

Starting a Craft Brewery in Ontario

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Disclaimer

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Introduction

Welcome to “*Starting a Craft Brewery in Ontario*”; one of many resources that the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) offers individuals and businesses starting or growing a food and beverage company.

Craft beer is a thriving industry in Ontario; as of 2015 the industry employed well over 1,500 people in direct brewery jobs and over 6,000 in indirect jobs (using a multiplier of four)¹. In 2014-15, Liquor Control Board of Ontario (LCBO) sales of Ontario craft beer grew to over \$69 million, up nearly 35% annually in 2015-16². Craft beer continues to be the fastest-growing segment within the LCBO’s beer category, growing at anywhere from 20%–30% per year³.

Whether you are new to the craft brewery industry and starting a business, or are considering expanding your existing operation, you will find information to help you.

Good luck as you build and grow your brewery. Whatever your growth, investment or export goals, OMAFRA’s Business Development Branch has the knowledge, connections and resources to help you succeed.

To learn more about food and beverage processing in Ontario, please visit our website at ontario.ca/foodbusiness.

¹Ontario Craft Brewers – Industry Fact Sheet, February 2017 www.ontariocraftbrewers.com/pdf/media_IndustryFactSheet.pdf. Accessed June 13, 2017

²Ontario News Release, June 14, 2016 news.ontario.ca/omafra/en/2016/06/provincial-and-federal-governments-investing-over-16-million-in-craft-beer-sector.html. Accessed June 15, 2016

³Ontario Craft Brewers – Industry Fact Sheet, February 2017 www.ontariocraftbrewers.com/pdf/media_IndustryFactSheet.pdf. Accessed June 13, 2017



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Roadmap to Starting a Craft Brewery

Brewery Planning

Conceptualize your brewery now and in the future, before making financial or other long-term commitments.

Government Requirements

Know the federal, provincial and municipal requirements to start and operate a brewery in Ontario.

Brewery Setup

Design the brewery floor plan and surrounding space. Source ingredients and equipment, manage water/energy use and calculate the Cost of Goods Sold (COGS).

Packaging and Labelling

Consider the size and type of materials and the type of labels when packaging beer. Also know the federal and provincial compositional labelling requirements for beer.

Distribution

Know the requirements and expectations to sell beer in the Beer Store, LCBO, grocery store, bars, restaurants, brew-pub, etc. to avoid delays or unexpected costs.







Section 1: Start Planning Your Brewery

Do Your Homework!

Like any other small business, starting a craft brewery requires an enormous amount of dedication, commitment, hard work and capital investment. Before making the commitment and initial investment, do your homework to determine if owning a small business is right for you. The Canada Business Network (www.canadabusiness.ca/eng/page/2856/) contains detailed information on starting your own business.

The Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) has developed a comprehensive resource called *Guide to Food and Beverage Manufacturing in Ontario*. This guide gives a general overview to starting a food and beverage business. Download your copy today at ontario.ca/foodbusiness.

Starting a Craft Brewery in Ontario provides specific information to craft brewers in Ontario and draws on the advice and experience from experts in the industry.

In this section you will learn about:

- writing your business plan
- planning for the future
- financing your brewery
- marketing and branding
- becoming a brewmaster
- support for a start-up brewery

Writing Your Business Plan

Your business plan is the most important document you will ever write for your start-up brewery. It will help you define your business goals and carve out your strategic direction. Your business plan is a living document; once developed you should regularly follow, consult and update it.

A good business plan is also essential for building a strong business case to access funding from the banks, lending institutions, investors and government programs.



Writing a business plan for your start-up brewery requires extensive research. The more research you do, the more informed you will be about the process and requirements, and as a result, be better prepared to deal with any unforeseeable circumstances.

Business plans come in many forms and lengths, but they all contain the same core information. The following list of organizations and websites provide useful information for researching and writing your business plan:

- Business Development Bank of Canada – business plan template: www.bdc.ca/EN/articles-tools/entrepreneur-toolkit/templates-business-guides/Pages/business-plan-template.aspx
- Business Planning software – www.liveplan.com/ and www.businessplanpro.com/
- Canada Business Network – www.canadabusiness.ca/eng/page/3426/
- CIBC – Your Guide to Business Planning: www.cibc.com/ca/small-business/article-tools/business-planning.html
- MaRS – planning tools/templates for business planning, including how to identify investors and an entrepreneur toolkit: <http://www.marsdd.com/mars-library/>
- Ontario Small Business Enterprise Centres – www.ontario.ca/business-and-economy/small-business-advice-support-services-regulations
- Ontario Summer Company Business Plan – www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/FormDetail?OpenForm&ACT=RDR&TAB=PROFILE&SRCH=&ENV=WWE&TIT=summer+company&NO=009-0021E
- Royal Bank of Canada – Starting a Business Resource Centre: www.rbcroyalbank.com/sme/create-plan/business-plans.html
- TD/Canada Trust – Business Planner for Small Business: www.tdcanadatrust.com/smallbusiness/windocs.jsp

Your business plan is not limited to, but should include the following:

- executive summary
- business description (include mission and vision statements)
- product description
- market analysis
- marketing plan
- operations plan
- financial plan

Your business plan is your blueprint, so be specific and customize it to meet your business' needs. Get input from your business partners, and seek advice from your mentors and industry experts. Building a network of trusted advisors will be critical to your success and growth. See OMAFRA's *Guide to Food and Beverage Manufacturing in Ontario* (ontario.ca/foodbusiness) for help with writing your business plan.





Planning for the Future

For most entrepreneurs, planning for the future seems to be a distant thought and as a result, delay making plans until it becomes absolutely necessary. Planning for the future should be an integral part of your initial business plan as it will help you support the execution of your chosen strategies and will demonstrate to bankers and investors that your business is on the right track.

Deciding on the expertise needed for your brewery is critical and should be included in your business plan. Initially, you would require a few people to fill these positions: Brewmaster, Brewery Manager/Assistant, Bookkeeper and Investor. You, as the owner of the brewery, will probably wear many hats in the initial stages of your operation, but as your business grows, constraints will become more physically and mentally demanding and surpass your capabilities. Planning out your human resources needs during the development of your business plan will help you decide on the level of expertise required to successfully grow your brewery.

Also include in your business plan the types of expertise you will need in your brewery, both now and in the future. Identify your role as the owner of the brewery and stick to that role. The future needs of your brewery will require expertise in marketing, sales and accounting. Hire staff with the expertise in these areas or send existing staff for training and professional development to ensure those skills are met. Check out *Section 7: Human Resources in the Guide to Food and Beverage Manufacturing in Ontario* for information on assessing employment needs, skills development and incentive programs.

Some common strategies used to plan for your future in the craft brewery industry include planning for growth, succession planning and developing an exit strategy.

Planning for Growth

To support your brewery's growth potential, you may want to consider the following commonly-used strategies in the Ontario craft brewery industry:

- **Market Expansion:** Market expansion involves initiatives to help expand into a new market with the existing line of products. Many start-up craft brewers use this strategy as a first step to business growth, particularly when the existing market has been saturated. Some craft brewers are most comfortable with selling



their beer at the local LCBO or the Beer Store (TBS) based on the stage of business growth. However, to remain relevant and competitive in the craft brewery industry, it might be necessary to target other new markets. New markets might include selling your beer across the province, nationally, or eventually exporting to the United States (U.S.) and/or abroad. Many businesses, particularly brewery owners, use 2–3 years as a benchmark for market growth. Decide what time frame works for you and your business; include this in your business plan and follow this as your business grows. Many brewery owners make capital investments to their facilities in order to increase production. Such investments may include adding a new bottling line or storage tank, labelling equipment or an additional hopper. Remember to include whichever growth strategy you intend to use in your communication and marketing plan.

- **Product Expansion:** Some craft brewers in Ontario bring out speciality or limited edition brews for special occasions or community celebrations. This is a great opportunity to test some unique flavour profiles and expand your product line without making a significant commitment that may or may not sell. This allows you to build brand loyalty by enticing existing customers and attracting new ones. You may even decide to bring out a completely new product line based on these speciality brews. As an example, in 2014 Wellington Brewery partnered with the University of Guelph and launched a new craft-brewed lager to celebrate the University's 50th anniversary.
- **Diversification:** Diversification includes selling new products in existing or new markets. You may choose to diversify by adding a dark rye lager to your traditional line-up of brews, or simply offer a new packaging alternative, such as beer in cans, to appeal to a specific target customer. Some Ontario craft breweries see potential growth opportunities by diversifying into the craft cider or distillery industries. Whichever way you choose to diversify, ensure you do your research, allocate capital and acquire the necessary skills or knowledge to facilitate this growth.
- **Acquisition:** Another growth plan strategy in the craft brewery industry in Ontario is through merger or acquisition (M&A). This involves a larger company (or brewery) buying out most or all of your brewery's ownership. At the start-up stage you should indicate in your business plan if you intend to sell your brewery after a certain period of time. The last thing you want is to be forced to sell your brewery at a loss due to a lack of sound strategic business planning at the start-up stage.

