

Sky Big Sky Brewing Company Consulting Report

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Section One: Objectives and Scope of Work Performed

The objectives of this report are to provide assistance to Big Sky Brewing Company in its expansion project by developing an action plan for the company and improving its current business plan in order to improve its marketability to potential lenders. The report will also comment and give insight on change in demand within the product line.

Section Two: Methodology

The consulting team first attempted to determine which would be the best possible expansion method for BSBC. As a team we researched the costs and benefits of each alternative and analyzed the company's goals and vision to decide which method was the most cost-effective in reaching the firm's objectives.

Secondly, the consulting team investigated the different financing alternatives available to BSBC to minimize the firm's liabilities. This included researching Small Business Loan programs and examining the potential for obtaining the previously denied USDA loan.

In order to re-apply for the USDA Rural Development Loan, the consulting team developed a business plan outline which focused on emphasizing the community benefits of the current business and its proposed expansion project. The consulting team used BSBC's historical financial statements and industry findings, as well as information from the USDA's Business Loan Department.

The consulting team also gathered information from the findings on the trial run on outsourced bottling with Portland Brewing Company (PBC).

Section Three: Findings

Consulting Team #2 has done research on whether BSBC should insource or outsource. We have researched and recommended the best fit location for BSBC's expansion. Our team has included ways to improve the company's current business plan in order to re-apply for the USDA loan as well as other financial options if the USDA loan gets denied again. After researching the financials we have listed BSBC's fixed assets and recommended a controller to hire. Finally we have included our recommendations for the expansion as a whole.

Getting Out of the Growth Trap

Currently, Big Sky is having trouble filling all of its orders for customers. The current arrangements with PBC are challenging and will only prove even more challenging as Big Sky grows in popularity. Expansion allows for the continued growth and Big Sky will then be able to fulfill all orders for the time being. This also allows the management staff to focus more on operations at headquarters, since one of them will no longer have to fly to Portland every other

week to oversee production. We recommend insourcing bottling through the expansion of current facilities in order to meet BSBC's growing demand.

Location of Expansion

Consulting Team #2 believes that Big Sky should continue seeking expansion of the current facilities in the current location to be able to start bottling on site. The current location is already well established for the company and it would cost more money having to move everything from one location to the other. Other reasons we feel that the current location would be best include:

- Having a 38,000 Sq/ft facility will enable you to expand production fourfold
- It will allow you to brew more than twice as much ale per day
- You will have the option to purchase adjoining acreage within the first two years to expand further if needed

Change in Demand Within the Product Line

The owners inquired about what to do if there is a shift in product demand from kegs and draft beer to bottles. In addition to organizing this business plan for the future endeavors of the company, it would be wise to incorporate the projected direction the product line of BSBC will shift toward. For this, the safest bet would be to utilize the best forecasting methods possible, along with analyzing past trends to see where and how much of specific types of products such as bottles and/or kegs are going and at what rate they are selling. But for now, it is already apparent that there is a noticeable shift in demand from kegs and draft to bottles; so much so that BSBC can barely keep up. PBC is already at capacity for bottling BSBC's products. So, according to the "trial" with PBC to test the bottled beer market, it is apparent that it would be wise to shift production to "in-house" bottling. Demand for bottled beer has undoubtedly risen in the past 10 months and with PBC at capacity, the most logical and cost effective way to keep up with demand in the long run would be to build a facility to bottle "in-house."

Business Plan Changes for USDA Loan

The USDA Loan program is the best financing option that would be available to BSBC due to the low interest rate and the guarantee of up to 80% of the loan. Big Sky would be a potential candidate for the loan program as it meets more than one of the loan requirements. The loan program is designed specifically for businesses that are currently engaged in, or will be able to:

1. Provide employment;
2. Improve the economic or environmental climate;
3. Promote the conservation, development, and use of water for aquaculture; or
4. Reduce reliance on nonrenewable energy resources by encouraging the development and construction of solar energy systems and other renewable energy systems.

