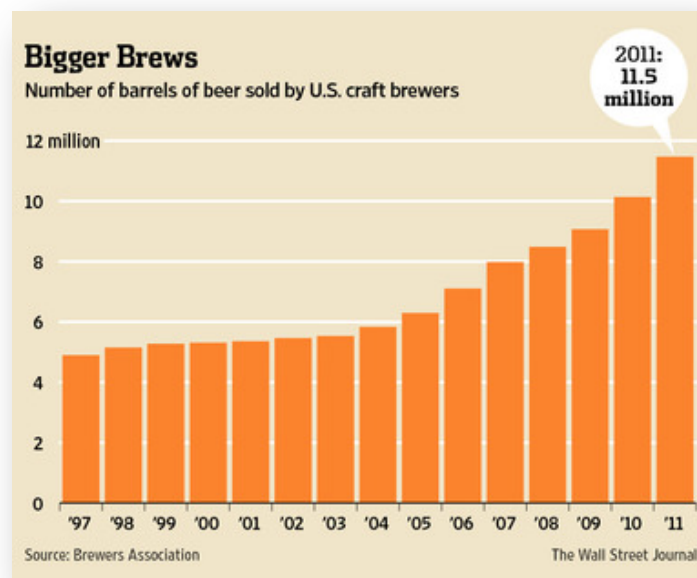
Hit Brewery is a developing microbrewery / recording studio that combines music and craft beer to deliver consumers a unique product that reimagines the way that music is consumed and distributed. Hit Brewery aims to counteract many problems facing the music industry over the past 10-15 years by branding and distributing music in an entirely new way that restores consumer value, which has drastically diminished in recent years.

The operations of Hit Brewery are comprised of two distinct elements. We operate as a studio, facilitating the recording and production of musical projects, as well as distributing recorded music. In addition, we serve as a fully functioning microbrewery and brewpub, developing and producing a catalogue of year round and seasonal brews that are sold and served within our establishment and distributed to third-party retailers. Hit Brewery is a unique organization due to the close relationship held by these two cornerstone operations. A third element to Hit Brewery is the small, independent publishing imprint, Hit Brewery Publishing (ASCAP), that claims all publishing rights to the recordings owned by the company. The products sold by Hit Brewery are typical beer packages (pints, growlers, 6 packs, 12 packs, etc.), along with live, physical, and digital musical content. With this unique combination of products, Hit Brewery looks to add value to the music industry and once again allow consumers to feel good about paying for the music musical content that they enjoy.

Hit Brewery spans two different industries, both operating in differing industry life cycles. In one sense, we fall within the recorded music industry, which is currently in the decline phase of its life cycle. On the other hand, we operate within the craft beer industry, which is currently in its growth phase. Due to this differing analysis of our two related industries, Hit Brewery focuses the bulk of its commercial operations within the more promising craft beer industry. The main aspect of our operations fall within the production and distribution of our beer, with recorded music as a differentiating factor against the other members of the growing craft beer industry.

## **Industry Analysis**

The craft beer industry is one that has been growing exponentially within the United States over the past 10-20 years. This craft beer market varies by region within the large country, but the overall trend within the industry depicts strong growth that is projected to continue to climb in the coming years. The following chart by Wall Street Journal & the Brewery Association depicts this growth trend.



*Source: Wall Street Journal / Brewery Association*

## **Geographical Area**

Hit Brewery aims to be a local company specializing within the Southern California region of the United States. This is a region that the company knows very well, as the company's founder is originally from San Diego, CA. The Southern California region is one that is very conducive to success within the craft beer industry. San Diego, in particular, is known as one of the craft beer capitols of the United States, claiming host to many of the nation's top craft breweries, such as Carl Strauss and Stone Brewing. Furthermore, neighboring areas Orange and Los Angeles

counties are statistically full of craft beer aficionados and drinkers that enjoy patronizing the craft beer companies that operate within their local region.

Hit Brewery will assume all operations within Southern California, most specifically within Los Angeles, and plans to capitalize on the immense popularity and strong consumer base within the region. Competitively, many of Southern California's craft breweries operate within San Diego and Orange Counties, leaving Los Angeles as a relatively untapped craft beer home market. A second, less prominent geographical region that Hit Brewery looks to initially target is the Las Vegas area. This area, known for its prominent tourism and gambling industries, is one that has yet to really develop much of a craft beer background. There are currently a small number of craft breweries within Las Vegas, and Hit Brewery looks to capitalize on this relatively untapped craft beer market. Furthermore, some of the music of current Hit Brewery artists is strongly inspired by Las Vegas, further promoting our brand and product within the growing region.

## **Industry Trends**

### *Product Differentiation*

Although the consumer base of American craft beers displays a year-by-year positive growth trend, the size of this market is still relatively small when compared to that of macro brew consumers. Because the number of microbreweries within the United States is continuing to grow each year as well, competition is growing larger each year as well, leading to an overwhelming trend of product differentiation. Craft breweries spend a lot of time and money developing products that are differentiated from their competitors. Whether it is in the taste, ingredients, packaging, marketing, etc., every brewery attempts to ensure that their product stands out amongst the crowded field.

Hit Brewery aims to achieve this differentiation within the strong connection between the beer and music. There are currently no other breweries that operate with such a strong musical connection and Hit Brewery looks to capitalize on being one of the first to explore this idea. With its strong musical roots, Hit Brewery has been developed with product differentiation at the forefront of its identity.

### *Local / Natural Ingredients*

The appeal of craft beer to many of its consumers is the ingredients that make up the vast majority of all craft beers. Although macro brews like Bud Light, Budweiser, and Coors Light currently dominate the American market, many consumers are beginning to be alerted to the fact that these beers are produced with genetically modified ingredients, which are proven to have cancer-causing properties.<sup>1</sup> As more and more Americans begin to be faced with this startling fact, many tend to resort to craft beers, as the vast majority tend to be produced with all natural and organic ingredients free of GMOs.

Hit Brewery intends to operate within this manner. The company's founders are very strongly against the presence of GMOs in beer and fabricate their beer according to these values. By using all natural, organic, and local ingredients, Hit Brewery looks to connect with the consumer groups that strongly value an all-natural form of brewing.

### *Craft Beer & Music*

In recent years, a strong connection between craft beer and music has begun to arise within the American craft beer industry. This trend is evidenced in two forms: music inspired beers and craft beer music festivals. Both of these products are a testament to the growing link between these two differing industries that share cultural links within the United States.

The idea of music inspired beers is one that has begun to be explored by craft breweries across the United States. Over the past 5 years, a small number of breweries have released products with musical themes. These musical inspirations include Miles Davis, Pearl Jam, Thelonious Monk, and others. The early adopters of this craft beer trend have proven to be successful, as musical inspired beers have been shown to have a strong consumer market. While the idea has already begun to be explored, this idea is one in which microbreweries have only scratched the

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<sup>1</sup> <http://foodbabe.com/2013/07/17/the-shocking-ingredients-in-beer/>

surface, with much more room to grow. Hit Brewery looks to capitalize on this early implementation and success, while taking the idea to a new level.

The industry trend of music combined with craft beer is also evidenced by the numerous craft beer music festivals that continue to spring up very quickly around the country. Examples of such festivals are the Annapolis Craft Beer & Music Festival, Sandton Craft Beer Fair & Music Festival, and Traverse City's Microbrew & Music Festival, among many others. The presence and growing success of these festivals is a clear sign that craft beer consumers enjoy combining their favorite beers with music. Having recognized this very early industry trend, Hit Brewery looks to jump to the forefront of this movement within the craft beer industry by providing a product that is unparalleled in its connection with music.

### **Industry Life Cycle**

As previously stated, Hit Brewery operates within two distinct industries, with two very different life cycles. Although we have a dual focus, we have determined, through market research and internal analysis, that beer is the main business operation for Hit Brewery. Because of this, our industry must be defined as the craft beer industry and not the underlying recorded music industry.

