



Business Kapiti Horowhenua Inc

Organisers of the Electra Kapiti Horowhenua Business Awards

Case Study:

Tuatara Brewery Ltd

**Winner of the 2011 Electra
Business of the Year Award**

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Synopsis

This is a case study of Tuatara Brewery Ltd, a micro brewery and winner of the 2011 Electra Business of the Year Award. Tuatara is, in some ways, a similar type of business to last year's winner (Aura Software Security Ltd). It is relatively new, it is in rapid growth mode, competes successfully against much larger competitors, and operates in an evolving and increasingly sophisticated sector where consistency and quality are paramount. And similar to Aura, Tuatara has not been afraid to measure their product and financial performance against other businesses.

Winning the Award was based on the same business principles that won the Award for Aura http://www.electra.co.nz/businessawards/2011_winners/index.htm. As with Aura and before them Turks Poultry Farm, this case study offers valuable learnings for every business regardless of the sector they operate in.

Introduction

In 2011 Tuatara Brewery Ltd was judged Winner of the Electra Business of the Year Award.

This case study¹ is about what they did that culminated in winning the Award. Its success is based on the type of qualities that characterise all successful businesses – a clear, long term aspirational vision, underpinned by a strategy that as stated by the Award assessors “is firmly expressed around the brand, vision and values”, passion and a can do attitude, the ability to turn a hobby into a business opportunity, commitment to being as good as possible, sensible business practices and systems, thorough research and product development, being prepared to take calculated risks, learning from their mistakes, creating relevant business partnerships and creating a team of people to produce a high quality and marketable product.

The Electra Business of the Year Award is one of the high points of awards won over the years by Tuatara: 32nd on Deloitte's 2011 Fast 50 index of New Zealand's quickest growing businesses (growth 216%), the 2011 Emerging Gold Award (Wellington Gold Awards) and the 2009 NZ's Best Brewery.

Tuatara did not win the Electra Business of the Year Award because of their category wins (they won the Operational Capability, Marketing and Image Building and Hi Growth and were finalists in one other category), but because they scored consistently high across *all*

¹ According to the Concise Oxford Dictionary a case study is “The use of a particular instance as an exemplar of general principles.”

categories. As with previous Award winners and consistent with their philosophy of continuous improvement, Tuatara knows there are areas they need to do more work on as the business grows.

Background: Tuatara Brewery Ltd

Tuatara employs 11 staff (general manager, head brewer, operations manager, sales reps and tasting team); its head office is in Reikorangi in Waikanae (on the Kapiti Coast) with The Malthouse and Bodega being its initial Wellington outlets. Craft beer has grown in Wellington to where the city is known as the craft beer capital of NZ. Tuatara distributes its range throughout the country as well as Australia, east coast of USA and with overtures into China.

The principal shareholders are Vasta Brewing Company Ltd and The Malthouse Ltd. Its directors are Carl Vasta and Sean Murrie plus an informal director (James Brow) with the aim in time to evolve to a more formal governance structure.

The origins of the business began some years ago. An engineer by profession, home brewing was a passion of Carl's and over time his hobby developed into a business. During this period he saw there was a market for boutique beer but realised he could not compete against the big breweries on volume and price. This led to the establishment of Tuatara Brewery Company in 2001 where traditional brewing methods from around the world were used to create a depth of knowledge about the different types of craft beer using products from overseas (e.g. German wheat malt) but of late sourcing many of them from New Zealand.

Today Tuatara produces six core beers, each with their own distinctive taste to suit the needs of its growing customer base, with new season offerings as a means of keeping themselves relevant and leading the market through producing beers that suit the trends of its market.

“We have a very good idea where it (the market) is going.....We stand more for producing great beers, and are looking for new opportunities to highlight our beer making skills”.

Adaptability to meet changing consumer tastes, innovative thinking – for example improving the shelf life of their beer (they contain no preservatives) and thus creating a strong competitive advantage, researching and developing new beers and bringing them to market is ongoing and a strong factor behind Tuatara's success.

