

Thurston Craft Brewing and Distilling Innovation Partnership Zone Business Plan

Introduction

Thurston County has a century of tradition around brewing. The Capital Brewing Company (renamed Olympia Brewing Company in 1902) began production in 1896, tapping into the artesian wells located in Tumwater, and using the Deschutes River and Puget Sound as a means to ship products by boat to the Pacific Northwest. With the exception of the prohibition era, the brewery operated up through 2003. It was an institution in the community. Today, craft brewing and craft distilling are growing industries in Washington and across the country. Thurston County is home to craft brewing, cider-making, and craft distilling companies. These businesses have access to quality ingredients, manufacturing supplies, and distribution chains. Plus, an increase in craft product demand makes it a prime sector for growth. The City of Tumwater has convened private and public partners to create a world-class craft brewing and distilling center for research, training, commerce, and tourism—to revitalize the former brewery site and grow these craft industries.

The community of Thurston seeks to establish an Innovation Partnership Zone and industry cluster surrounding craft brewing and distilling throughout the neighboring cities of Olympia, Tumwater, and Lacey as well as the surrounding Thurston County environs, with the focal point being the historic Olympia Brewing facility located in Tumwater. With the partnership of Thurston Economic Development Council, Washington State University, South Puget Sound Community College, the Port of Olympia and others, the Craft Brewing and Distilling IPZ will become a powerful economic development driver for the community.

Mission

The Mission of the Thurston Craft Brewing and Distilling IPZ is to ensure a world-class source for craft brewed beers and ciders and craft distilled spirits which are made from locally grown ingredients by independent expert producers and distributed nationally and internationally to great acclaim.

Vision

The Vision of Thurston Craft Brewing and Distilling IPZ is one of economic vitality, the embrace of community history and legacy, the empowerment of local businesses to thrive, and the establishment of a renowned center of craft brewing and distilling excellence which attracts visitors and customers from around the world. Specifically, the IPZ partners envision the following in the next 10 years:

- The establishment of the Tumwater Craft Brewing and Distilling Center at the site of the old Olympia Brewing facility adjacent to the Deschutes River and Capital Lake.

- The establishment of a set of Craft Brewing and Distilling training certifications through the South Puget Sound Community College.
- A nationally and internationally recognized regional brand for craft brewed beers, ciders, and craft distilled spirits that rivals “Florida Oranges” or “Swiss Cheese.”
- A cluster of successful and widely recognized producers and marketers of craft brewed beers and ciders and craft distilled spirits which employ local workers.
- A well-functioning network of those producers and local farmers who grow the grains, fruits, and hops used as raw ingredients in the craft beverage products.

Goals

Create a cluster of craft brewers and distillers, a network of growers of grains and hops, and widely recognized branding, distribution, and retail of their products.

Recruit talented individuals into the workforce, entrepreneurs and established businesses into the economy, and investment dollars into the Craft Brewing and Distilling cluster.

Retain successful craft brewers, brew pubs, craft distillers and other local providers of craft beers, ciders and spirits to resident community customers and out-of-town visitors.

Expand awareness of the cluster of local producers, demand for their products and desire to visit the community and sample craft beers, ciders, and spirits.

Develop and integrate the local supply chain of ingredients.

Develop a nationally and internationally recognized brand for craft brews, ciders and liquors coming out of Thurston County, and develop the distribution channels for local producers to access national and international markets.

Leadership/Governance - Management Team

Michael Cade, Executive Director, Thurston Economic Development Council

IPZ Role: IPZ Administrator

Michael began his tenure with the Thurston County Economic Development Council as Executive Director in January 2004. Prior to joining the Thurston EDC, Michael was the Vice President for the Snohomish County Economic Development Council from 1992 – 2003. His career in economic and community development began in 1987 and has primarily been focused on the recruitment of investment into the community, and the retention of companies.

John Doan, City Administrator, City of Tumwater

IPZ Role: IPZ Leadership Group

John Doan has been the City Administrator of Tumwater since January 2010 where he directs the work of 180 full-time employees and a \$135 million biennial budget in this full-service city.