The craft beer industry is an industry that is currently within the growth phase of its life cycle. The craft beer industry has been a viable industry in the United States since the 1970's, when an extreme consolidation of the commercial beer industry led to an emergence of home brewers and other beer enthusiasts starting their own brewing companies.<sup>2</sup> Since this period, the craft beer industry is one that moved slowly until a recent growth boom. The growth phase of the craft beer industry began in the late 1990's and continues to this day. Many have expressed confidence in the sustained growth of the craft beer industry, as the number of craft beer consumers has only just begun to grow at a steady rate in the past 5 years.

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<sup>2</sup> <http://www.brewersassociation.org/pages/about-us/history-of-craft-brewing>



When compared to the recorded music industry, which is currently in its decline phase, we have determined beer to be the main success driver for Hit Brewery. The analysis of the two greatly contrasting industries that we currently operate within has been instrumental in the development of our business. The life cycles of these two industries have led us to definitively determine our company's focus on beer, a very important early distinction for us going forward.

## **Competition**

Although there are currently somewhere around 2,500 operating craft breweries in the United States<sup>3</sup>, Hit Brewery operates within a sector of this industry and that currently unique and hardly explored. The combination of music and beer that is strongly encompassed by Hit Brewery is one that has already proven to be very complimentary, with strong, early traction amongst producers and consumers. In order to most accurately analyze Hit Brewery's competition, it is extremely important to look closely at the small collection of companies that have already begun to explore this link.

### *-Dogfish Head Brewery*

Delaware-based Dogfish Head Brewery is one of the leading figures in the American craft beer industry. They are a company worth benchmarking because of the company's status as the brewery that most likely has the strongest current ties to music. The company has previously released two music inspired beers, the Miles Davis inspired Bitches Brew in 2010 and the Pearl Jam inspired Faithfull Ale in 2011. Both of these beers were created in conjunction with the artists and/or record labels, and were both met with strong reception amongst music fans and craft beer aficionados alike.

### *-North Coast Brewing Co.*

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<sup>3</sup> <http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/number-of-breweries>

Northern California based North Coast Brewing is another musically influenced microbrewery. The company has become very well known for its Brother Thelonious Ale, which is inspired by piano genius Thelonious Monk. Further establishing North Coast as a noteworthy competitor for Hit Brewery is the fact that they currently distribute a 10-track Thelonious Monk tribute CD in conjunction with this beer. This CD is performed by the Brother Thelonious Quintet, a quintet formed specifically by the brewery, that is made up of Thelonious Monk Institute of Jazz alumni. The CD was released in 2012 and is sold on their website, with all proceeds benefiting the Thelonious Monk Institute of Jazz.

#### *-Lagunitas Brewing Company*

Lagunitas Brewing, another Northern California company, is the only other competing company to have previously offered a series of original brews inspired by one musical figure. Their Zappa Series beers were comprised of 5 seasonal beers inspired by the music of Frank Zappa. Although a popular collection of beers, especially amongst Frank Zappa's passionate fan base, the beer was discontinued at the request of Frank Zappa's widow in 2009. Although the company had properly secured a partnership with the Zappa Family to distribute the beer, the family decided to abruptly end the relationship. Lagunitas has not yet revisited the idea of music inspired beers.

#### *-MmmHops*

MmmHops is the latest example of craft beer mixed with music. Just this past year, the beer was produced and released by the 1990's "one-hit-wonder" Hanson. The beer is branded based upon the band's hit "MmmBop" and features the three Hanson brothers as the faces of the product. This beer has been released to very little critical acclaim and has been viewed as mainly a gimmick by a band that is looking to capitalize on their fading celebrity. However, this beer is worth noting, as it is the only other beer to be currently distributed along with a free recording. Every beer sold allows for the download of a new Hanson song, which most closely emulates the model implemented by Hit Brewery.

In analyzing the competition field for Hit Brewery, 3 big observations immediately jump out that make our establishment and potential very encouraging.

*1.) These products mainly exist in a novelty/commemorative fashion for legacy music*

*2.) These products are mere one-time collaborations between artists, labels and breweries*

*3.) The idea of selling recorded music in conjunction with beer is one that has hardly been explored*

While not entirely brand new, the idea of mixing craft beer with music is an idea that competing breweries have only scratched the surface of. Further encouraging is the strong success that the combination of craft beer and music has had within the live music field. Over the past few years, a large number of craft beer music festivals have arisen across the United States, with great success. Finally, Hit Brewery is further separated from competitors by the background of the company founders and team. Founded by musicians and music business students, the company will be one of the first music inspired craft breweries operated by individuals with a strong understand of and experience within the music industry. This factor will be very important in differentiating Hit Brewery from other breweries that are simply making beer to compliment pre-existing music.

When further analyzing the competitive field for Hit Brewery, prominent microbreweries and brewpubs within the Southern California & Las Vegas regions must be looked at as well. This industry sector includes:

*-BJ's Brewpub*

-A successful chain of commercial brewpubs that serve lunch and dinner along with original brews. The restaurant is very popular in Southern California.

*-Stone Brewery*

-The most popular and successful local craft brewery in Southern California. The company is operated in North County San Diego and also has a number of popular brewpubs in the San Diego area.

*-New Belgium Ale*

-An extremely popular craft brewery from Colorado, that specializes in seasonal beers. Their beer is distributed throughout the United States and is very popular in Southern California.

*-Sin City Brewing Co.*

-Las Vegas' most prominent local craft brewery. Their beers have become virtually the only craft beer brand that is sold in Las Vegas' casinos. The brewery is slowly growing in market share and popularity in Las Vegas. Outside of Las Vegas, the brewery is not popular.

*-Yard House*

-A commercial American restaurant chain, owned by Darden's Restaurant Group, that is known for their extremely large collection of draft beers that includes commercial, craft, and imported beers. The restaurant has a slight music theme, as the restaurant prominently plays classic rock music during operating hours.

These companies, while operating with a main emphasis of craft beer, are not considered to be direct competitors to Hit Brewery, as these companies lack a strong connection with music. They are all worth noting, however, due to their current dominance within the craft beer industry in Southern California and Las Vegas. All products from Hit Brewery will be indirectly competing with each of these companies as we look to enter these markets.

## **Market Analysis**

Hit Brewery has identified a collection of 3 types of individuals as our target market. These market groups are as follows:

## 1. Dual craft beer & hip hop aficionados.

This market segment is our ideal customer. Although not exclusively a hip hop company, hip hop music makes up the bulk of our current releases and identity. This target market is very well versed in hip hop culture, while also strongly appreciating and frequently consuming craft beer. While initially skeptical of the existence of this market, early research and market outreach has revealed a strong early presence of such consumers. Both hip hop music and craft beer are interests that have very faithful and passionate fans. Through our research, we have already found that fans of both hip hop and craft beer are extremely passionate about both, with these elements often comprising each individual's 2 most prominent passions. This market segment can be demonstrated by some of our early interactions on Twitter.



## 2. Craft beer aficionados, with underlying appreciation for hip hop music.

The craft beer consumer market in America is a fast growing and extremely passionate group. The majority of craft beer consumers hold craft beer as one of their strongest passions and consider the product to be a strong identifying factor in their lives and personalities. This group enjoys connecting with other craft beer fans via social media, using Instagram, Twitter, and the craft beer centric social media platform Untappd. This group picks their favorite brands and products depending on quality and strongly understand the makeup and identifying factors of good beer. This group very much enjoys discovering new products. Our ideal member of this

group displays all of these traits common to craft beer fans, while also appreciating hip hop music to some extent. This group will view the musical side of Hit Brewery to be appealing, as they will gain added value due to the fact that they enjoy our music.