Succession Planning

In general, most start-up businesses are family-run where the head of the family is the owner of the business. Most family-run businesses are started with the intention of passing the business down to children and grandchildren. In reality, this scenario does not always work out as the children or grandchildren may pursue different professions or have no desire to run the family business. For a start-up craft brewer, succession planning should be an essential part of your strategic business plan. This is where you describe your

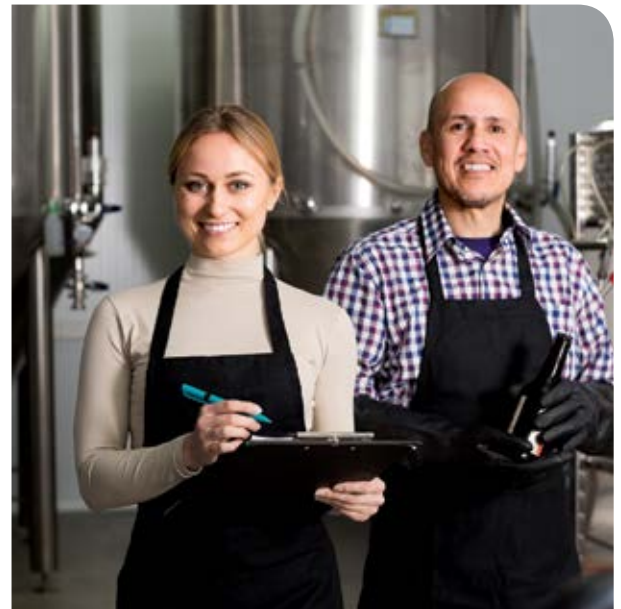


vision of the future direction of your brewery. As a start-up brewery, you may only have a few employees, and as a result, dedicate little time to succession planning. Many people underestimate the critical nature of succession planning in nurturing the human capital of the business. Think about the specific qualifications of your employees: do you need additional expertise on your team or can you provide opportunities for professional development to existing staff? Revise your succession plan on an annual basis and make changes where necessary. Succession planning should always be top-of-mind.

Exit Strategy

Another thing to consider when planning for the future of your brewery is an exit strategy for yourself. An exit strategy ensures your brewery remains successful long after your departure. Many people use an exit strategy as a form of retirement. Although you love your brewery and are proud of what you were able to create, you know you cannot run the business indefinitely. There will come a time when you no longer have the desire or ability to continue its operation. Planning for that moment long in advance will help make the transition easier for you, your brewery, your employees and your customers. Here are some common exit strategies:

- Pass your share of the brewery on to a family member via a Last Will and Testament: this is a form of succession planning and is the most common exit strategy. Experts advise that you should include your intention to pass your brewery along to a family member in your business plan. To ensure a smooth transition, you should involve your family members into your brewery operations as early as possible and talk to them often about your future plan. This demonstrates to you that the family member you wish to inherit your brewery is serious and dedicated. It will also demonstrate to the family member that they have a secured future.
- Sell your brewery to another brewery or interested investor: this is another common exit strategy used by business owners, and usually occurs when there are no family members interested in taking over the business. In some cases, two or more craft breweries with similar products or target customers might consider consolidating their businesses in order to remain competitive in the craft beer industry. Selling your brewery requires careful thought and analysis. Once you have exhausted all of your options and decide that selling your brewery



is the best choice, you need to conduct a valuation of your business. This can be very tricky, but the most common method used to determine a fair sale price for a business is calculating a multiple of EBITDA (earnings, before interest, taxes, depreciation and amortization). When a buyer submits an offer for consideration, you should have two figures in your back pocket: (1) the maximum figure you think you could get based on your valuation; and (2) the lowest figure you will accept. The ideal solution is to get an offer somewhere in-between those two numbers. There are many resources that you can access online to help you calculate the value of the brewery. If your brewery is generating sales in the millions of dollars, then it might be a good idea to seek advice from a professional such as an investment banker or chartered business valuator. You may find a Chartered Business Valuator at cicbv.ca/find/.

- Liquidating assets and shutting down: although not the most ideal situation, you may find that liquidating your assets and shutting down your brewery is your only option. To do this, you will also need to conduct a valuation on all of your assets (tangible and intangible, including your brand) in order to set selling prices for your equipment and intellectual property. Other operating breweries generally seek out used equipment in good working condition, so getting rid of assets may not be too difficult. The challenging part is closing your brewery, particularly after dedicating your hard work and life savings into a business you believe could have been your legacy.
- Employee stock ownership plan (ESOP): an uncommon approach, but one that is viewed as innovative, is an employee stock ownership plan. This approach allows employees to become owners of stock in your brewery and can be done in a variety of ways. Contrary to popular belief, this approach is not used to salvage a struggling company. It is used as an exit strategy, ensuring the brewery ends up in the hands of the people that helped to create and sustain the business. Check out this Globe and Mail article (May 17, 2016) about Beau's All Natural Brewing Company ESOP: www.theglobeandmail.com/report-on-business/small-business/sb-growth/beaus-brewery-to-remain-independent-by-selling-ownership-to-employees/article30046219/.

Financing Your Brewery

Most brewery owners would agree that the single most important thing you need to start your brewery is money. Financing and capital expenditures will depend on a number of factors including:

- research and development
- marketing and promotions
- brewery size and location
- used or new equipment
- building or renovation costs
- other costs associated with becoming compliant with government regulations



There are several sources of financing to consider; first, think about how much money you will need and when you will need it. Determine all overall start-up costs by figuring out how much money it will take to get your brewery operational. Make a list of every expense you think you might incur for the first 3–6 months, and then distinguish between your variable and fixed costs. Most Ontario craft brewers suggest that a start-up craft brewer would likely need about \$1 million dollars for an operational facility.

Variable vs. Fixed Costs

As the name implies, variable costs are those costs that can vary or change depending on production activity or volume; fixed costs are those that remain constant and are independent of production levels. Fixed costs can and will vary, but will not change in direct relation to production.

Variable costs include ingredients, bottles/cans, labels and production labour.

Fixed costs include rent/lease/mortgage, equipment, utilities, waste removal, non-production labour, marketing and promotions, insurance and property taxes.

Some costs such as utilities, waste removal and promotions may be considered semi-variable because they can change with different levels of production, but are not in direct proportion to production levels.

Additional costs to consider include cost of delivery of ingredients, financing costs, equipment repairs and maintenance.

Type of Business Structure

Before you start incurring expenses, consider what type of business structure is right for your brewery and get advice from an accountant or business lawyer before registering your business. The type of business for your brewery is important because it will determine your legal obligations, tax structure and any personal liability. The main types of business structures are:

- **Sole proprietorship:** This is an unincorporated business entirely owned by one person where the sole owner is fully responsible for all debts, personal income tax and any other obligations related to the business. All profits are yours to keep. As a sole proprietor you are personally liable, meaning that a creditor can make a claim against your personal assets, as well as your business assets, in order to satisfy any debts. An unincorporated business is not liable for Ontario corporate tax.
- **General partnership:** A partnership is an unincorporated business that is created between two or more people. Each member of the partnership shares in the profits of the business according to any legal agreements. In addition, each partner in the partnership is jointly liable for the debts and subject to tax, not the partnership itself.



- **Corporations:** An incorporated taxable legal entity created by law, having a legal personality and existence separate, and distinct from the personality and existence of those who caused its creation or those who own it. Where an entity has such a separate identity and existence, the Canadian Revenue Agency (CRA) will consider it to be a corporation for taxation purposes under the Income Tax Act (laws-lois.justice.gc.ca/eng/acts/I-3.3/).
- **Limited Liability Companies (LLC):** An LLC is an unincorporated organization created under the laws of a particular state of the U.S. An LLC can generally offer its members the features and benefits of both a corporation (separate legal personality, limited liability to its members) and a partnership (flow-through taxation for U.S. tax purposes where the LLC is treated as a partnership under the Internal Revenue Code). In most cases the CRA has determined that LLCs are to be treated as a corporation for the purposes of the *Income Tax Act* (laws-lois.justice.gc.ca/eng/acts/I-3.3/).
- **Limited Partnership:** Consists of a general partner and a limited partner. The general partner manages the business and has unlimited personal liability for the debts and obligations of the Limited Partnership. The limited partner is a financial partner with limited liability and cannot participate in management. There are often substantial tax benefits for a Limited Partner, but if it is deemed that the Limited Partner becomes involved in the business, the tax benefits will be lost. Often a structure like this has a “shot-gun clause” between the partners where one can declare they have a buyer for the business and the other partner must then match this offer or the business will be sold to the person/business making the offer to purchase.