As part of this the company has invested and continues to invest in equipment and technology to improve quality and consistency – two crucial aspects of the brand. Tuatara has developed precise standards and quality control systems around the brewing and bottling processes. It has external processes in place as required for compliance, for example HACCP (hazard analysis and critical control points - a requirement of the NZ Food Safety Authority). The owners understand the importance of quality systems to their growth and longer term success.

Aiming high.....

The owner's aim is to make Tuatara the leading micro brewery in the country. They see themselves as "being a big business" but understand there is strong competition in this category and from mainstream beer where traditional consumer habits die hard. Even so Tuatara believes that consistent high quality and the introduction of new products will enable it to achieve its aim. It also believes this will be helped through having the craft beer capital (Wellington) on its backdoor with a group of high profile bars/restaurants selling its products. The market is expanding and is expected to do so in line with its customer base.

The same is happening in Auckland. For example the Depot Eatery and Oyster Bar (run by Al Brown of Logan Brown Restaurant and Bar in Wellington), is seen as a high profile place where Tuatara is able to gain a presence in an evolving market.

"It isn't our intention to be an in-trend. We are here and expect the market to have changed forever. So it's more of an evolution of the market towards better beer and more choice".

Running parallel with this is a strategy to sell to the large consumer market via the supermarkets. To date Foodstuffs (New World and Pak 'n Save) and Countdown (Woolworths) are selling Tuatara products. This requires management skills capable of meeting the demanding requirements of the supermarkets. For instance, they cannot afford to be out of stock more than 2 or 3 times in a calendar year, so production has to factor in likely sales for the current and future months.

Rapid growth brings about its own challenges

As signified by their success in the Deloitte's Fast 50 index (third year in a row) at # 32 with a growth of 216%, Tuatara has grown rapidly with turnover doubling each year. As noted by Deloitte's -

"Coming in 32nd place and growing by 216.24% is Wellington's favourite brewery. To say that Tuatara Brewery has taken off in the last few years is an understatement. Heck, they've been propelled into orbit. The local demand for good beer is insatiable, and with volumes running at about a million litres a year, Tuatara has become one of the leading lights in the craft industry. It probably helps that they're based in the lower North Island where beer appreciation is not so much a cult as a full-blown religion". Deloitte's.

They were also recognised as the fastest growing business in the Wellington/Lower North Island region.

But it wasn't always like this. In the formative years they operated on a shoestring budget. There was no marketing budget which meant they had to be creative and resourceful in establishing a toe hold in the craft beer market. This they did by targeting well known and highly popular bars such as The Malthouse and Bar Bodega and well known people like Peter Jackson. It was at the high end of the market - cosmopolitan, sophisticated, 25+ age

beer drinkers, it was word of mouth and it worked. In some ways it was reminiscent of Geoff Ross' 42Below vodka strategy.

Rapid growth brought with it the familiar growing pains of undercapitalisation and its twin cousin, lack of cash flow (every dollar goes back into the business); demand started to exceed production capacity (over 80% a year to currently one million litres a year but threatened by emerging bottlenecks); issues with over operational capability - the ability to develop systems, plans and staff to manage rapid growth; the need to expand the brewery to match this growth (eventually solved by relocating to larger premises); problematic logistical and operational issues had to be resolved - for example they had to import 90,000 litres a week of good quality water.

Notwithstanding this, even though the mainstream beer market is declining the craft brewing market is growing in the order of 10% a year. Tuatara is part of this growth but Simone and Carl Vasta and Sean Murrie know that the success of their product and brand also lies in growing the craft beer market nationwide.

“Tuatara realises it has a role to play in growing the overall market, which many firms don't have the vision to do. At times it means we focus on things other than the tasks at hand, but it is done because we have to build in some future proofing of the market. We wish to be a big fish in a big pool and so these efforts are clearly required to increase the size of the pool”.