### **3. Craft beer aficionados, with little to no interest in hip hop music.**

Hit Brewery also aims to target its products to members of the craft beer community that have little to no interest in hip hop music. This group displays all of the typical traits of craft beer fans; strong passion, enjoyment of online connections, strong beer knowledge, and extreme willingness to discover new products. However, due to their lack of interest in hip hop, Hit Brewery will be careful not to alienate this group by making its operations not solely focused on hip hop. As we grow, we plan to diversify our genre offerings to deliver and associate with a wide range of music that will appeal to music fans of all kinds.

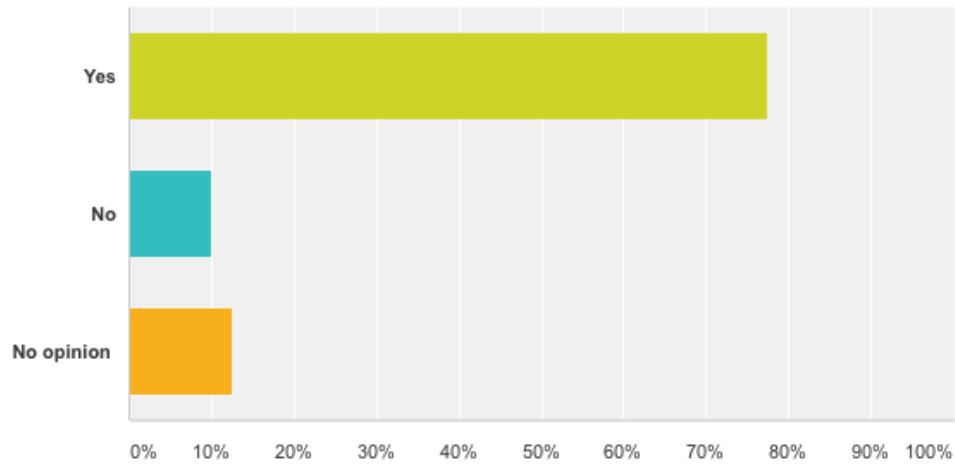
### **4. Hip hop / music aficionados, with underlying appreciation for craft beer.**

This final target market segment consists of passionate hip hop fans, who view the musical content as their main draw to Hit Brewery. This group does not necessarily view craft beer as a desirable product to consume, however, will be interested in Hit Brewery due to our musical offerings. The music of Hit Brewery will act as the main draw to these consumers, who will most likely view the beer as added value. These fans will consist of beer drinkers that are not passionate about the style and variety of beer that they consume. Although we initially aim to target the growing and passionate craft beer consumer base, we view this final group as very important, as they will consist of our strongest base of early adopters, based solely upon the music.

## **Market Research**

To properly analyze the thoughts, preferences, and habits of typical Hit Brewery consumers, a survey was conducted within the markets of Southern California and Southern Nevada. The results of the survey are very encouraging and represent a strong early appeal of our products and brand to our consumers.

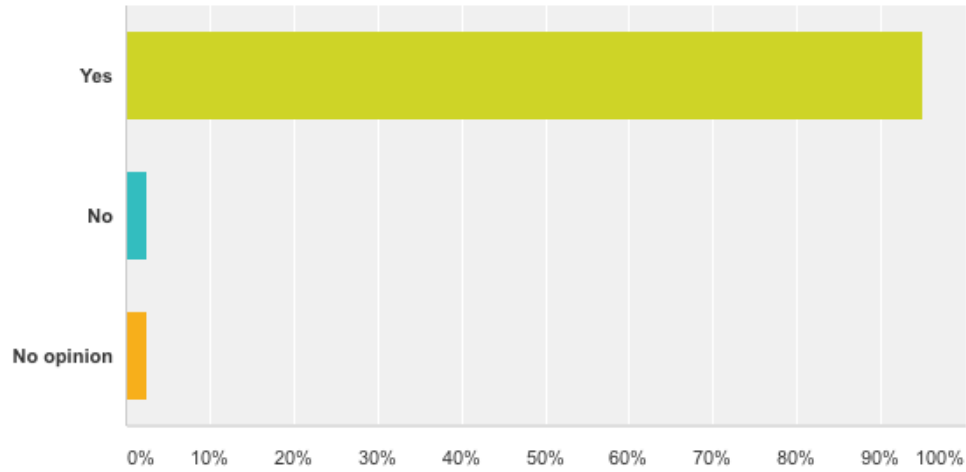
Survey participants were asked: “Do you prefer craft beer to commercial beer?”



Answer Choices	Responses
Yes	77.50%
No	10.00%
No opinion	12.50%
Total	

The results from this initial question are very exciting. Upon establishment, Hit Brewery had been operating with the assumption that craft beer has indeed experienced a growing demand over the past few years, but the fact remains that commercial beer still greatly outsells craft beer. Upon completing our survey and proving definitively that nearly 78% of our respondents prefer craft beer, we are very encouraged by offering a style of product that consumers indeed are beginning to prefer in large percentages.

Survey participants were asked: “Would a brewpub that prominently features original live & recorded music appeal to you?”

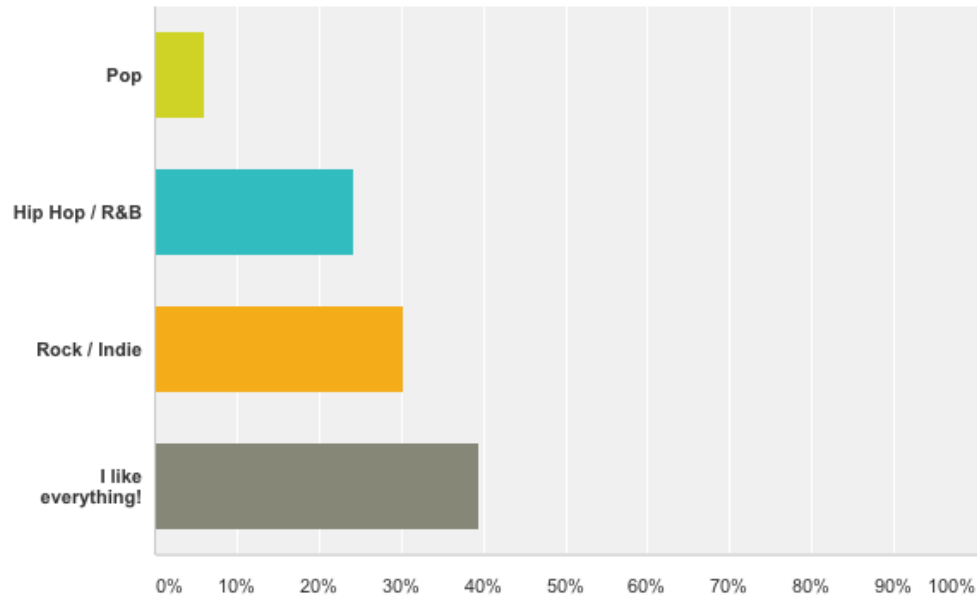


Answer Choices	Responses
Yes	95.00%
No	2.50%
No opinion	2.50%
Total	

Perhaps the most encouraging result from the online survey is the overwhelmingly positive response to this particular question. The survey was designed to test the consumer appeal of a number of different ideas for the operations of Hit Brewery in order to see what consumers found most attractive. We were thrilled to see that the local brewpub format, which has been our main and ideal business idea, was extremely popular amongst consumers. 95% of our respondents stated definitively that this concept of a live and recorded music oriented brewpub would appeal to them. This positive response has allowed us to move forward with developing the company with this specific premise, with strong optimism to its potential success within our target markets.