Name of Company

Before registering your business name, conduct a name search to make sure the name you have in mind is not already in use. You can do so by conducting your own online search or use a private-sector service provider for a fee. Additional tools are available on the Canada Business Network website (www.canadabusiness.ca) to assist in the process of choosing a name. See *Section 2: Government Requirements for Craft Brewers* for information on how to register your business name.

Bricks-and-Mortar Brewery vs. Contract Brewer

A bricks-and-mortar brewing facility makes and sells beer whereas a contract brewer uses the production site, equipment, and in some cases, the workforce and expertise of an existing brewery to produce their beer. In Canada, under the *Excise Act* (laws-lois.justice.gc.ca/eng/acts/E-14/), in order to obtain an Excise Duty licence to brew beer, a craft brewer must have a fully-functioning brewery in place prior to an Excise Duty Officer entering the premise to conduct a licencing investigation. This requires up-front capital investment and there is no guarantee that an Excise Duty licence will be granted. This can be a very risky business decision, particularly when your main source of financing comes from personal savings or partnerships with other investors. Important to note under the *Excise Act*, an individual brewer does not receive an Excise Duty licence to brew beer; the licence is granted to the facility where the beer will be brewed. As a result of this, many start-up craft brewers begin operations as a contract brewer and use the production space of an established brewery to produce their beer. This saves on initial capital expenses for their own “bricks-and-mortar” facility. Keep in mind that an established brewery could be impacted either through higher federal Excise Duty or lose their eligibility to be considered a microbrewer in Ontario. Both federal and provincial tax regulations will be discussed further in *Section 2: Government Requirements for Craft Brewers*.

Financing Options

Think about the actual financing needed for your brewery business (including start-up, expansion and incidentals) and through which method it will come. The following are the basic types of financing:

Debt

Similar to obtaining a personal loan, the most traditional method of obtaining financing for a start-up business is through debt financing. Most banking institutions offer debt financing with stringent lending rules. As a new brewery it is incumbent on you to ensure your business plan and pro forma financial statements are conservative, accurate and complete. Determine how much money you wish to borrow prior to going into the bank or other lending institution. After you present your business and financial plan you and the lender would agree to a rate of interest and repayment terms, and if approved, you get the loan. You should ensure that you are able to repay the loan in its entirety should the business fail. Once the loan is repaid, the lender has no more claims against your business. In addition, the interest paid on debt is most often a business expense for tax purposes, and for this reason the cost of debt financing is lower when considered on an after-tax basis.

Equity

Equity financing is sometimes the only option available to a business venture. A business may be experiencing a high degree of financial risk due to high debt leverage, or simply not have sufficient profitable history to interest debt financing sources.



Equity financing is typically offered by venture capitalists and other angel investors. They lend you money in return for becoming a part owner of your business, either temporarily or permanently. There are pros and cons to equity financing. On the one hand, depending on the shareholder agreement, the lender will have a say in the decision-making process. On the other hand, they may provide valuable advice, expertise and resources that will help your business succeed, including introductions to critical stakeholders.

Another benefit of equity financing is that the repayment terms can be more flexible than debt financing. It is important to know, however, that an equity financier is looking for a return on investment (ROI), not just repayment of a loan plus interest. You may end up paying back more in equity financing than you would have through debt financing.

Combination of Debt and Equity and Other Funding Sources

You also have the option to finance your brewery through a combination of debt and equity financing. Other financing options include self-funding, business line of credit, crowdfunding and government grants. Make sure you fully understand the risks and benefits of each option before securing financing for your business.

Visit OMAFRA's website and download your copy of the *Guide to Food and Beverage Manufacturing in Ontario* (ontario.ca/foodbusiness). Section 3 of this resource contains extensive information on the basic types of financing and key information needed to prepare documents for financing.



NOTE: It is vitally important for the survival of your brewery to have sufficient working capital on hand at all times. You need cash to purchase equipment and ingredients, pay staff, marketing and promotions and other everyday operating costs. You also need cash to cover unexpected expenses such as equipment repairs and infrastructure complications that may arise. Getting financing can take a long time. If you wait too long to start the process, you can find yourself in trouble. Many businesses fail because they did not monitor their cash flow on a regular basis and waited too long to secure financing.

Where to Find Funding

Here are some places you can go to find financing for your brewery:

Major Banks in Canada	Website
Canadian Bankers Association	www.cba.ca
Royal Bank of Canada (RBC)	www.rbc.com
TD Bank Group	www.td.com
Scotia Bank	www.scotiabank.com
CIBC	www.cibc.com
BMO Bank of Montreal	www.bmo.com
National Bank	www.nbc.ca
Government Financial Institutions	Website
Farm Credit Canada	www.fcc.ca
Business Development Bank of Canada	www.bdc.ca
Export Development Canada	www.edc.ca
Canadian Commercial Corporation	www.ccc.ca
Other Business Financing	Website
Canadian Venture Capital Association	www.cvca.ca/membership/directory/
Canadian Financing and Leasing Association	www.cfla-acfl.ca/
National Angel Capital Organization	www.nacocanada.com/
Aboriginal Business Canada	www.aadnc-aandc.gc.ca/eng/1100100032796/1100100032800

Marketing and Branding

Marketing is a general term used to describe a process that involves planning, promotion and distribution, and plays a major role in developing a strategy to reach your target market. See OMAFRA's *Guide to Food and Beverage Manufacturing in Ontario* (ontario.ca/foodbusiness) for more information on marketing and developing your marketing plan.

The craft brewery industry in Ontario is booming, despite competing in the highly-competitive beverage sector. Part of this success can be attributed to the unique marketing tactics that have been used by craft brewers. Successful craft brewers know that in order to succeed in this sector, one has to build an emotional brand



connection to their consumer. Educating your consumer by telling your story and conveying your passion about your product creates an emotional hook that builds brand awareness and trust. Ultimately a strong branding strategy will create long-term value, result in loyal customers and repeat purchases, and aid in your differentiation. Social media and other digital marketing techniques have been great in helping craft brewers tell their story and connect to their customers through two-way conversations.

Marketing Plan

In addition to your business and financial plans, a marketing plan is another essential tactical tool that will guide you to your end goal. The marketing plan helps you identify customers and distribution methods, as well as how you plan to retain your target customer.

A good marketing plan is essentially a roadmap that will help you allocate resources, set measurable goals, position your brand and create an opportunity to expand to new markets. Your marketing plan can include the following:

- target customers
- unique selling proposition
- pricing and positioning strategy
- distribution plan
- promotions strategy

Remember to consider your marketing plan as a living document and update it as your business matures and grows.

Brand and Logo

A large component of your marketing strategy is designing your brand and logo for your marketing materials and product label.

A logo is a graphical display of unique colors, fonts and images. It is the main visual component that graphically depicts your story, which allows your customers to identify with your brand.

Craft brewers in Ontario have done a great job in designing logos that suit their unique styles. Browse the website of the Ontario Craft Brewers (www.ontariocraftbrewers.com/index.php) to see a list of brewery members and their logos.

Your logo will appear on products, business cards, websites and cost advertising, so consider the following when designing your logo:



- Know your customer and choose colours, fonts and icons that appeal to them (e.g. men/women, young or older adults, sports/outdoor enthusiasts).
- Keep it simple and avoid designing a logo with intricate designs and use of several colours.
- Use the services of a creative design professional for your logo design and make sure you include this cost into your business planning and budget.
- Proofread your label before finalizing for printing to make sure there are no mistakes.

Brand Label

Your label is the first thing your customer sees when perusing the retail shelves. They may take 10–15 seconds to look at your label and make a decision as to whether to purchase your product or look at another brand. Therefore, it is essential for you to place a great deal of consideration into creating your label.