Knowing that it satisfies these requirements, BSBC should make an attempt at this opportunity by preparing a more thorough and compelling set of business plan documents. In order to assist Big Sky Brewing Company with its current business plan, the consulting team has used the Business Plan Outline in Appendix A to provide the company with a tailored explanation of each

section and key points to cover when rewriting its own plan.

Introductory Page

In addition to introducing the company, it is important that Big Sky Brewing Company begins its business plan with a statement of confidentiality. When preparing a business plan, the company must explain very literally the ins and outs of its business and why it is successful. In the hands of a competitor this information could be dangerous and comprise its competitive strategy. It is crucial that Big Sky protects this information by prefacing its plan with this contract.

Executive Summary

This is a brief explanation of the entire business plan and should contain the most compelling arguments for the business. BSBC should use this section to promote its past growth rates and its core mission and values that make it successful, such as its high standard of quality and employee appreciation, while also emphasizing its social and economic impact on the community. You should also mention the firm's humble beginnings and growing popularity in the market, as well as its plans for expansion.

Evidence of Necessary Expansion

This is one of the most important sections for BSBC's particular business plan. This section should be extremely persuasive in explaining why this expansion is necessary and how it can be beneficial for all stakeholders. The section should present the tremendous growth rates that BSBC has seen over the last few years and use that information to justify how this expansion will allow these numbers to continue growing. Show that without this expansion BSBC's growth and reputation might suffer. BSBC requires \$2.6 million for its proposed expansion project. It is currently seeking \$2 million in loans from the US department of agriculture. The remaining funds will be raised dependent upon approval of the USDA loan.

Consulting Team #2 recommends including detailed information about the following aspects of BSBC in this section:

- Cash-flow benefits that are gained from insourcing
- Orders that BSBC turned down due to capacity limits
 - Specific examples (Costco)
 - Frequency and severity of demands that are not met
- Value added to the BSBC through self-reliance
- How BSBC changed focus from keg sales to bottle sales
- Product variety and quality improvements that are gained from expansion
- How insourcing effects BSBC's bottom line
 - Economies of Scale gained through insourcing
 - Costs associated with PBS
- How current retailers provide sufficient demand for expansion
- Reasons why PBS cannot meet demands
- How much growth the expansion would support
- Operational benefits from insourcing
 - Reduced lead time
 - Bottling frequency increase
 - Larger batches

- How purchasing land will prepare BSBC for future expansion
- How expansion will support surrounding businesses

Competitive/Industry Analysis

This section is important for supporting the Evidence of Expansion Needs section. This information should show why the proposed expansion would be profitable. Explain the size and volume of the micro-brewing industry and beer industry as well as covering all the major breweries that compete for BSBC's market share. Emphasize that Big Sky Brewing has been very successful relative to its competitors and overall industry.

There are many facts about the company that help explain its industry performance.

- The company has been successful in its brew sales since its start and has grown to be one of the largest craft breweries in the area.
- In its home state, the business had more sales than all other craft breweries combined.
- BSBC is the only company among its competitors that does not use in-house bottling.
- The current industry is evolving towards people drinking more bottles than draft. In this position, BSBC has reached a plateau in sales volume due to its constraints on production capacity.
- With in-house bottle resources, the firm would be able to expand its sales volume and production capacity, which would allow for the company to continue growing in sales and market share.

Description of Venture

This section provides the lenders with an understanding of the work that the company does to create value and its current resources and production method. Big Sky should focus on how the company is able to benefit the community by bringing business and jobs to the community and offer a high quality product. An example could be; BSBC successfully serves a niche market in the brewing industry by offering a high quality craft brew with reasonable pricing and a favorable public image. Also, you could include the fact that the expanded facility would create 22 jobs and would have significant spill-over effects into other industries like the paper industry.