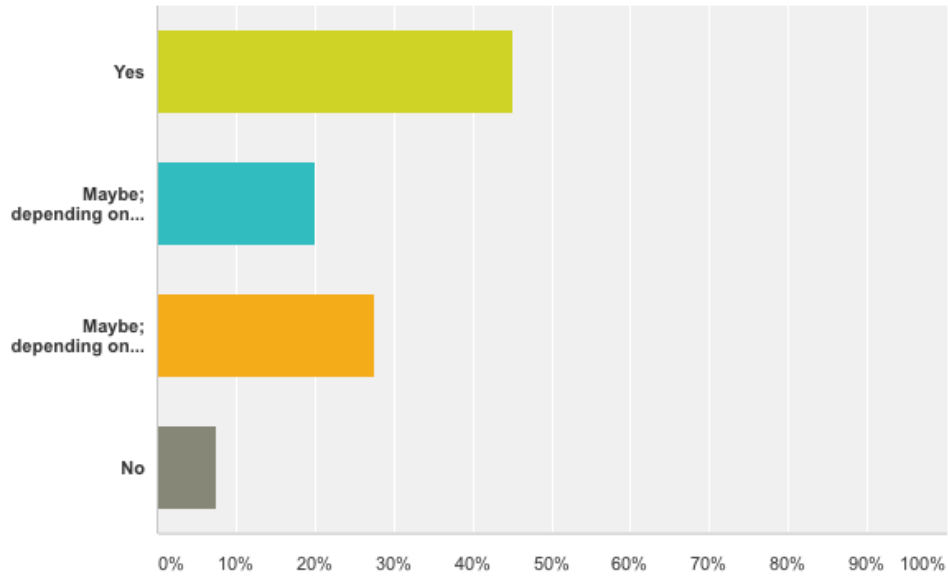
Survey participants were asked: “What is your favorite genre of music?”



Answer Choices	Responses
▼ Pop	6.06%
▼ Hip Hop / R&B	24.24%
▼ Rock / Indie	30.30%
▼ I like everything!	39.39%
Total	

The question of favorite genre is one that is extremely important to us, as we want to make sure that we do not alienate music fans by only focusing on one specific genre. This is one of the biggest early concerns for Hit Brewery, as our music currently falls predominately within the genre of hip hop, as it is the main style of our founder and associated artists. The results of this question, however, prove that we must strive to develop a very eclectic mix of genres associated with Hit Brewery. If we continue to be an organization that is solely associated with hip hop, then we will surely alienate the 30% that prefer rock and indie. Achieving this balanced mix of associated music will be one of the key goals for Hit Brewery moving forward.

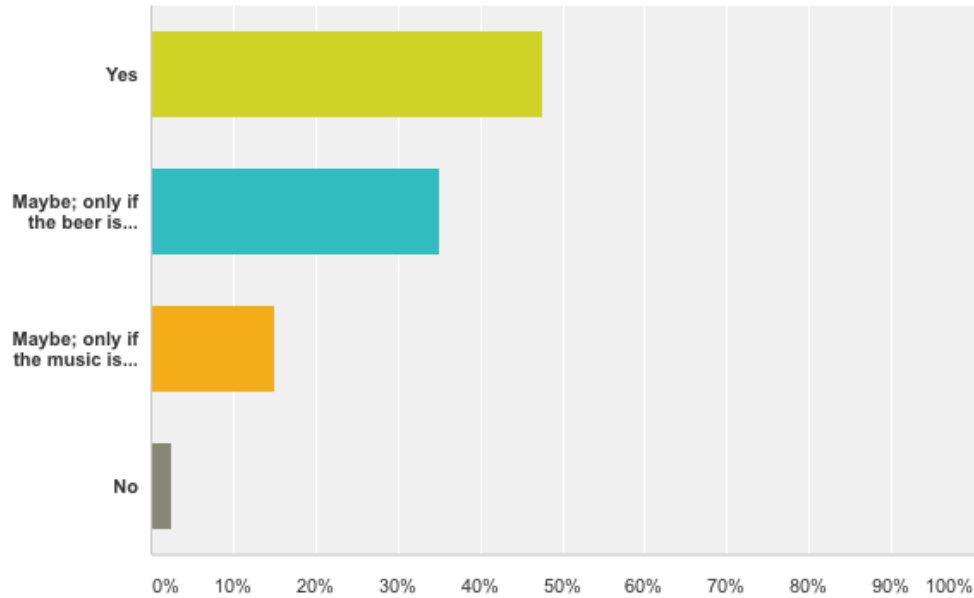
Survey participants were asked: “if you purchased a beer that included a download code for free musical content, would you use it?”



Answer Choices	Responses
Yes	45.00%
Maybe; depending on genre	20.00%
Maybe; depending on if I like it upon first listen	27.50%
No	7.50%
Total	

The results of this question were very interesting, as it is one of a series of questions that will help us determine how to properly distribute the music that is released with our beer. This is another one of the major operational factors that is constantly evolving and still up for grabs as we continue to develop and grow. Positively, the vast majority of respondents expressed some interest in this idea. The 45% definitive approval rate is high, but not overwhelmingly so. However, the early support for the idea of digital distribution through download codes on beer bottles is positive as we look to revolutionize the way that music is distributed in a way that appeals to consumers.

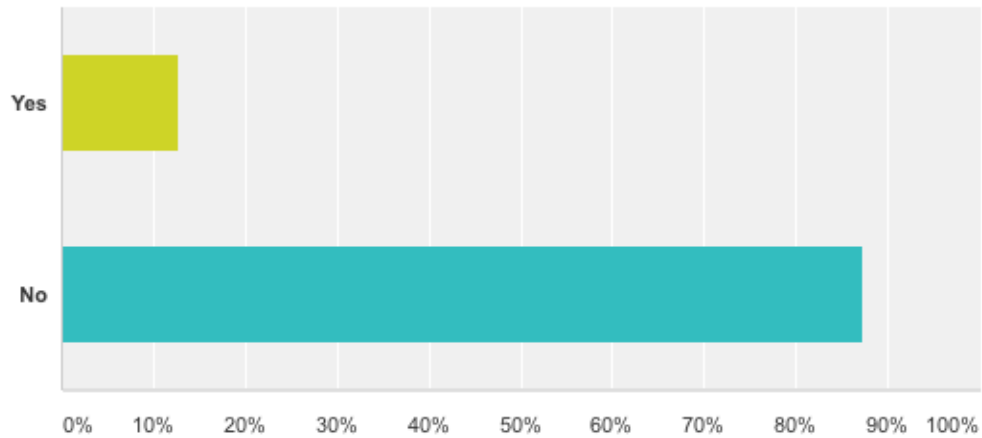
Survey participants were asked: “If money spent at a brewpub resulted in music related rewards, would you be encouraged to eat/drink there?”



Answer Choices	Responses
Yes	47.50%
Maybe; only if the beer is good	35.00%
Maybe; only if the music is good	15.00%
No	2.50%
Total	

This question additionally tests the consumer appeal for our early distribution ideas. An in-store rewards system is another idea that is currently being explored at Hit Brewery, and we are encouraged to see that this idea is also appealing to consumers, and even slightly more popular than download codes. The presence of the past two questions and the positive responses to both are very encouraging that we are on the right track to developing a music distribution system that is appealing to consumers. The best piece of information that we can gather from these responses is that consumers would indeed enjoy receiving recorded music and other music related content through the consumption of beer, validating our entire premise as a company.