John’s interests at work are organizational improvement, collaboration, community engagement, building great places, and education. John graduated with degrees in geological and civil engineering from Washington State University and received a Master’s degree from Seattle University’s Not-For-Profit Leadership Program.

Heidi Behrends Cerniwey

Assistant City Administrator, City of Tumwater

IPZ Role: IPZ Leadership Group

Heidi serves as the City’s Brewery Project Manager and Public Information Manager and works in a multidisciplinary capacity across City departments and services to advance municipal priorities. She has served in local government for nearly ten years in administration, project management, public affairs, and human resources roles, with additional background in private and nonprofit leadership.

Noel Rubadue

Dean for Corporate and Continuing Education, South Puget Sound Community College

IPZ Role: IPZ Leadership Group

Noel has worked in workforce education for over 20 years at two different institutions. During that time she has had the opportunity to develop training solutions for various businesses and organizations. She oversees a department that serves over 10,000 people annually through non-credit training and services.

Barbara Rasco, BSE PhD JD

Director, School of Food Science, Washington State University / University of Idaho

IPZ Role: IPZ Leadership Group

Dr. Barbara Rasco teaches and conducts research in the areas of functional food product development, food law, food safety and food processing. Dr. Rasco’s research interests involve the development of analytical methods to predict the safety and quality of food products.

Partner Involvement

Private Sector Business:

- 3-Magnets Brewing
- Fish Brewing Company
- Sandstone Distillery
- Salish Sea Organic Liqueurs
- Top Rung Brewing
- Blind Pig Spirits
- Marine View Beverage Distributors

Local Public Jurisdictions

- City of Tumwater – John Doan, City Administrator; Heidi Behrends Cerniwey, Asst. City Admin.
- City of Lacey – George Smith, Economic Development Manager
- City of Olympia – Keith Stahley, Director, Community Development

Port of Olympia – Mike Reid, Senior Manager Business Development

Education, Research, and Workforce Development

Saint Martin’s University – Dr. Riley Moore, Professor of Economics

WA State University and University of Idaho, School of Food Science, Dr. Barbara Rasco,
Director

Washington State University Extension – Thurston County Agriculture Faculty (position
currently vacant)

South Puget Sound Community College – Noel Rubadue, Dean for Corporate/Continuing Educ.;
Andy Bird, Dean of Applied Science and Technology

Economic Development and Chambers of Commerce

Thurston Economic Development Council

Thurston County Chamber of Commerce

Lacey South Sound Chamber of Commerce

Tumwater Area Chamber of Commerce

Partner Investment

1. City of Tumwater shall:
 - a. Provide active and robust planning and advocacy to convene the Craft Brewing and Craft Distilling sector to facilitate economic vitality.
 - b. Actively engage in IPZ Leadership Group meetings and participate in the governance of the IPZ project.
 - c. Work with the IPZ Leadership Group to ensure that the business plan and its elements are correctly aligned to meet the needs of private sector craft brewers and craft distillers.
 - d. Work to ensure that planning and zoning are in alignment as much as possible, with needs of the private sector partners for business location and business expansion.
2. Washington State University shall:
 - a. Provide leadership and technical assistance in the development of research relationships between brewers and distillers & educational elements and personnel.
 - b. Actively engage in IPZ Leadership Group meetings.
 - c. Work with the IPZ partners to support the promotion and development of new markets, cultivate and facilitate research for new products and sector innovation, as feasible and within the scope of the work plan and outline.
3. South Puget Sound Community College shall:
 - a. Actively engage in IPZ Leadership Group meetings.
 - b. Assist the partners in identifying skill gaps and developing strategies to close those gaps through training.
 - c. Invest in training programs that build private sector’s capacity to expand production and the ability for a workforce to meet the demand of the growing sector.

- d. Work to ensure that the capabilities and entrepreneurial development resources of the Center for Business & Innovation meets the growing needs of the sector.
4. Thurston Economic Development Council shall:
 - a. Act as the IPZ administrator.
 - b. Actively engage in the coordination of regularly scheduled IPZ Leadership Group meetings.
 - c. Work to ensure that the capabilities and entrepreneurial development resources of the Center for Business & Innovation meets the growing needs of the sector.
 - d. Act as fiscal agent for funds that may become available to support this project.
 - e. Perform administrative responsibilities, such as reporting and measuring outcomes, to comply with the terms and conditions of the designation.
 5. Private Sector Employers (Craft Brewers and Craft Distillers) shall:
 - a. Actively engage in the development of the Innovation Partnership Zone by formally participating as a member of the IPZ Leadership Group.
 - b. Develop a research, workforce, and siting relationship with the partners identified within this document.
 - c. Support the reporting and measurement requirements of this project by providing needed data.