Remember your label is connected to your brand, so use it to your advantage. For example, if your brand promotes environmentally-friendly practices and initiatives, then incorporate those practices within your label-making process and showcase that to your customers. Many consumers today are conscious of the environment and good corporate social responsibility, and will only buy products that align with their beliefs.

Get the Most out of Marketing

Many craft brewers spend big dollars on advertising which is often necessary to get your brand noticed. You can, however, take advantage of lower-cost advertising options by interacting directly with consumers. For example, participate in local events, open house tours and beer-tasting events. Make sure you have “swag” on hand (T-shirts, hats, bottle openers, etc.) as this is a form of free advertising. By participating in such events, your consumer gets to know you and why you make beer the way you do. This helps to build trust, brand loyalty and repeat purchases.

Stay Up-to-Date

As communicating with others become more digital, it is important to have an active social media presence that tells your story and connects with your customers. The reach through social media can cross borders and can help you remain competitive and relevant, ultimately impacting your craft brewery operations. The most common social media platforms used by craft brewers today are Twitter, Facebook, Instagram, Snapchat and YouTube. Some craft brewers wait until their brand is established before creating an online presence. Others build up the hype about the brewery before they are officially open for business. Consider all the advantages and disadvantages before choosing which



way to go. Timing is also important because you may spend time building up the hype about the opening of your brewery, but if delays occur your potential customers may become uninterested and move on to the next brewery.

Business Insurance Coverage

As a business owner, it is your responsibility to ensure you have the right type of insurance in the event of an unforeseeable accident or injury. In the same way you insure your house and contents within, you need to insure your business and employees. Insurance is important for covering the building and equipment and helps you plan, manage and mitigate risk. Choosing what type of insurance you need for your business can be a difficult task. Speak to an insurance agent or broker for advice on the type of coverage you need for your brewery. Check the website for the Insurance Bureau of Canada to find out more about business insurance www.ibc.ca/on/business.

There are several different types of insurance options available for your business. Here are a few to consider:

- liability insurance
- commercial property insurance
- commercial vehicle insurance
- life and health insurance (employee benefits)

Where to Find an Insurance Agent/Broker

Talk to others in the brewery industry to get advice on which agent or broker to use. You can also check out MyInsuranceShopper.ca (www.myinsuranceshopper.ca/find-a-broker/) which is an online suite of Canadian insurance coverage services to help you find the insurance you need. As a best practice, try to get more than one quote and remember to not choose on price alone.

How to Manage Risk

Developing a risk management plan is very important as it helps you identify possible risks to your business and the necessary measures to help you mitigate those risks. Download the Insurance Bureau of Canada's *Getting Started Managing Your Risk* assets.ibc.ca/Documents/Brochures/Managing-Your-Risk.pdf.

Becoming a Brewmaster

A brewmaster is a highly-skilled and knowledgeable professional that is involved in the day-to-day operations of the brewery. A brewmaster also has general knowledge of administrative duties such as finance and human resources however, for the most part, a brewmaster takes care of making beer. The Ontario craft brewery industry is in high demand for experienced brewmasters and other skilled professionals in brewery management and sales.



There are a number of ways to become trained as a brewmaster or in brewery operations. Attending an academic institution to obtain a certificate is the most common approach.

Niagara College Canada offers a 2-year diploma program in Brewmaster and Brewery Operations Management at the Niagara-on-the-Lake campus. The program provides hands-on training as well as instruction in brewing technology, brewery operations, sales management and advanced business applications necessary to successfully operate a brewery. Students are also able to obtain an Institute of Brewery and Distilling (IBD) Certificate. Visit canadianfoodandwineinstitute.ca/programs/brewmaster/ to know more.

Durham College is offering three different craft brewing courses at the Whitby campus through an exclusive partnership with the Chicago-based Siebel Institute of Technology (Siebel Institute). The courses are designed to provide individuals who are aspiring to build their career in Canada's craft brewing industry with an opportunity to learn from master brewers and other industry experts, enabling them to gain a better understanding of brewing standards and advancements. Further, individuals will obtain the foundation needed to make, market and sell great beer. Courses include Basics of Commercial Brewing, Brewing Technology, and Sensory Analysis for Flavor Production and Control. For more information, please visit www.durhamcollege.ca/academic-schools/centre-for-food/siebel-institute-brewing-certificate-program.



If you are interested in learning how to make beer and operate a brewery, but are unable to attend an on-site campus, then online learning might be an option. The Beer School offers online courses that lead to a Prud'homme Beer Certification. Visit tfkbeeru.com/opec/?cid=21 to know more.

Working as a brewery assistant gives you insights into the brewery industry and can help you decide if this is the career path you want before making the commitment of a formal academic approach. Check job listings for opportunities in breweries or drop off your resume at your local craft brewery.

In addition, many craft brewers start out by doing home brewing as a hobby, and then discover their love and skill for the art of brewing. If you are not already doing so, you may want to purchase a brew starter kit to make your own beer at home.

If you are still trying to figure out your future career, check out Food and Beverage Ontario's website tasteyourfuture.ca/ to learn more about jobs and careers in Ontario's food processing industry.



Finally, check out OMAFRA's *Guide to Food and Beverage Manufacturing in Ontario* (ontario.ca/foodbusiness) and read the section on "Is Entrepreneurship Right for You?" to find resources and academic institutions in Ontario that offer programs in food and business management.

Support for a Start-up Brewery

Starting a brewery from scratch is no easy task. You have already spent much of your time researching the industry, writing your business plan and securing funding for your venture. At this point, you still have a long way to go before you can start production of your beer and eventually selling to your customers. Getting in contact with the right agencies early in the process will save you time and, in some cases, money.

There are many people and places you can go to receive help during the initial stages of starting your craft brewery business. Focus on speaking to the relevant government agencies and arrange the proper documentation needed in order to avoid confusion and delays. Below is a list of relevant agencies to contact.

Government Support

Canada Revenue Agency (CRA): www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses.html

- register your business and obtain a Business Number (BN)
- obtain an Excise Duty licence to brew beer: www.canada.ca/en/revenue-agency/services/forms-publications/forms/l1.html

Canadian Food Inspections Agency (CFIA): Labelling Requirements for Alcoholic Beverages (inspection.gc.ca/food/labelling/food-labelling-for-industry/alcohol/eng/1392909001375/1392909133296)

- product specific information for beer

Canadian Industry Program for Energy Conservation (CIPEC): www.nrcan.gc.ca/energy/efficiency/industry/cipec/5153

- cost-share funding for energy management, process integration and/or computational fluid dynamics studies
- networking opportunities, customized energy efficiency training, technical information and energy calculators

Alcohol and Gaming Commission of Ontario (AGCO) Beer Manufacturers' Guide: www.agco.ca/

- manufacturer's liquor licence
- on-site brewery retail store authorization
- "By the Glass" licence



The Liquor Control Board of Ontario (LCBO): www.doingbusinesswithlcbo.com/tro/index.shtml

- Doing Business with the LCBO

Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA): ontario.ca/foodbusiness

- Business and Investment Development services
- OFEX – new to export services

Ontario Ministry of Finance: www.fin.gov.on.ca/en/tax/bwt/

- beer basic tax
- volume tax
- environmental tax (where applicable)

SaveONEnergy: saveonenergy.ca/Business.aspx

- funding supports retrofits, audits, lighting, compressed air and process systems improvements

Service Ontario: www.ontario.ca/page/registering-your-business-name#section-4

- register your business name in Ontario and obtain a Business Identification Number (BIN)
- refer to this number when contacting the Ontario government: www.ontario.ca/page/business-name-registration#section-3 Electronic Channel Services Helpline (1-800-361-3223)

Non-Government Support

- Beer Canada (www.beercanada.com/):
Beer Canada is a voluntary trade association that advocates on behalf of its members. They work with members, governments, stakeholders and the public to improve the marketplace for beer.
- Brewers Retail or the Beer Store (TBS) (www.thebeerstore.ca/):
The Beer Store is a privately-owned chain of retail outlets that sell beer and other malt beverages in Ontario. Contact your local TBS to know more about getting your craft beer listed.
- BLOOM Centre for Sustainability (bloomcentre.com/):
BLOOM is a private not-for-profit company that brings together public and private sector stakeholders in the food and beverage industry to achieve sustainable outcomes that manage risk and deliver economic, environmental and social benefit. BLOOM works directly with food processors on water and wastewater issues and supports the piloting of water and wastewater solutions.
- Excellence in Manufacturing Consortium (EMC) (www.emccanada.org/):
EMC is a not-for-profit organization and Canada's largest manufacturing consortium. EMC helps manufacturers become more competitive by offering a broad range of services and programs. Members' investments are returned in lower costs and opportunities to compete for business.
- Food and Beverage Ontario (FBO) (www.foodandbeverageontario.ca/index):



FBO is a not-for-profit organization dedicated to advancing the interests of Ontario's food and beverage processors.