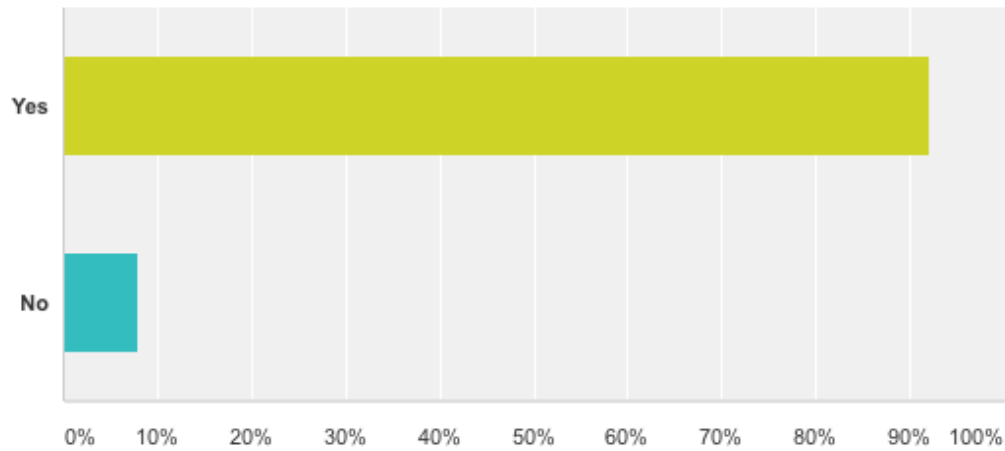
Survey participants were asked: “Would a connection with explicit (Parental Advisory) music turn you off of your favorite beer?”



Answer Choices	Responses
Yes	12.82%
No	87.18%
Total	

The opinion of our consumers as related to explicit music is another very important consideration for Hit Brewery going forward. While we will strive to operate while offering a vast, eclectic collection of associated music, hip hop will always play an important role in the operations and identity of Hit Brewery. By nature, hip hop music can be very explicit and offensive to some, so we wanted to see whether this would deter potential customers. We were very happy to see that the vast majority of respondents (87%) do not have a problem with an association with explicit music. While we will naturally alienate some, we are encouraged to be able to proceed with offering certain artists and recordings that feature explicit material with confidence that we will not alienate very many of our potential customers.

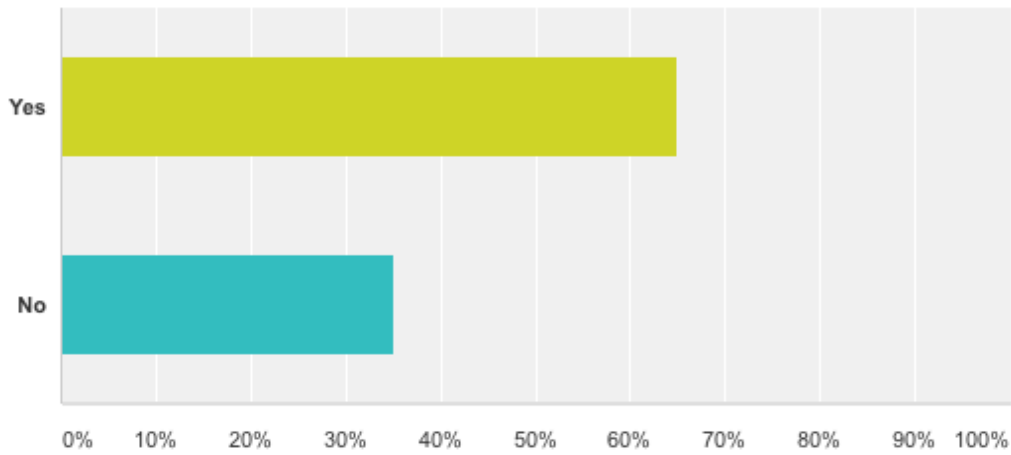
Survey participants were asked: “Would you still drink one of your favorite beers if it were associated with music you did not like?”



Answer Choices	Responses
Yes	92.11%
No	7.89%
Total	

This particular question aimed to gauge which aspect of our operations was more important to consumers; our beer or our music. Throughout the early stages of our company development, we have been operating with the assumption that beer will be our defining and most prominent factor, however, we needed definitive confirmation in order to proceed. Our findings were overwhelmingly positive as 92% of respondents stated that they would still drink our beer even if they did not like the music that was associated with it. This information is very important for Hit Brewery going forward, as we will be able to continue to make beer the main focus of our company, with the music as an added bonus. We are encouraged by the fact that as long as our beer is appealing in the eyes of our consumers, we will continue to have their business regardless of their opinions of our music. The response to this question proves to us that it is paramount to make our beer as good as it can be in order to retain this beer focused consumption.

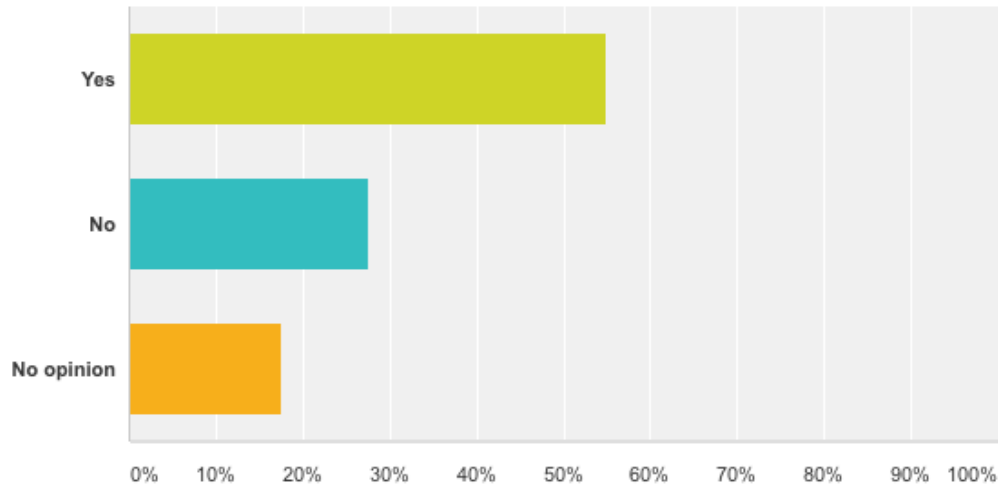
Survey participants were asked: “Would you drink a beer that is not among your favorites, but is associated with music you really enjoy?”



Answer Choices	Responses
Yes	65.00%
No	35.00%
Total	

Contrary to the previous question, we also gauged whether consumers would drink our beer based upon a strong appreciation of our music. This question also aimed to determine what our main focus should be. The responses to this question were both encouraging to our music operations, while also further strengthening the results of the previous question. Although the responses were mostly positive, they were nowhere near as positive as the overwhelming results of the last question. Because of the higher percentage of consumers who would not drink our beer regardless of their opinion of our music, it is further confirmed that our beer must be high quality and meet the standards of our consumers. With that said, it is still very encouraging to see that 65% of respondents would continue to drink our beer if it was not necessarily their favorite, proving that the quality of our music does play a strong role in our success.

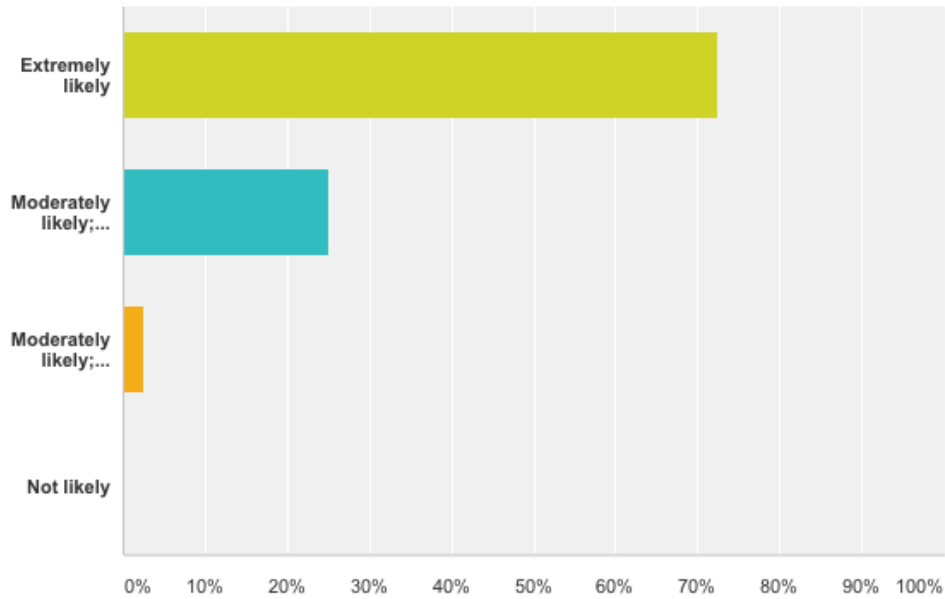
Survey participants were asked: “Is the presence of organic/natural ingredients important to you when shopping for food/beverage?”