Production Plan

The production plan should explain how the company produces its beer and why that process is successful. This section is important to Big Sky because it needs to explain how the production plan has weaknesses that would be improved by the expansion. BSBC currently sells draft and bottled beer, as well as branded merchandise, which provides an alternative revenue stream to the business and also serves as a form of free advertising. The beer is currently brewed and bottled at a brewery in Portland and then shipped to the business. BSBC currently produces 4 main brands of beer; Moose Drool Brown Ale, Scape Goat Pale Ale, Powder Hound Winter Ale, and Slow Elk Oatmeal Stout. Defend each reason that supports this expansion such as:

- Current outsourcing process vs. insourcing process
 - Additional costs of outsourcing
- The benefits of investing in a manufacturing facility vs. the costs of not having one
- The brewing and bottling equipment it will need, and how that will help.
- The outsourcing supplies currently used vs. the local suppliers that could be used with expansion, which would benefit the local economy.

Operations Plan

This section will explain how Big Sky is able to serve its customers. The company should explain its current ability to meet the needs of its distributors and end customers in both quality product and customer service. This is where Big Sky will describe the constraints that the outsourcing process has on operations and the benefit of a new facility. Key points include:

- Reduction in lead time for orders
- Ability to make smaller order runs
- Less shipping costs

Marketing Plan

This section should explain the company's marketing mix and how it is able to create value for its customers. BSBC has experienced sales growth each year, and has expanded to new local markets and retail chains. An in-house bottling project would allow BSBC to serve the needs of its customers and also allow for greater control over production requirements and lead times.

BSBC currently benefits from its:

- High price points and perceived value
- Successful product awareness
- Growing sales volume and projections

Organizational Plan

This section should focus on the company's organizational and management structure and the current stakeholders. This is where Big Sky is able to promote its successful human resource management and job creation. Key points include:

- The organization currently employs 14 people and provides opportunities to supplying businesses around the area.
- The company has a strong management team with proven success in its performance.
- BSBC is also skilled in its human resource management, having only one employee leave the business since it was founded.
- An in-house bottling expansion project would create an additional 22 jobs in the company and use local materials suppliers to keep money in the local economy.

Assessment of Risk

This section is important to explain that you understand the potential weaknesses and risks that the business and expansion will endure and that the company is capable of offsetting and accounting for these risks. BSBC has been successful thus far, but will take on tremendous risk with the expansion. Risks include:

- The current debt ratio is already overleveraged
- The expansion could be more complicated or expensive than projected
- This business' growth rate could be less than expected and unable to afford the new facility.

Financial Plan

This section is critical for BSBC to prove that it has a healthy financial standing and can reasonably afford to undertake the risks of expansion. The company has performed well but it needs to prove that its debt leverage is not too high and its sales projections will be able to afford the debt. BSBC expects its sales volume to increase and its COGS to decrease. It expects to pay back the entire loan within a few years and grow its company as demand continues to increase.

Financial strengths of Big Sky include:

- Positive cash flow
- Growth in net income
- Increase in firm equity

Other Financing Options

Consulting Team #2 has researched other possible financing options in case BSBC does not get approved for the USDA loan. However, BSBC will still need to make the appropriate improvements on their business plan for these financial solutions as well.

1. SBA Loan 7(a)
 - Maximum amount of this loan is \$5 Million
 - No minimum amount of this loan
 - Fixed and variable interest rates are negotiable with a maximum of 2.75%
 - Refer to Appendix B for applying
2. SBA CDC/504 Loan Program (Real Estate Loan)
 - Maximum amount of this loan is \$4 Million
 - No minimum amount of this loan
 - Requires that one job per \$100,000 guaranteed by the SBA must be created or retained
 - Project assets being financed are used as collateral for the loan
 - Requires personal guarantees of all principal owners
 - Maturity terms are either 10 or 20 years
 - Interest rates are pegged on an increment above the current market rate for 5-year and 10-year US Treasury issues
 - Fees total about 3% of the total requested and are able to be financed with the loan
 - Refer to Appendix B for applying
3. Wells Fargo Bank SBA Loan
 - Maximum amount of this loan is \$5.2 Million
 - Minimum amount of this loan is \$50,000
 - Both fixed and variable rates are available
 - Collateral is secured
 - Wells Fargo will take a secured interest in business assets
 - Refer to Appendix C for applying