- Food and Beverage (FAB) Region (www.fabregion.ca/):
The FAB Region is a partnership comprising of the economic development offices of Hastings County, Lennox & Addington County, Prince Edward County and the Frontenac Community Futures Development Corporation in Eastern Ontario. The partnership is structured to attract and grow small scale (artisanal) food and beverage businesses and in recent years has been on craft brewing. For more information check out their Start a Brewery Handbook (www.fabregion.ca/startabrewery/).
- Ontario Beverage Network (OBN) (www.momandhops.ca/):
The OBN supports the beverage alcohol industry and community developments through daily news updates, event listings, job postings and product release announcements.
- Ontario Craft Brewers (OCB) (www.ontariocraftbrewers.com/):
This industry association represents small, independent breweries in Ontario. The OCB is funded in large by member dues. Email the OCB at admin@ontariocraftbrewers.com to find out more about becoming a member.
- Provision Coalition (www.provisioncoalition.com/Home):
Provision represents their members' interests on sustainability issues and helps members enjoy the benefits and opportunities that come with operating in a sustainable manner. Provision maintains a portal where food processors can find case studies and vetted environmental and efficiency service providers. Members can also find resources to do baseline and benchmark performance reviews on their own environmental performance.

Other Resources

- Small Business Enterprise Centre (www.ontario.ca/page/small-business-enterprise-centre-and-community-based-provider-locations): One-on-one guidance with an advisor to help develop business plans, budgets and mentorship opportunities. A grant of up to \$5000 may be available for brewery expansion.

Checklist

- I have downloaded a copy of the *Guide to Food and Beverage Manufacturing in Ontario*.
- I have written my business plan with a projection of 3–5 years.
- I have identified where the financing for my brewery will come from and have extra working capital.
- I have contacted an insurance broker and selected the right type and amount of insurance for my brewery.
- I plan to use a combination of marketing methods to promote and market my brews.
- I have a plan for growth and an exit strategy.
- I have contacted the relevant governmental and non-governmental agencies for resources and support.





Section 2: Government Requirements for Craft Brewers

Craft brewers in Ontario, as well as other Ontario brewers, are required by law to meet the regulatory requirements and obtain the necessary licences and permits from all levels of government in Canada. It is strongly advised that you know what is required (and the associated costs) before you start any capital investment.

In this section, you will learn about the various regulations, guidelines and permits that are required at the following government levels:

- federal
- provincial
- municipal

Federal

Registering the Business

Federal Business Registration is mandatory if your business makes \$30,000 or more per year. Register your business with Canada Revenue Agency (CRA) to get a Business Number (BN). Once you have a BN, you can register for other accounts such as GST/HST (depending on your total revenue), payroll, corporate income tax, and import/export accounts. For more information on obtaining a BN, visit the Canada Revenue Agency website at www.canada.ca/en/services/taxes/business-number.html.

Excise Act

The Canada Revenue Agency (CRA) is the governing agency that oversees the administration of the *Excise Act* which regulates the production of, and imposes duty on, beer in Canada. In Canada, the definition of beer includes: beer and malt liquor that have an alcoholic strength not exceeding 11.9% absolute ethyl alcohol by volume.

Potential brewers starting a brewery in Ontario must first obtain an Excise Duty licence to brew beer. Visit the CRA Excise Act technical website for Excise Duty circulars, Excise Duty rates on beer, regulations under the *Excise Act*, *Excise Act* notices, and Excise/GST news (www.canada.ca/en/revenue-agency/services/tax/technical-information/excise-act-technical-information.html).



NOTE: Excise Duty rates on beer are tiered according to a licensed brewer's production in a calendar year. Hence an established brewery could move up to a higher tier for Excise Duty tax should their overall production rate increase due to producing beer for a contract brewer. The new rates took effect on March 23, 2017: *EDBN22 Changes to Excise Duty Rates on Beer* – www.canada.ca/en/revenue-agency/services/forms-publications/publications/edbn22-changes-excise-duty-rates-on-beer/edbn22-changes-excise-duty-rates-on-beer.html.

It is recommended to read the Excise Duty circulars prior to completing the application for an Excise Duty licence (www.canada.ca/en/revenue-agency/services/forms-publications/excise-duty-circulars.html). The following documents describe the application process:

- *ED200-2 Guideline for Excise Duty Licensing and Bonding* – application and issuance of Excise Duty licenses
- *ED200-3 Guidelines for Excise Duty Licensing and Bonding* – guarantee bonds

Excise Duty Application Package

The following are to be submitted as part of the application package for the Excise Duty licence. The required forms can be obtained from this website www.canada.ca/en/revenue-agency/services/tax/technical-information/excise-duty-forms.html:

- L1 application for Excise Duty licence
- E110 description of premises to accompany application for licence
- E111 description for vessels and utensils
- \$50 annual fee
- security bond
- detailed business plan

Contact the Excise Duty Ontario Region at 1-866-667-9851 for documents and fees required to submit an application for an Excise Duty licence to brew beer. Excise Duty licensees can obtain information on their accounts and request certain services online. Further information is available on the CRA website at www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses/business-account.html. Excise Duty is due once beer is in the bright beer tank for beer being kegged and once beer is packaged in bottles or cans.

Provincial

Provincial Business Registration

Business Name Registration in Ontario is required if the name of a new business is different from the business owner's legal name. The registration is valid for 5 years and it is your responsibility to renew upon



expiration. Once registered, you will receive a Master Business Licence (MBL) which you can use as proof of business name registration at financial institutions and in communicating with the Ontario government. Register your business name through the ServiceOntario website (www.ontario.ca/page/business-name-registration).

Search for and download all the necessary forms required to register a business name from the Ontario Central Forms Repository (www.forms.ssb.gov.on.ca).

Manufacturer's Liquor Licence

All beer manufacturers in Ontario must obtain a manufacturer's Liquor Licence from the Alcohol and Gaming Commission of Ontario (AGCO). The AGCO manufacturer's licence gives a brewer the authority to sell beer to the Liquor Control Board of Ontario (LCBO) and distribute through its distribution system or by other approved means. The AGCO inspects breweries to ensure compliance with the *Liquor Licence Act*, its regulations and adherence to AGCO policies and guidelines. For information for new applicants, on-site brewery retail store authorization, by-the-glass permit, and tied-house licence check out the AGCO's *Beer Manufacturers' Guide May 2017* (www.agco.ca/sites/default/files/2092_beer_manufacturers_guide_eng_1.pdf).



On-Site Brewery Retail Store Authorization

The AGCO is responsible for authorization of the Manufacturer's Retail Stores. This authorization allows a manufacturer to operate a store for the retail sale of beverage alcohol made by that manufacturer which meets specified criteria.

Limited Liquor Sales Licence (By the Glass)

The "By the Glass" initiative allows Ontario breweries to apply to the AGCO for a Manufacturer's Limited Liquor Sales Licence to sell and serve their alcohol to patrons for consumption in single servings at their

manufacturing site. The selling and service of the manufactured alcoholic beverage must solely be for promotional purposes either by providing an enhanced tourist experience or by fulfilling an educational purpose. The “By the Glass” licence permits beer contained in a 12-oz size to be served from 11 a.m. to 9 p.m. Licensees under a Manufacturer’s Limited Liquor Sales Licence are exempt from the requirement to sell food because of the limited intent and nature of the “By the Glass” licensing. Although exempt from this requirement, licensees can provide snacks and other food to guests when possible and in appropriate circumstances.



Tied House – Liquor Sales Licence

A tied house liquor licence allows a beer manufacturer to host an on-site restaurant/establishment where products may be showcased on their own or in conjunction with other brands. Under a tied house licence, the licensed establishment is exempt from the requirement of having to sell a variety of brands. The holder of a tied house liquor sales licence may also apply for a catering endorsement to sell and serve the manufacturer’s products at any eligible location (i.e. including the offsite manufacturer’s location). If a manufacturer’s retail store is located on the same manufacturing site as a tied house, the licensee may bring sealed, unopened beer purchased from the retail store onto the licensed premises for the purposes of selling it to a

patron. This allows restaurant patrons that wish to purchase product for personal use from the retail store to pay for the product on their restaurant bill. The tied house licence permits the service and sale of beer from 11 a.m. – 2 a.m.