Answer Choices	Responses
Yes	55.00%
No	27.50%
No opinion	17.50%
Total	

We wanted to determine the importance of natural and organic ingredients amongst our consumers in order to determine our ingredient philosophy going forward. Initially, we desired to establish ourselves as strong proponents of organic, natural and local ingredients, but did not fully know how important this is to consumers. Our survey found that we are on the right track with our ingredient philosophy, as 55% of respondents confirmed our initial belief of this importance. While a 27% negative response rate is fairly high, we are encouraged by the fact that the presence of organic ingredients will not deter this group if our beer tastes good, nor will the “no opinion” group (17%). We must continue using organic and natural ingredients, however, as the majority group (55%) would most likely pass on our beer if we did not include these ingredients, which are very important to them.

Participants were asked: “How likely are you to try a new beer brand?”



Answer Choices	Responses
Extremely likely	72.50%
Moderately likely; depending on recommendation	25.00%
Moderately likely; depending on brand appearance	2.50%
Not likely	0.00%
Total	

Finally, the question of whether consumers would even consider trying a new beer brand is of utmost importance to Hit Brewery. If the majority of beer drinkers are already set on the brands they currently enjoy, then our entire operations would be a failure. However, we were very excited to find that 100% of our respondents would indeed consider trying a new brand. Of this 100%, the vast majority (72%) would try a new brand without any conditions related to quality or appeal. This is perhaps the most encouraging response from our entire survey, as we can now move forward with the assurance that our market is out there, and meet nearly all of our pre-conceived notions about what our market desires in a product such as ours.



## **Internal Analysis**

### ***Company Founder Profile***

*Trevy “Pappagiorgio” Kiy – Founder & CEO:*

Trevy Kiy is a 23-year-old musician, songwriter, and entrepreneur, and is currently the sole proprietor of Hit Brewery. He is originally from San Diego, CA, which has one of the biggest and most rapidly growing craft beer scenes in the United States.<sup>4</sup> Trevy’s personal background in San Diego is also advantageous, as the city has recently been named by Forbes as 2014’s #1 city to launch a start-up company in America.<sup>5</sup>



Trevy has been first and foremost a musician for the vast majority of his life, beginning with jazz piano study at age 12. By 13, he was beginning to explore the world of music production and songwriting, as well as beginning to record as a solo hip hop artist. This early study of and work within music in middle and high schools eventually led him to Berklee College of Music in Boston, MA in 2010, where he was a piano principle and Songwriting major. In 2012, Trevy finished the 4-year B.A. program in an accelerated 2 ½ years, with Magna Cum Laude honors. Following graduation, he continued his music studies at Berklee’s sister campus in Valencia, Spain, where he received an M.A. in Global Entertainment. Outside of music, Trevy has been actively studying and working in brewing since 2013.

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<sup>4</sup> <http://www.sandiegohistory.org/journal/v59-1/v59-1schiff-liwag.pdf>

<sup>5</sup> <http://www.forbes.com/sites/tompost/2014/03/13/the-best-places-to-launch-a-startup-in-2014/>

Throughout his academic career, Trevy has maintained strong activity as an entrepreneur within the music and entertainment industries. Since 2004, he has managed his own career as a musician that has seen him release 6 albums and EP's as a solo artist, 2 different hip hop/R&B duos, and a Ska/Reggae band. Throughout this time, Trevy has handled all of the business operations of an independent artist including copyright registration, distribution, and marketing, among others. On top of his career as an independent musician, he founded Moose Entertainment, a live entertainment company, in 2006 that specialized in live DJ production and performance. This company operated within the San Diego area from 2006-2010, when it was acquired by another local entertainment company.

***Strengths:***

- Strong musical identity & background

Hit Brewery is a company that is founded and run by musicians. The company's founder and early team all come from strong music backgrounds that include years of private music study, vast experience within music production and performance, and collegiate careers at Berklee College of Music.

Throughout all of this experience, the musical identity of Hit Brewery has been formed, which will help establish the company as a prominent figure within the American independent music industry for years to come. This strength and identity is one that separates Hit Brewery from other music influenced craft beer competitors, as none of these competitors are run by musicians. Music is one of the cornerstones of Hit Brewery and music is what the early members of Hit Brewery know best.

- Large pre-existing musical catalogue

As Hit Brewery begins to launch its core product of beer with attached musical content, one main hurdle could be the need to keep up with the development of the music, which is a creative process that requires much time and energy. Another strength of Hit Brewery is the current pre-existing musical content

already held by its founder and early team. In the initial stages of the company's launch, we will rely heavily on this already completed content to begin to properly introduce our unique product to consumers, while providing a good amount of variety.

- Experience and knowledge of craft & international beer

On top of a strong music background, the current team associated with Hit Brewery displays strong passion for and knowledge of beer. Our team knows a lot about the various styles of beer and the various production processes associated with each. Our team is very familiar with both macro and microbreweries within the United States and the various products and business strategies of these competitors. Finally, our team members are also very familiar with international beer and beer styles and bring extensive knowledge from personal beer related experiences in Spain, Italy, United Kingdom, Belgium, Mexico, and numerous other prominent brewing nations.

- Hit Brewery brand

One of the first elements of Hit Brewery to come to fruition has been the development of a unique and appealing brand that best represents our product. Through our early market research and promotional product launches, we have found the consumer response to our brand to be extremely positive, further reinforcing the strength of our brand. Our brand name and artwork perfectly represent our mix of craft beer and music in a very simple way.



***Weaknesses:***

- Small product development capabilities

Currently, Hit Brewery operates on a very small scale. We currently produce 5-gallons of beer each month, which are only packaged in 12-ounce bottles. As we look to make the production and distribution of our beer the core operation of our business, our current small product quantities will be a weakness until we grow. In order to truly realize our potential, we need to invest in brewing equipment with larger capacities and begin to produce a higher amount of products.

- Requirement to move brewery operations from Spain to California

As Hit Brewery looks to the future, the fact that we have begun to implement early operations in Valencia, Spain is one current weakness. While the company was indeed founded in Valencia, all Hit Brewery operations will be moved to Southern California in August 2014. The transition period that is required of such a move will be detrimental to Hit Brewery in the months after, as our operating location, equipment, and routine will be shaken up.

- Required further education in brewing science

While a strong music education and background is a current strength of Hit Brewery, the company is currently weak on the brewing side. In order to truly develop Hit Brewery into a viable, commercial microbrewery, the company's founder must continue to learn the science of brewing. This is a top priority for Hit Brewery going forward.

## **External Analysis**

### ***Opportunities:***

- Growing popularity of music & craft beer combination

As previously stated, the combination of music and craft beer is one that is currently being explored by a small number of other brewing companies. Within Hit Brewery's target market of Southern California, companies are beginning to arise experimenting with this fusion. This concept is one that is beginning to gain significant traction amongst the local community. Despite a music connection, these

companies merely feature common themes such as vinyl records decorating establishment walls and classic rock soundtracks. The success of these establishments represents an opportunity for Hit Brewery, as we look to capitalize on this rising popularity by establishing ourselves as the top innovator in music themed brewing.