Four Year Sustainability Plan

Over the next four years (2015-2019), the City of Tumwater will lead the effort to facilitate the planning, design, construction and opening of the Tumwater Craft Brewing & Distilling Center at the site of the Old Brewhouse and surrounding areas. If all goes well, the Tumwater Craft Brewing & Distilling Center will be the focus of the IPZ, a training, research & development facility and an international tourist destination.

The Center is planned to include a laboratory, a pilot plant for developing new beers and spirits, a set of classrooms and meeting rooms. The Center is intended to be a place where industry experts come to meet with students for the purpose of sharing practical, applied knowledge for production as well as troubleshooting. The Center is also envisioned as a meeting place where master brewers and managers gather to discuss marketing, management and regulatory issues in order to learn from each other, work together on common issues and lay out the future course of the industry.

Building on the State and local excellence in agriculture, and State laws which give preference to State-sourced products, the Center will be a partner with WSU Extension, agriculture interest groups, and farmers in creating markets for raw products. These relationships will help expand the economic development reach of the Center and ensure that the brewed and distilled products are unique to Washington.

Further, the Center is intended to be an international tourist attraction for those that are connoisseurs, or fans, or interested in exploring entering the business. The Center will feature on-site tasting of craft beers, ciders and liquors as well as food, gift shops and other amenities. The site of the Center includes trails and parks in the vicinity of Capital Lake and Olympia.

In short, the long term sustainability of the IPZ will be supported by the physical presence of the Tumwater Craft Brewing & Distilling Center as an engine of research, workforce training, company incubation, retail sales, and tourist destination.

IPZ Strengths

Technology

Craft brewing and distilling differs from mass market brewing and distilling in that smaller volume allows flexibility in the flavors and ingredients of the products. Smaller volume in craft brewing and distilling is created using smaller equipment and smaller batches. Brewing time is shorter than distilling time. The short duration of brewing batches means that more batches can be produced on the same equipment in the same amount of time versus distilling. Therefore, seasonal flavors of beers can effectively be produced in craft brewing, using different ingredients or formulations.

The strength of the Craft Brewing and Distilling IPZ technology over mass market brewing and distilling, therefore, is the ability to experiment and optimize processes, ingredients, and seasonal flavors. Salish Sea Organic Liqueurs, for example, handcrafts all liqueurs in small batches starting with a base spirit made on site and adding only USDA Certified Organic ingredients. To extract the flavors of herbs and fruit, they use the process of cold maceration. This ancient and natural process imparts a full and balanced flavor to liqueurs that is lacking with distillation. There are no chemical additives, artificial colors or preservatives in their spirits.

Industry brewers and distillers, as well as WSU scientists, and SPSCC teachers will all become more expert over time as they interact through the cluster to optimize equipment, process timing, formulations, quality control, and other factors.

Further, the Tumwater Brewing & Distilling Center will become a working laboratory, where technological innovations can be proven, tested, and even invented. WSU School of Food Science and WSU Extension will cover topics including specialty grain utilization, food safety and fermentation science. Students of SPSCC will train on the equipment and processes underway at the Center as part of their curriculum for certifications.

Human Capital

Craft brewing and craft distilling are art forms with many opportunities for creative touches in their design of recipes. However, they are also process-oriented chemical reactions that can fail to produce the desired and required tastes and characteristics. Therefore, this business

requires both creative drink designers with good taste and skilled technicians to operate production lines. The craft brewing and distilling IPZ will empower and produce both.