Apply online for a Beer Manufacturer’s Licence from the AGCO at www.agco.ca/.

Permit to Take Water

Brewery operations taking more than 50,000 L of water a day from the environment must apply for a Permit to Take Water from the Ministry of Environment and Climate Change (MOECC). Sources of water from the environment include lakes, streams, rivers, ponds and groundwater. For more information, please visit www.ontario.ca/environment-and-energy/permits-take-water or contact your local regional MOECC office.

Small Drinking Water Systems (SDWS)

Brewery operations in a rural area using well water fall under the Small Drinking Water Systems (SDWS) Program (www.health.gov.on.ca/english/public/program/pubhealth/safewater/safewater_faq.html). In 2008,



the small drinking water systems program was transferred from the MOECC to the Ministry of Health and Long Term Care (MOHLTC) and is governed by two regulations under the Health Protection and Promotion Act (HPPA) (www.ontario.ca/laws/statute/90h07): *Ontario Regulation 318/08* (Transitional – Small Drinking Water Systems) and *Ontario Regulation 319/08* (Small Drinking Water Systems). These regulations are administered by the local boards of health where a Public Health Inspector (PHI) conducts a site-specific risk assessment on every small drinking water system in the province. The PHI's assessment determines what owners and operators must do to keep their drinking water safe and issues a directive for the system. This directive may include requirements for water testing, treatment options or training. This reflects a customized approach for each small drinking water system depending on the level of risk.

Waste Disposal

The beer brewing process generates wastewater effluent and solid wastes that must be disposed of or treated to meet government regulations. Contact the Ministry of Environment and Climate Change (MOECC) at their regional office for specific information regarding regulations on disposal by location of waste or effluent (www.ontario.ca/environment-and-energy/ministry-environment-and-climate-change-district-locator). See also *Waste Management and Efficiency* in Section 3 to learn about the various cost-effective options to dispose of or treat waste generated during brewing.

Beer Taxes and Mark-ups

Consumers pay a beer tax on beer made by an Ontario brewer and sold at the Beer Store, a licensed establishment (such as a restaurant, bar or brew pub), on-site brewery retail stores and southern agency stores of the LCBO.

Beer taxes do not apply to sales of Ontario beer at the LCBO, northern agency stores or in authorized grocery stores. In these retail outlets, equivalent LCBO mark-ups apply.

The following beer taxes, or equivalent LCBO mark-ups, that consumers pay are included in the price of the product:

- Beer basic tax/LCBO mark-up: the tax/mark-up rate depends on: the type of beer [such as draft beer (e.g. from a keg 18 L or larger) and non-draft beer (e.g. bottled beer)]; and who made the beer (i.e. beer manufacturer, microbrewer or brew pub).
- Volume tax/LCBO volume levy: calculated on the volume of beer bought regardless of whether the beer is draft beer or non-draft beer and whether the beer was made by a beer manufacturer or a microbrewer. The volume tax does not apply to draft beer made and bought at a brew pub or a secondary location of the brew pub.



- Environmental tax/LCBO environmental levy: applies to non-refillable containers in which the beer bought is packaged. The environmental tax does not apply to draft beer made and bought at a brew pub or a secondary location of the brew pub.

For more information on current beer tax rates, please visit www.fin.gov.on.ca/en/tax/bwt/index.html.

An Ontario beer manufacturer, microbrewer or a brew pub licensee collects the beer tax on the beer it sells or distributes in Ontario and must report and remit it to the Ministry of Finance. The reporting period is for each month and the return and tax remittance must be received by the 20th day of the next month.

Reduced Beer Basic Tax/LCBO Mark-up on Beer Made by Microbrewers

A reduced beer basic tax, and equivalent LCBO mark-up, applies on the sale of beer made by a microbrewer.

- The beer basic tax/LCBO mark-up for non-draft beer made by a microbrewer is 49.99 ¢/L lower than the rate for beer made by an Ontario beer manufacturer.
- The beer basic tax/LCBO mark-up for draft beer made by a microbrewer is 36.49 ¢/L lower than the rate for beer made by an Ontario beer manufacturer.

To be considered a microbrewer for a given sales year, all of the following conditions must be met:

- The brewer's worldwide production (not just in Ontario) for the past production (calendar) year is not more than 50,000 hL (5 million L); this figure includes the sum of all of the beer:
 - the brewer makes, even if the beer is made for another brewer
 - the brewer's affiliates make, even if the beer is made for another brewer, and
 - any other brewer makes for the brewer or for any of the brewer's affiliates
- In the preceding producing year, if the brewer has an affiliate that also makes beer, that affiliate must also have been a microbrewer.
- In the preceding production year, if there is a beer-making arrangement where another brewer makes beer for the brewer, that other brewer must have been a microbrewer.
- In the preceding production year, if there is a beer-making arrangement where the brewer makes beer for another brewer, that other brewer must have been a microbrewer.

NOTE: Pursuant to the fall 2016 Ontario Budget Bill, a microbrewer may have a beer-making arrangement with a non-microbrewer without this arrangement affecting the microbrewer's status as a microbrewer, but only if the non-microbrewer was a microbrewer at some point in the preceding production year under analysis. If you are a microbrewer for the current sales year and wish to remain a microbrewer in the upcoming year, you must meet all of the above conditions or you will lose your status as a microbrewer and any resulting tax benefits.



This is particularly important for a start-up brewer to be aware of should they wish to have an established microbrewer brew their beer. Have the conversation with established microbrewers if you are considering starting out as a contract brewer.

Small Beer Manufacturers' Tax Credit

The Small Beer Manufacturers' Tax Credit under the *Taxation Act, 2007* provides for a refundable tax credit available to beer manufacturers having worldwide production in the previous year >5 million L (50,000 hL) but <15 million L (150,000 hL).

Who qualifies for the credit?

A beer manufacturer may qualify relating to eligible sales of draft and non-draft beer sold to purchasers in Ontario during a sales year, if it meets certain criteria including:

- it has a permanent establishment in Ontario;
- it cannot be a microbrewer eligible for the reduced beer basic tax rates; and
- its worldwide production of beer for the previous production year must be >5 million L (50,000 hL) but <15 million L (150,000 hL)

How much is the tax credit?

The maximum tax credit available to an eligible small brewer is \$2,499,500 for non-draft beer and \$1,824,500 for draft beer on eligible sales >50,000 hL and up to and including 75,000 hL. The tax credit is subject to a phase out once eligible sales exceed 75,000 hL and is fully eliminated when eligible sales exceed 150,000 hL in the sales year.



How to receive the credit?

To receive the tax credit, a beer manufacturer must apply not more than 2 years after the end of the sales year for which it was eligible for the credit.

Provided it qualifies, a beer manufacturer will receive the tax credit as a lump sum at the end of the sales year for which it is eligible for the credit. However, it may receive the tax credit in monthly installments during the sales year if the request is made before the start of the sales year for which it is eligible for the credit.

Municipal

Craft brewers in Ontario must comply with all municipal business licensing, zoning, building and fire regulations. With a few exceptions, these are administered by the municipality where the brewery is located. Building permits are required in all municipalities in Ontario. It is a best practice to talk to a municipal building inspector during the planning stage. This will help you gain a better understanding of building requirements and the costs associated with them in that municipality. Please note that building inspectors in different municipalities may have a different interpretation of the building requirements to code. So, if you visit a brewery in another municipality and see how that brewery is setup, do not assume that the building inspector in your municipality will allow the same setup.

Contact your local municipality for more information on zoning by-laws and building permits. Check out the website for the Ontario Ministry of Municipal Affairs and Housing for a list of Ontario Municipalities (www.mah.gov.on.ca/Page1591.aspx).

Checklist

- I have reviewed the online information about obtaining an Excise Duty Licence on the CRA's website and contacted their Ontario Region office for additional information and forms.
- I have reviewed the online information about obtaining a manufacturer's licence to brew beer and contacted the AGCO for additional information and forms.
- I have reviewed the Ministry of Finance website and understand the eligibility requirements to be considered a microbrewer in Ontario and any associated beer tax benefits.
- I have reviewed all applicable information and know the reporting and remittance periods for taxes remitted to the Ministry of Finance and CRA.
- I have contacted my local municipality office to find out about zoning by-laws and building permits required.