- Local ties to America's "Craft Beer Capital"

Over the past few years, San Diego, CA has quickly established itself as one of America's best cities for craft beer. While many people debate about the true top American craft beer destination, many publications, such as TIME Magazine, have referred to San Diego as "America's Craft Beer Capital."<sup>6</sup> Fortunately, Hit Brewery's founder, Trevy Kiy, is originally from San Diego and looks to capitalize on the strong popularity of craft beer in his hometown to help establish Hit Brewery as a major brand within the craft beer industry. The opportunity to have a hometown advantage in the introduction of Hit Brewery is vital to the company's future success.

- Growth opportunities in Los Angeles and Las Vegas

Although San Diego's thriving craft beer scene will be one of Hit Brewery's first target markets, the markets of Los Angeles and Las Vegas represent strong growth opportunities, as each of these cities are much less populated with craft beer than San Diego. Both cities represent their own unique opportunities.

Los Angeles represents the best example of a very strong craft beer market, with plenty of room for future growth, with limited competitors. Los Angeles is America's 2<sup>nd</sup> biggest metropolitan area and many of these residents are fans of craft beer. Los Angeles features many trendy bars that offer some of America's best craft beer brands.<sup>7</sup> Despite such a strong craft beer presence, Los Angeles is surprisingly light on local microbreweries. Los Angeles has simply become a place

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<sup>6</sup> <http://style.time.com/2012/12/05/in-san-diego-a-craft-beer-scene-emerges/>

<sup>7</sup> <http://www.gq.com/food-travel/restaurants-and-bars/201210/best-beer-cities-october-2012>

where many of San Diego's top breweries enjoy a strong market share. Hit Brewery looks to capitalize on this lack of local L.A. microbreweries by focusing on establishing our 1<sup>st</sup> full-time brewery in Los Angeles, to differentiate ourselves from the crowded San Diego market.

Hit Brewery's final initial target market, Las Vegas, NV, represents an even greater opportunity. The city's craft beer market is the smallest of the three, but is also currently growing. A number of small microbreweries have been established within the city, but none have really dominated the market. With Hit Brewery's strong personal and musical connection to the city of Las Vegas, this market is viewed as one where our product could potentially thrive.

***Threats:***

- Increasing number of craft breweries and brewpubs in the U.S.

It is no secret that the American craft beer industry is a rapidly growing one. Although this potentially bodes well for the success of Hit Brewery, this can also be viewed as a threat. Every year, more and more microbreweries, brewpubs, and bars are opened in the United States, raising the barriers of entry for Hit Brewery higher with each passing year. In order to alleviate the strength of this threat, it is paramount for Hit Brewery to begin operations and continue growing within our target markets as soon as possible.

- Fluctuating price of required brewing commodities

The production of beer requires a standard combination of ingredients that is actually mandated by United States law. These ingredients, including barley, hops, and wheat, are subject to fluctuations in price, which could potentially be harmful to the management of Hit Brewery's production.

## **Operations Plan**

### ***Pricing Strategy***

Hit Brewery will follow a very straightforward pricing plan that is properly aligned with the rest of the craft beer industry. Amongst all of the current craft beer products currently on the market, there is very little pricing differentiation between each competitor. Because of this fact, Hit Brewery must align with the rest of the industry. With our initial product line, we have adopted the following pricing strategy.

- Beer Products
  - Individual bottled beer: \$2.50
  - Individual draft beer: \$4.99
  - 6-pack: \$13.99
  - Case (24 beers): 54.99
  
- Merchandise
  - T-Shirts: \$15.00
  - Pint Glasses: \$15.00
  
- Studio
  - Hourly Sessions: \$45.00/hour

### ***Growth Strategies***

Strong growth over the next 1-5 years is very important for the future success of Hit Brewery. As the company's current, very early, development phase, long-term success cannot be maintained. Hit Brewery must continue to grow into its ideal business model in order to truly be a competitive name within the craft beer and independent music industries.

One major growth category for Hit Brewery is in beer production. Initially, Hit Brewery will be producing beer on a very small scale, which will classify the company within the beer industry as a nanobrewery. While this initial small scale production will allow for the company to get started and begin to gain traction within our target markets, the beer production must continue to grow over the years to truly become a fully operating microbrewery.

Another growth opportunity for Hit Brewery is in the consistent growth of our studio operations. Although not the primary business operation of Hit Brewery, the hourly rental of recording facilities are projected to be a very important financial pillar for the company. Additionally, our studio operations act as very important promotion for our beer products. Initially, Hit Brewery's studio will be set up to specialize in vocal and drum set recording, with the possibility of recording all styles of music and all sizes of ensembles separately. However, while very practical upon start up, there is significant growth potential for our studio. In the future, the eventual move to a permanent stand-alone recording facility will be paramount for the sustainability of studio operations. Additionally, we aim to grow our studio facilities to also incorporate a strong presence of beer. These additions include draft beer systems, refrigerators, and Hit Brewery signage and other branding.

Finally, the most important growth opportunity for Hit Brewery is the establishment of a fully operational brewpub. Over the coming years, the company looks to build toward this goal of a local brewpub based distribution plan. The establishment of a brewpub would represent the culmination of all of the elements of the core ideas and aspects behind Hit Brewery. A Hit Brewery brewpub would offer various Hit Brewery beers on tap, provide consumers with a designated place to consume Hit Brewery beer, and allow us to incorporate the company's unique musical element in the best way possible. Namely, the brewpub would be attached to our recording studio, offering views of the recording facilities and an inside look into the making of records to all consumers, acting as a competitive advantage. Finally, a brewpub would also allow for us to stage live music events.



## ***Marketing Plan***

Hit Brewery's marketing plan consists of mainly social media marketing efforts, especially within our initial stages of our development as a company. Our target market, and the craft beer community as a whole, spends a lot of time online and is very active on many social media platforms, engaging, commenting, and networking through these platforms based upon beer preferences and experiences. As beer is a very visual product, the most important platforms for our marketing efforts are visual platforms. We will invest in such platforms, namely Instagram and Pinterest to capitalize on the visual aspect of beer. We will also be active on Twitter in order to engage in a written manner with our audience. Finally, our initial marketing efforts will also include Untappd, a social platform designed for beer.

Within our home region of Southern California, Hit Brewery will also be very active within the local music scene in order to connect with those consumers who will be attracted to Hit Brewery based upon our music background. Hit Brewery's founder will be very active within this period as a solo hip hop artist, further marketing the Hit Brewery brand with every show. Another extremely important form of marketing will be the word of mouth and the loyalty of repeat customers. When marketing Hit Brewery, we will be very focused on those consumers that act as early adopters and influencers. By effectively reaching these individuals, we will begin to expand our reach as these early customers begin to spread the word about Hit Brewery throughout their personal networks.

Finally, Hit Brewery will initially be very focused on the distribution of promotional beer and the hosting of promotional events within our target markets. Through personal experience and preferences, we are operating under the assumption that our potential consumers are very receptive to free beer. We anticipate the distribution of free beer and the hosting local events with our beer to be our strongest initial marketing effort, although initially losing out on our beer production investment. We view these losses within the distribution of free beer as simply a re-investment in our marketing that doesn't require any additional capital.