In terms of people skilled in creating unique and delicious beers, ciders and spirits, Thurston County has several award-winning production companies currently in place. Fish Brewing Company was awarded the 2015 Washington State Brewery of the Year Award at the Washington Beer Awards competition as part of the WA Brewers Festival in Marymoor Park, Redmond, WA. In addition Fish Brewing was awarded three gold medals and one silver medal during the competition; Fish Tale Organic IPA won Gold, Leavenworth Boulder Bend Dunkelweizen won Gold, Leavenworth Premium Lager won Gold, and Leavenworth Whistling Pig Hefeweizen captured the Silver.

With respect to people that are expert technicians in operating production facilities for craft beer, cider and spirits, the IPZ partnership includes several experienced brewing teams including Casey Sobol and Jason Stolz of Top Rung Brewing in Lacey, a 10-barrel brewing operation with connected tap room. The two learned their craft in part by shadowing another experienced brewer in Centralia, in order to bring knowledge and insight to their own operation in Lacey.

There are several ways that the art and science of craft brewing and distilling will be shared and trained to the next generations of crafters and operators. The IPZ partners will hold workshops and trainings to teach hands-on techniques. Using the actual equipment during instruction will give students real-world technical knowledge and understanding. Business owners will meet with each other to discuss points of common interest, trends, and barriers.

Beyond formulations and production processes, producers will need to expand their success in marketing, distribution and sales. IPZ partners are business-savvy and will work collaboratively to build the brand and widen distribution to new markets.

Infrastructure

Thurston County is central to Western Washington, located between Seattle and Portland. The Interstate 5 corridor makes it straightforward to travel south and north between these major population and industrial centers. The Olympia Brewery has been a longtime icon along I-5, and the historic Old Brewhouse tower and site are visible at the I-5/ US101 interchange. This central location and historic authenticity will contribute to the viability of a craft brewing and craft distilling destination of interest.

There are abundant natural resources and supplies locally available that are necessary for high quality craft brewing and distilling. The slogan “It’s the Water” was world famous for Olympia Beer, and the slogan comes from the local artesian well water, which is abundantly available. Electricity in Thurston County is available at reasonable rates. Farmland in Thurston County has been historically used to grow a wide variety of grains and hops, and farmers continue to

develop these crops. Increased demand for these ingredients will result in more being planted and grown.

There are several successful craft brewing and distilling companies now in operation in Thurston County, which will participate in the IPZ cluster, and inspire the creation of additional similar businesses. Fish Brewing Company (owned and operated by Washington Wine and Beverage Company) in Olympia has a broad portfolio of products that are sold in brew pubs, national chain restaurants, and distribution as far as Japan. Top Rung Brewing in Lacey is a production brewery with on-site tasting room and bottling, which distributes regionally. A new entrant is 3 Magnets Brewing, which has been highly successful in its first year of operation as a brewer and retailer of craft beers.

Long-term Market Growth

Craft beer has a strong niche market presence, which is increasing in size and profitability. According to the U.S. Beverage Alcohol Forum, beer represents approximately half of total alcohol consumption by dollar volume of sale. According to the Brewers Association, in 2014, craft beer represented 7.8 percent of all beer sold by volume, and 14 percent of all beer sold by value. This illustrates the fact that craft beer commands a healthy margin of value above mass market beer. Further, the overall volume of all kinds of beer sold fell last year by around two percent, while the volume of craft beer sold increased by around 17 percent. Oregon and Washington currently have the second and third largest number of craft breweries in the U.S. after California, and the two states opened 140 new craft breweries in 2014.

Overall spirits consumption increased in the U.S. by about 30 percent between 2003 and 2012, including the development of premium products, the resurgence of bourbon, and new products and flavors. The greatest growth in 2012 was in the segment of super-premium liquor, according to the Beverage Information Group Handbook. American, Canadian, and Irish whiskey led the growth of all categories. Washington is the leading U.S. state in the number of distillers at 85. Washington is an industry leader in craft distilling, due to demand in the region for high quality food and beverages, but also because there is a state law allowing craft distilleries to sell on site.

The craft beer industry is consolidating somewhat, as large multinational beer companies purchase small craft beer producers and their brands. For example, AB InBev owns all or an interest in Widmer, Red Hook, Kona, Ten Barrel, Elysian, Goose Island, Redbridge and Old Dominion. Larger independent regional breweries with multiple locations include Lagunitas, New Belgium, Stone, Sierra Nevada and Deschutes. Economies of scale include purchasing, marketing, training, production and distribution. Consolidation represents both threats and opportunities to small brewers, in that they face potentially stiff competition from larger

interests, but they also have a potentially profitable means of selling their interests to national players at a premium.