Section 3: Setting up Your Brewery

In this section you will learn about:

- brewery design
- brewery floor plan
- equipment
- energy and water metering
- product costing model
- waste management and efficiency

Brewery Design

In the early stages of planning your brewery business you should at the very least think about all possible design options and considerations for scaling up in addition to the brewery floor plan. Decide on the options right for you and include it in your business plan. See *Section 1: Start Planning Your Brewery* for more information on business planning.

Designing the brewery floor plan helps you decide on placement of equipment in addition to requirements (such as placement of drains and vents) to ensure you meet regulatory compliance. Floor plans will be discussed in the next section. Although this is essential, you should also think about other opportunities to grow and sustain your brewery business. The Ontario craft beer industry is expanding rapidly with over 180 operating breweries in Ontario. This is great news for the craft beer industry but for start-up breweries this could mean fierce competition.

An effective way to stay connected with your consumer is by including an event space within or next to your brewery. This requires extensive prior planning and provides an opportunity for people in the community to physically come together and socialize. This option may incur more up-front costs and seem out of reach for a start-up brewery however, in the long-term it could be a cost-effective measure that enable you to establish and secure your place within the community.

The event space can be as elaborate or simple as you wish and in the form of a tasting room, bar, retail store, community space or restaurant. It is quite common to find local craft breweries with such event spaces attached to the brewery with a viewing glass so that the operations inside the brewery are visible. The event space could be indoors with or without an outdoor patio, and can be used by community members





for weddings, parties, meetings and festivals where a caterer provides the food. This type of event space is great as it gives you the opportunity to bond with the community without having to acquire additional permits and licences required to prepare and handle food. See *Section 2: Government Requirement* to know more.

A restaurant at your brewery location on the other hand can be tricky and may even impact the success or failure of your brand image and ultimately your brewery business. Having a business partner with expertise in the food and restaurant business and knowing whether a restaurant is needed in your community

with help build the business case for one. Be aware that other restaurant owners in the area may see you as a direct competitor and may not want to carry your beer. For information on how to start a restaurant or catering business in Ontario see the Canada Business Ontario (CBO) website (www.cbo-eco.ca/en/index.cfm/starting/how-to-start-a/how-to-start-a-restaurant-or-catering-business-in-ontario/).

Visit other craft breweries in Ontario for ideas and decide on an event space that is best for you and your long-term business goals.

Brewery Floor Plan

Designing your brewery floor plan requires technical engineering knowledge that you should not do by yourself. There are many online templates and programs that can help generate ideas that take into account all the necessary logistical requirements. Alternatively, you can hire a consultant that provides engineering or architectural services, but remember to factor this cost into your overall budget. Designing your floor plan early may help you determine whether you should lease/purchase/renovate an existing facility, or construct a new one. The following should be considered when designing your floor plan:

Square Footage

- The space dedicated for brewing operations should be about 5,000 f².
- At the very least 2,500 f² can be dedicated if a smaller area is only available.



Ceiling Height

- The recommended ceiling height for the brewhouse should be 20 feet.

Flooring/Finish

- The brewery floor should be smooth, durable and resistant to alkaline and acidic liquids.
- Floors should be level with a recommended pitch of 0.25 in. per foot towards drains.
- Walls and ceilings should be made from material that is washable and will not harbour bacterial growth.

Water

- It is recommended that the main water supply to the brewery to be 60 psi @ 25 GPM. Uniform water flow to the brewhouse is critical and should not be affected by water demand elsewhere in the building.
- Hot and cold hose bibs are required in all brewery spaces and lab areas.
- If kegging or bottling will be done, a water supply will be needed in these areas.
- Filtration and/or a water purification system may be needed. A water analysis will be required.

Drainage

- Drains are required in the brewhouse, fermentation, walk-in cooler, boiler room and any other areas where water and spillage may occur (kegging/bottling).
- 4 in. channel drains with stainless steel or fiberglass grating with drain screens or baskets to capture brewing solids are recommended.
- All drains should be sized to handle 4–6 barrels of effluent for every 1 barrel of beer produced.

Ventilation

- Typically, a flue is needed for the venting of the steam from the brew kettle.
- For a steam-fired system, an exhaust flue is required in the boiler room for the gas fired boiler.
- For a direct-gas-fired system, an exhaust flue is needed in the brewhouse for the kettle firebox exhaust.
- Make-up air is required in the boiler room on a steam-fired system and in the brewhouse area for a direct-gas-fired system.
- Air conditioning is recommended in all brewery spaces. Contact your local municipality to know if any compliance issues will apply to you (www.mah.gov.on.ca/Page1591.aspx).

Check out Bloom's Water and Beer online platform to learn more about Brewery Facility Design waterandbeer.bloomcentre.com/how-to/improve-brewery-design/.

Quality Assurance

As you plan your brewery design and floor plan, you should also be thinking about how to implement good manufacturing practices that can improve processes, reduce production costs and increase profits. You want



to produce safe, consistent and great-tasting beer that your customers can enjoy anywhere, anytime and in any format (bottles, cans, keg). Implementing quality management practices at each stage of production can help you determine placement of key pieces of equipment in the brewery. Contact the Ontario Craft Brewers at info@ontariocraftbrewers.com for resources on quality management systems, health and safety and shelf life.

Sourcing Equipment and Ingredients

Equipment

Brewing beer requires specialized equipment for brewing, cleaning, bottling and canning. These can be purchased new or used from local or international suppliers. On the Ontario Craft Brewers' (OCB's) website you will find a supplier's directory as well as online classified ads. You can contact a company from the supplier's directory or check out the classified ads section for equipment from the province's craft beer community. To know more, see www.ontariocraftbrewers.com/marketplace/classifieds.php.

Alternatively, you can do your own online search to find other companies offering the equipment you need. Whatever method you choose – always do your homework, contact as many suppliers and sellers as you can and choose the option that is best for your business. Price should not be the main deciding factor; it is advisable to select a supplier that can provide the equipment that suits your requirements at a price you can afford.

NOTE: Purchasing larger-sized equipment may help ease the transition when the time comes to scale up. At the start-up stage 1,000 hL may be all you are able to produce. However, 2–3 years later your business might see rapid growth, at which point you may be looking to purchase larger equipment to meet the demand.



Ingredients

There are four main ingredients in beer: water, hops, grains and yeast.

Water

Water accounts for up to 95% of the beer's content, so the source and quality are important components to consider. If located in the city, contact your local municipal office to find out about fees for water use and waste at your brewery. If you plan on taking >50,000 L of water a day from the environment, you must



apply for a Permit to Take Water from the Ministry of Environment and Climate Change (MOECC). Find more information about the *Permit to Take Water* in Section 2.

If your brewery is located in a rural area using well water, your operations fall under the Small Drinking Water Systems (SDWS) program. *Section 2: Government Requirements for Craft Brewers* provides details about the regulations. The owner or operator of the water system is responsible for keeping the water source safe. This means they are responsible for conducting routine water testing and keeping their water sampling history up-to-date. A Public Health Inspector (PHI) from the local public health unit will want to see the water sampling history during site visits. As a brewer, it is recommended to work closely with the owner of the water system to ensure that they follow the directives laid out by the PHI as it pertains to the Small Drink Water Systems program.

Hops

Ontario craft brewers are keen on using as much locally sourced ingredients as they possibly can in making their beer. The Ontario Hops Growers Association (www.ontariohopgrowersassociation.ca/) is a good point of contact as you begin your search for Ontario hops. On its website, you will find a directory of Ontario hop farms that you can contact directly. Before contacting a hop grower, you should know your hops needs; some growers may have a minimum amount that they supply and their minimum may be too much for a small start-up operation.

Grains

Barley is another major ingredient used in making beer, although some beers are crafted with other grains such as wheat and rye. For any grain to be used in beer-making, it must first undergo a process of malting. This is where the grains germinate and produce sugars and natural enzymes. This creates the “food” for the brewer’s yeast during the fermentation process. Sourcing Ontario malted barley is a challenge as there are currently only two maltsters that produce on a craft brewery scale (Harvest Hop and Malt and Brown Owl Malt).

Resources for malted barley:

- Canada Malting Company in Calgary (www.canadamalting.com/canada_malting) produces malt for the brewing, distilling and food markets.
- Canadian Malting Barley Technical Centre in Winnipeg (cmbtc.com/) is a research facility that supports the Canadian malting barley value chain providing technical support and market information to stakeholders including breeders, producers, seed companies, processors, exporters, maltsters and brewers. Contact: Peter Watts, Managing Director – cmbtc@cmbtc.com.
- Hartwick College in New York State (www.hartwick.edu/about-us/centers-institutes/center-for-craft-food-and-beverage/) provides services for testing, business development and education for small and mid-size



breweries, malthouses and farms. Contact: Aaron MacLeod, Director for Craft Food and Beverage – macleoda@hartwick.edu.