## Financial Analysis

### *First Year Start-Up Costs*

During the first year of operation, Hit Brewery aims to maintain and implement initial operations in a very small-scale manner. In order to grow into the ideal company and realize all of our goals for the next 1-3 years, we have opted to keep our initial start-up costs relatively low, while maintaining a production schedule that is still very productive. Our first year start-up costs can be broken down as follows:

#### **1st Year Start-Up Costs**

Item	Price	Quantity	Total
<b><i>Brewing</i></b>			
Brewing & Fermenting Supplies Kit	\$350	1	<b>\$350</b>
Extra Fermentation Bucket	\$16	1	<b>\$16</b>
Hops straining bags (100 bags)	\$50	1	<b>\$50</b>
Wort Chiller	\$70	1	<b>\$70</b>
Bottle Drying Rack	\$37	1	<b>\$37</b>
Mash Tun	\$20	1	<b>\$20</b>
Thermometer	\$5	1	<b>\$5</b>
Sanitizer	\$8	4	<b>\$32</b>
Jet bottle washer	\$15	1	<b>\$15</b>
Bottle Caps (120 Count)	\$4	29	<b>\$101.50</b>
Bottles (24 Count)	\$12	145	<b>\$1,740</b>
Beer Labels (3,500 Count)	\$1,300	1	<b>\$1,300</b>
<b><i>Ingredients</i></b>			
Hops, Grain, & Yeast (10-gallon yeild)	\$20	45	<b>\$900</b>
Carbonation Capsules	\$20	1	<b>\$20</b>
Corn Sugar (50-pound pack)	\$50	1	<b>\$50</b>
<b><i>Studio</i></b>			
M-Audio Sputnik Microphone	\$500	1	<b>\$500</b>
52 A Kick Drum Microphone	\$150	1	<b>\$150</b>
<b><i>Marketing &amp; Promotion</i></b>			
Website Design & Upkeep (Moonfruit)	\$50/year	1	<b>\$50</b>
T-Shirts	\$5	100	<b>\$500</b>
Pint Glasses	\$5	85	<b>\$425</b>
<b>Total</b>			<b>\$6,332</b>

A large chunk of the first year start-up costs are the initial investment in upgraded brewing equipment. Upon initially purchasing this equipment, we will continue to use it over the next handful of years, diminishing our costs in the following years. The same can be said for are studio costs. At the initial start-up, we will be investing in a couple of small studio pieces, but the vast majority of the required studio equipment is already owned by Hit Brewery founders and its partners. A small portion of our costs will also be devoted to marketing, namely in the production of t-shirts and pint glasses, which we will use as promotional giveaways, but also selling as merchandise. Finally, the bulk of our first year’s costs are in the actual production of beer. Beer ingredients, bottles, and labels are essential items that will represent the vast majority of our fixed costs during each operating year.

***Break Even Point Analysis***

Given our first year costs of \$6,332, we have determined our first year break even point based upon initial production and sales estimates. In the first year of operation, Hit Brewery’s revenue streams will be broken down into 3 main components; bottled beer, draft beer, and hourly studio rentals. Based upon our initial pricing strategy, we have found our break even point, averaged and divided evenly amongst our 3 main business operations. The table above shows the first year costs total as a whole and as divided evenly between our 3 main operations. The table further shows how many units of each component are required to reach the total of \$2,100 that is required of each. Our break even point is very easily obtainable based upon our first year production schedule.

<b>Break Even Point Analysis</b>	
<b><i>1st Year Costs</i></b>	<b>\$6,332</b>
<b><i>Required Revenue per Business Operation</i></b>	<b>\$2,110</b>
<b><i>Bottled Beer</i></b>	<b>844</b>
<b><i>Draft Beer</i></b>	<b>422</b>
<b><i>Studio Rentals Hourly</i></b>	<b>47 Hours</b>

### 1st Year Production Schedule

		Bucket Fermenter 1	Bucket Fermenter 2	Carboy 1	Carboy 2	Bottles / Keg
Month 1	Week 1	5 Gallons (Primary)	5 Gallons (Primary)	-	-	
	Week 2	5 Gallons (Primary)	5 Gallons (Primary)	5 Gallons (Secondary)	5 Gallons (Secondary)	
	Week 3	5 Gallons (Primary)	5 Gallons (Primary)	5 Gallons (Secondary)	5 Gallons (Secondary)	10 Gallons
	Week 4	5 Gallons (Primary)	5 Gallons (Primary)	5 Gallons (Secondary)	5 Gallons (Secondary)	20 Gallons
					<b>Monthly Yield</b>	<b>100</b>
Month 2	Week 1	5 Gallons (Primary)	5 Gallons (Primary)	5 Gallons (Secondary)	5 Gallons (Secondary)	20 Gallons
<i>*All subsequent months follow same schedule</i>	Week 2	5 Gallons (Primary)	5 Gallons (Primary)	5 Gallons (Secondary)	5 Gallons (Secondary)	20 Gallons
	Week 3	5 Gallons (Primary)	5 Gallons (Primary)	5 Gallons (Secondary)	5 Gallons (Secondary)	20 Gallons
	Week 4	5 Gallons (Primary)	5 Gallons (Primary)	5 Gallons (Secondary)	5 Gallons (Secondary)	20 Gallons
					<b>Monthly Yield</b>	<b>400</b>
Month 3					<b>Monthly Yield</b>	<b>400</b>
Month 4					<b>Monthly Yield</b>	<b>400</b>
Month 5					<b>Monthly Yield</b>	<b>400</b>
Month 6					<b>Monthly Yield</b>	<b>400</b>
Month 7					<b>Monthly Yield</b>	<b>400</b>
Month 8					<b>Monthly Yield</b>	<b>400</b>
Month 9					<b>Monthly Yield</b>	<b>400</b>
Month 10					<b>Monthly Yield</b>	<b>400</b>
Month 11					<b>Monthly Yield</b>	<b>400</b>
Month 12					<b>Monthly Yield</b>	<b>400</b>
					<b>Yearly Total</b>	<b>4500</b>

Based upon the available equipment, supplies, and manpower, we have developed this production schedule for our first year of operation. After an initial starting month that yields only 100 beers due to the initial time needed to produce beer, all subsequent months will follow a carefully planned schedule with all available fermenters full at all times, on a rotating schedule with new brews. This production schedule will yield 400 beers each month, further broken down into 100 beers each week.

Further speaking to the success and growth potential of Hit Brewery in the early stages is the breakdown of our second year costs. Because we no longer are in the market for beer production and studio equipment in the second year, our costs are decreased by over \$1,000, positively benefiting our business and drastically lowering our break even point.

### 2nd Year Operations Costs

Item	Price	Quantity	Total
<b>Brewing</b>			
Hops straining bags (100 bags)	\$50	1	\$50
Bottle Caps (120 Count)	\$4	29	\$101.50
Sanitizer	\$8	4	\$32
Bottles (24 Count)	\$12	145	\$1,740
Beer Labels (3,500 Count)	\$1,300	1	\$1,300
<b>Ingredients</b>			
Hops, Grain, & Yeast (10-gallon yeild)	\$20	45	\$900
Carbonation Capsules	\$20	1	\$20
Corn Sugar (50-pound pack)	\$50	1	\$50
<b>Marketing &amp; Promotion</b>			
Website Design & Upkeep (Moonfruit)	\$50/year	1	\$50
T-Shirts	\$5	100	\$500
Pint Glasses	\$5	75	\$375
<b>Total</b>			\$5,119

### 1<sup>st</sup> Year Sales Estimates

Based upon our revenue model, production schedule, and first year costs, we have identified the following sales estimates for our first year of operation. The fairly even revenue distribution between each of our three main business components is very encouraging to the strength of our initial business model and our future success potential.

### 1st Year Sales Estimates

Product	Quantity	Retail Price	Production Cost	Net Income	Total Profit
Bottled Beer	3,500	\$2.50	\$0.89	\$1.61	\$5,635.00
Draft Beer	1,000	\$5	\$0.89	\$4.11	\$4,110.00
Studio Rentals Hourly	160	\$45	\$0	\$7,200	\$7,200.00
T-Shirts	75	\$15	\$5	\$10	\$750
Pint Glasses	70	\$15	\$5	\$10	\$700
<b>Year Total</b>					\$18,395.00

After reaching our first year break even point of \$6,332, our production schedule allows for significant profits. The sale of bottled beers, draft beers, and studio rentals account for the bulk of our revenue, while the sale of merchandise items, such as t-shirts and pint glasses, provides added revenue. In total, we estimate to achieve a first year profit of **\$18,395**. These sales estimates are also on pace to grow as equipment costs decrease in subsequent years and production and sales continue to grow.

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