In fact, regional breweries, those that produce between 15 thousand and 6 million barrels per year, are the fastest growing segment of the brewing industry. Regional breweries doubled their production from 10 million barrels per year in 2010 to 20 million barrels per year in 2014.

Entrepreneurial Climate

Thurston County is a strong place to start a business. Over the last 10 years, Thurston County increased the number of overall businesses by 3%. This growth rate is the 3rd highest in the state just ahead of the Seattle area of King County.

Most businesses in Thurston County are small and have less than five employees and annual revenues under \$400,000. Only 10% of firms have 10 – 99 employees, but these firms account for 34% of the jobs in the county and account for 37% of the sales.

Based on research from the Edward Lowe Foundation, Thurston County has around 10,000 businesses with 2-9 employees, and around 2,000 businesses with 10-99 employees.

The Thurston Economic Development Council operates a business services arm called the Business Resource Center (BRC). The BRC is home to an 11 member SCORE counseling sub-chapter, an SBA Women’s Business Center, Procurement Technical Assistance Center (PTAC), and is co-located with a Small Business Development Center operated by the SPSCC. It is estimated that these programs combined provide 5,000 hours of technical assistance and advising annually.

In September 2015, the BRC and SPSCC are combining their business services and administrative staff locations into a state-of-the-art, highly visible location in Lacey under the name of the Center for Business & Innovation (CBI). CBI will include the services described above, as well as the SPSCC Corporate and Continuing Education, a conference center, business classes, and an entrepreneurial certificate program.

Commercialization Plan

The Thurston Craft Brewing and Distilling IPZ will work with craft brewers and distillers at every phase of the business cycle. Entrepreneurs that wish to open new craft breweries or distilleries need a wide variety of skills and resources to commercialize their ideas, and the IPZ partners have a holistic suite of services and technical assistance to empower entrepreneurs to commercialize more quickly and successfully.

The Tumwater Craft Brewing & Distilling Center will feature incubator space where aspiring brewers and distillers will be able to learn the craft, experiment with recipes, and gain experience. The production equipment there will not be large enough for full-scale production.

Businesses will need to seek their own spaces to set up large enough facilities for full production. The Port of Olympia is an IPZ partner, and there are many Port of Olympia properties that would be ideal for development for such operations.

In order to lease space and set up equipment of their own, new businesses will need financing or seed capital investment. This may come from investors and financiers that are satisfied that brewers and distillers have learned their craft while at the Tumwater Craft Brewing & Distilling Center.

New businesses can seek assistance from the Center for Business & Innovation to get assistance on a variety of needs, including business planning, access to people that have trained at SPSCC to operate the equipment, and connections to growers of barley, hops, malt and grain.

All locally produced craft beers, ciders and spirits will benefit from expanded exposure and sales. IPZ partners will work to build the reputation and brand of locally produced craft beers, ciders and spirits, thereby increasing the number of restaurants and bars that carry them, distribution partners, and regional retailers.

Measurement and Reporting Plan

The IPZ partners will measure and report the most relevant process-oriented and outcome-oriented metrics for the craft brewing and distilling sector.

First, the IPZ partners will establish a baseline, by identifying all of the currently operating craft brewing and distilling operations in the IPZ. These will be surveyed in order to determine the following:

- Number of employees
- Volume of annual production
- Annual sales
- Breadth of market

On an annual basis, these operations will be surveyed on the same metrics, in order to track them year over year. Further, the IPZ partners will conduct the same surveys for all craft brewing and distilling start-ups that occur in the community in order to gauge their success.

Regarding the activities of the IPZ partners and the Tumwater Craft Brewing & Distilling Center once it opens, the following metrics will be measured and reported:

- Number of inquiries made by individuals interested in the IPZ
- Number of participants in training and networking events
- Number of students to receive training certifications from SPSCC
- Number of clients of the CBI that fall into the craft brewing and distilling segment