“Tuatara” sounded a nice name for our product and it is uniquely New Zealand

Ostensibly the name “Tuatara” was chosen as the brand name because it “sounded nice” and was uniquely New Zealand. In truth, a large advertising agency was looking for a beer client and although Tuatara had no marketing budget the agency liked the product and what it stood for and designed its distinctive packaging at no cost. Trading on its name Tuatara gives back to the community with its support of the Tuatara programme at the Zealandia Wildlife Sanctuary in Karori, Wellington

“In gratitude for the loan of the little guy's name, we sponsor him at Wellington's Zealandia conservation centre.”

Tuatara's philosophy is to employ young people and train them up

Tuatara prides itself on employing young people in the bottling plant, some of whom are out of work, and training them up. This brings its share of problems over reliability, work ethics and so on but Simone Vasta believes they should be given an employment opportunity, learn good work habits, look at ways of improving (themselves and the business) and develop general skills. She leads by example.

“I have done everything in the brewery and I expect them to be able to do the same too”.

Exporting: do it right - employ the right people and retain control of the product

There is a strong belief in Tuatara that exporting to another country is tantamount to having a presence in that country which means the personal aspect of exporting must be done right. Trusting just anyone to exclusively manage and market the product leads to dissatisfaction and ultimately failure (the Aura Security Software experience – refer case study). This observation is based on experience learnt the hard way: firstly in Australia (Melbourne) where an exclusivity contract meant Tuatara was “beholden” to the distributor and secondly in USA (Chicago) where, for various reasons, control over distribution and quality was compromised.

The answer to this for Tuatara is to do due diligence, select the right people, and as in the local/NZ market take control at the retail coalface by employing a dedicated and trained sales force.

Looking to the future

Simone Vasta would like the business to eventually be run by her children while she and Carl take directors roles. She appreciates this will have to be carefully managed but feels it can be done.

In the meantime she is aware Tuatara is limited by its ability to grow incrementally and may require an investor to inject additional capital into it but such a person will have to show they can actively add value to the business.

Their aim is to achieve three times their current turnover and to have the infrastructure, staff and business knowledge in place. Equally it is not just about money but having control over their own destiny, working with good and innovative people and creating the opportunity to move to the next challenge.

To achieve this:

“We have to concentrate on making great beer because it is what we do. Over the last three years, we have added new beers to our range, increased production, gained new customers and started working with new outlets and stockists. We are very grateful to our customers, suppliers and stockists. It’s been a great ride so far and I don’t see it slowing down anytime soon.”

Awards

For different reasons all awards won by Tuatara are seen as recognition of certain aspects of their business.

The ***Electra Business of the Year Award*** is seen as recognition of all round excellence but in the knowledge that the assessment evaluation and feedback process constructively highlights areas where the business can improve.

“The Award is certainly worth doing. We get caught up in doing our own little thing. Sometimes we feel we are beating our head against a wall but the outside recognition from the Award is encouraging”.

Conclusion

The following comment from the Electra Kapiti Horowhenua Business Awards Assessors succinctly sums up Tuatara Brewery Company.

“Tuatara is achieving rapid growth, seemingly on the back of a quality product with market appeal, effective marketing and channels, and having essential systems in place to maintain qualityit is committed to growing the craft beer market in NZ and is conducting research and development into areas that if successful will position it well as a true industry leader”.

The assessors were impressed with what they found on the site visit and the quality of the thinking and apparent understanding from owners of the key business issues, challenges and solutions.

The challenge will be to hold it all together while ensuring that the financials continue to improve and funds are available for investment.

Appreciation

Finally, BKH appreciates the time given to the case study by Simon Vasta, Sean Murrie and Kirsten Kilmister.

This case study was compiled by Chris Ineson of Drivingforces for BKH (Business Kapiti Horowhenua)



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