List of Fixed Assets

Fixed assets in the event of an expansion include:

- Depreciation on equipment
- Interest expense on loan
- General administrative expenses
- Rent
- Leases
- Salaries
- Building and machinery maintenance
- Utility payments

Hiring a Controller

If BSBC is granted a loan from any source, it is crucial that BSBC carefully monitors its financials in the years following the expansion. It will be very important to have a firm grasp of the company's cash flows, its uses of debt, its sources of income, as well as other financial information. This will ensure that BSBC can pay back its loan and interest, and be able to make a profit while doing so. A controller is someone who is in charge of the financial accounts of a company. BSBC should definitely hire a full time controller to manage its financials if it is granted a loan.

The only current employee that is qualified for this position is Bjorn Nabozney; however, he most likely has plenty of responsibilities within the company already, so we don't advise you to make him the controller. There are many websites/companies that specialize in staffing for companies which can be utilized when you are ready to hire a controller. Some in the Montana region include: LC Staffing, Caria Resources Inc., and A Working Solution. Additionally, we can use our expertise and connections to help you find a good controller. However, we advise you to focus on getting the loan before you take on the task of hiring a controller.

Section Four: Recommendations/Alternatives

After reviewing our research for this report, Consulting Team #2 has a few recommendations:

1. We recommend insourcing bottling through the expansion of current facilities in order to meet BSBC's growing demand.
2. We recommend improving BSBC's current business plan by adding the necessary sections to outline the business. (Refer to Appendix A)
3. We recommend reapplying for the USDA loan.
4. If BSBC is denied for the USDA loan again, then we recommend looking further into one of the proposed financial alternatives. (Refer to Appendix B)
5. In the event that you are granted a loan, contact us or utilize a staffing company like LC Staffing, Caria Resources Inc., or A Working Solution to find a controller

Section Five: Sources/ References

- USDA Rural Development Program Website
 - http://www.rurdev.usda.gov/BCP_gar.html
- BSBC Financial Statements
- Industry Findings from Case Study
- SBA Loan Programs
 - <http://www.sba.gov/loanprograms>
- Wells Fargo Bank Loan
 - https://www.wellsfargo.com/biz/loans_lines/future_opportunities

Section Six: Appendix

- Researching Business Loan Programs 1 hr.
- Developing Business Plan Explanations 2 hrs.
- Outlining Business Plan 30 mins
- Researching Other Financial Options 1 hr.
- Researching Fixed Assets 30 min
- Researching Controller 1 hr.

APPENDIX A

Business Plan Outline

- I. Table of Contents**
- II. Introductory Page**
 - Business Name and Address
 - Name of Principals
 - Nature of Business (Products/Services)
 - Statement of Finances Needed
 - Statement of Confidentiality
- III. Executive Summary**
 - (2-3 pages summarizing the business plan)
- IV. Evidence of Expansion Needs**
 - (Not included in many business plans but is extremely important for this particular situation)
 - Hard Results
 - Project Value
 - Net Present Value
 - Internal Rate of Return
 - Payback Method
 - Profitability Index
 - Breakeven Point Analysis
 - Soft Results
 - Operational Gains
 - Benefits Added to Customers
- V. Competitive/Industry Analysis**
 - Future Outlook and Trends
 - Analysis of Competition
 - Market Segmentation
 - Industry and Market Forecast
 - Pricing Methodology
- VI. Description of Venture**
 - Products/Services to be Provided
 - Size of Business
 - Office Equipment
 - Personnel
 - Background of Entrepreneurs
- VII. Production Plan**
 - Manufacturing Process
 - (Including use of outside firms and sub-contractors)
 - Physical Plant
 - Machinery and Equipment
 - Names of Suppliers
 - (Inbound Logistics)
- VIII. Operations Plan**
 - Description of Company's Operations

- Flow of Orders for Goods/Services/Distribution Channels
- Technology to be Utilized

IX. Marketing Plan

- Pricing
- Distribution
- Promotion/Advertising/Media
 - (Include Website)
- Product Sales Assumptions and Forecasts
- Controls

X. Organizational Plan

- Form of Legal Ownership
- Identification of Partners or Principal Shareholders
- Authority of Principals
- Management Team Background
- Roles and Responsibilities of Members of the Organization

XI. Assessment of Risk

- Evaluate Weaknesses of Business/Major Risks
- New Technologies
- Contingency Plans

XII. Financial Plan

- Financial Documents (3 Years)
 - Income Statements
 - Balance Sheets
 - Statement of Cash Flows
- Analysis of Financials
- Assumptions for Future Financials (3 Years)
 - Revenues and Expenses
- Pro Forma Income Statements (3 Years)
- Cash Flow Projections (1 Year)
- Pro Forma Balance Sheet (1 Year)

XIII. Appendix

- Letters and Documentation of Research
- Market Research Data
- Leases and Contracts
- Price Lists from Contractors/Suppliers
- Brochures and Advertising Materials
- Detailed Lists of Equipment Owned or to be Purchased
- Blueprints and Plans
- Maps and Photos of Location

APPENDIX B

SBA Loan 7(a) & SBA Loan CDC/504 Checklist

1. **SBA Loan Application** - To begin the process, you will need to complete an SBA loan application form:
 - o <http://www.sba.gov/sites/default/files/SBA%201919%202-14.pdf>
2. **Personal Background and Financial Statement** - To assess your eligibility, the SBA also requires you complete the following forms:
 - o <http://www.sba.gov/content/statement-personal-history>
 - o <http://www.sba.gov/content/personal-financial-statement>
3. **Business Financial Statements** - To support your application and demonstrate your ability to repay the loan, prepare and include the following financial statements:
 - o **Profit & Loss Statement** - This must be current within 90 days of your application. Also include supplementary schedules from the last three fiscal years.
 - o **Projected Financial Statements** - Include a detailed, one-year projection of income and finances and attach a written explanation as to how you expect to achieve this projection.
4. **Ownership and Affiliations** - Include a list of names and addresses of any subsidiaries and affiliates, including concerns in which you hold a controlling interest and other concerns that may be affiliated by stock ownership, franchise, proposed merger or otherwise with you.
5. **Business Certificate/License** - Your original business license or certificate of doing business.
6. **Loan Application History** - Include records of any loans you may have applied for in the past.
7. **Income Tax Returns** - Include signed personal and business federal income tax returns of your business' principals for previous three years.
8. **Résumés** - Include personal résumés for each principal.
9. **Business Overview and History** - Provide a brief history of the business and its challenges. Include an explanation of why the SBA loan is needed and how it will help the business.
10. **Business Lease** - Include a copy of your business lease, or note from your landlord, giving terms of proposed lease.

APPENDIX C

Wells Fargo Bank SBA Loan

1. Collect the Business Information Listed Below

- **Business Information**
 - Business name
 - Business address (no P.O. Box)
 - Business phone number
 - Business fax number
 - Tax identification number/SSN
 - Date business was established
 - Ownership type
 - Number of owners
 - Annual revenue
 - Business banking account number(s) and balance(s)
 - Business structure
- **Business Owner Information**
 - Name
 - Home address
 - Home phone number
 - Social Security Number(s)
 - Citizenship
 - Annual household income
- **Contact Information**
 - Primary contact (owner)
 - Primary contact phone number
 - Primary contact email address

2. Apply In Person At Wells Fargo Bank