- Harvest Hop and Malt in Puslinch, Ontario (www.harvesthopandmalt.com/about-us) offers chemical-free, local and organic brewing ingredients. Email: info@harvesthopandmalt.com.
- North American Craft Maltsters Guild (www.craftmalting.com/) represents craft maltsters across the United States and Canada and is a resource for brewers looking for craft malt. Contact: Jackie Billings, Executive Director – Jackie@craftmalting.com.

Yeast

Yeast is a key ingredient in beer-making because it is responsible for converting fermentable sugars from malted barley into more yeast, alcohol and carbon dioxide. As the yeast continues to consume the sugars (“food”), the alcohol level rises and the sugar content depletes, causing a toxic environment for the yeast. The yeast becomes dormant and the brewer may draw off some of the yeast for the next cycle of beer brewing. It is important to maintain and keep the yeast healthy so that it can be reused for future brewing. This helps to reduce your overall ingredients cost.

There are many different strains and varieties of yeast which can also generate a range of flavours and aromas. There are also dry yeast and liquid yeast that have different benefits. You should know from your recipe the type of yeast you need to brew your beer. Talk to others in the industry for advice on the type or variety of yeast best suited for your beer. Conduct an online search to find an ingredient supplier and stay connected with the innovations happening in the industry.

Speciality ingredients

Craft brewers today are using a variety of speciality ingredients such as honey, fruit and spices to enhance the flavour and colour of the beer. You may have already determined what speciality ingredients you want to use and developed and taste-tested your recipe. The challenge with using speciality ingredients is finding a consistent source without too much variation in price and quality. Contact an association such as the Ontario Beekeepers Association, Ontario Berry Growers or Ontario Fruit and Vegetable Growers’ Association to find out more about sourcing local farms that carry the speciality ingredient you want.

Energy Efficiency and Water Management

Whether you are a start-up or long-established craft brewer, energy and water use are linked to the way you make beer. Your efficient use of utilities and Clean-in-Place (CIP) systems not only helps the environment, but saves you money by reducing the amount of water and time expended. OMAFRA has developed resources that can help you understand how to manage these variable costs and the resulting wastes related to energy and water use:



1. Leaner and Cleaner is Greener: an operator's primer (www.emccanada.org/group_spaces/energy/documents/leanerandcleaner853operator39sprimerapril2013pdf).
2. Energy Efficiency in Food Processing: a series of videos to help you make smart energy decisions for your brewery (www.omafra.gov.on.ca/english/food/business-development/food-processing/energy-efficiency.htm).

The topics of the videos are:

- efficiency cuts carbon
- measuring utility costs
- planning, targeting and predicting
- tackling invisible waste

Talk to other craft breweries in Ontario that manage energy inputs and waste water efficiently. Connect with them through the Ontario Craft Brewers (www.ontariocraftbrewers.com/index.php).

Join the Excellence in Manufacturing Consortium (EMC); they link peers who readily share insight into managing resources and best practices (www.emccanada.org/).

Consider getting a coach. The Provision Coalition (www.provisioncoalition.com/Home) can provide sustainability coaching for packaging and manufacturing. Taking the time to talk to professionals may cost you up front, but the money you spend can provide a solid return.

Water management is vitally important to every craft brewer. The BLOOM Centre for Sustainability has developed an online platform to help craft brewers manage their water and waste. This platform is called Water and Beer and can be found here <http://waterandbeer.bloomcentre.com/>.

Calculating Cost of Goods Sold (COGS)

The ability to accurately calculate the total cost of making your beer is crucial. To do this you can use a costing model to calculate your Cost of Goods Sold (COGS). This amount includes the cost of materials, packaging and production used to produce the beer. It is a good idea to have a COGS model for each style of beer you produce and include the size of the beverage container (e.g. bottles, cans, kegs). This will help you determine your most profitable product.

The COGS model excludes indirect or “overhead” expenses such as distribution, inventory, warehousing, marketing, legal and sales force costs. It is up to the brewer to decide whether to include certain indirect



costs in the COGS. For example, water is used as an ingredient and in production and clean-up. It is a management decision to separate out the water cost in ingredients and production cost sections or have one entry for water in the production costs. Most craft brewers prefer to segregate out these costs so that they can look to improve any inefficient processes throughout the entire brewery operations. The COGS appears on the income statement and can be deducted from revenue to calculate your gross margin, also referred to as “Cost of Sales.”

Before you begin calculating COGS you need to know a few things:

- recipe
- ingredient costs
- brewhouse capacity

The Cost of Goods Sold can be divided into three components:

Material Costs (\$/hL)

Ingredient costs

The main ingredients required to brew beer are grains, hops, yeast and water. Check out Ingredients in Section 4 to find out more about sourcing brewing ingredients. You would have determined from your recipe, the quantity of ingredients needed to brew 1 hL (100 L) of beer. Some brewers include water in their ingredient cost while others include their total cost of water in their production costs. It will be up to you to decide what option works better for you. As a general rule you should calculate your cost of ingredients per hectolitre.

In-process material costs

The in-process material costs include all the things used during processing of the beer and covers filter aids, CO₂ gas, salt to treat water and cleaning chemicals such as acids, caustics and sanitizers used to clean the brewing equipment after each brew. Do not include your regular cleaning chemicals used to clean walls and floors in your in-process material costs; these can go in your overhead costs.

Packaging Costs (\$/hL)

Beer packaging includes bottles, bottle caps, cans, labels, kegs and packaging materials such as boxes, trays and plastics. It is important to calculate all of these costs to get an accurate representation of your packaging costs.



Production Costs (\$/hL)

- Repair and maintenance (e.g. spare parts and other maintenance costs).
- Utilities (e.g. water, hydro, natural gas, chemicals, effluent fees, effluent treatment, lab equipment).
- Direct labour (e.g. production labour, supervisory labour); if your brewer wears many hats you will want to segregate that time from what you allocate to beer costs (if he or she is 75% brewer and 25% front-of-house manager, then only count 75% of labour expenses to the brewery).
- Other direct production costs include labour and transport charges to pick up ingredients, waste water, waste ingredients and waste packaging and cost of financing on brewery equipment.

Below is a sample COGS table:

Table 1. Summary cost of goods				
	Brewery Capacity, hectolitres (hL)			
	1,000	2,000	5,000	10,000
Material Costs Sub Total	\$42,300	\$84,600	\$205,445	\$402,922
Raw material	\$35,550	\$71,100	\$174,195	\$341,422
In-process	\$6,750	\$13,500	\$31,250	\$61,500
Packaging Costs Sub Total	\$20,904	\$35,006	\$129,336	\$384,098
Industry Standard Bottle (ISB)	\$17,979	\$28,766	\$100,092	\$311,630
Proprietary bottle	-	-	-	-
Can (355 mL)	-	-	-	-
Can (473 mL)	-	-	\$16,472	\$55,172
Keg	\$2,925	\$6,240	\$12,773	\$17,297
Production Costs Sub Total	\$101,150	\$177,148	\$352,494	\$598,243
Maintenance and repairs	\$8,250	\$16,500	\$41,250	\$82,500
Utilities	\$7,800	\$15,600	\$39,000	\$77,000
Labour	\$77,500	\$130,000	\$235,000	\$365,000
Other direct production costs	\$7,600	\$15,048	\$37,244	\$73,743
Total	\$164,354	\$296,754	\$687,275	\$1,385,263

NOTE: The numbers in this table are estimates and should be used for information purposes only.



A COGS does not include:

- administrative and sales office costs
- promotions, promotional materials and marketing
- labour and management
- financing cost to purchase a brewery or upgrades to an existing brewery
- licensing costs
- warehousing and shipping

These costs are paid out of Gross Margin. As your brewery grows, many companies find it useful to undertake Activity Based Costing for these items when Gross Margin exceeds \$1 million.

NOTE: Keep track of loss/waste that occurs during processing. A general rule of thumb is to keep losses at a minimum: no more than 5% from ingredients, 5% from the brewhouse and 5% from packaging.

Checklist

- I have contracted a professional engineer or architectural design specialist to assist with planning the design and floor plan of my brewery.
- I have identified where my equipment and ingredients will come from.
- I am using the resources to help me understand ways to save money on input costs and water efficiency.
- I have connected with industry groups to help me implement ways to manage energy use and waste at my brewery.
- I have contacted the OCB for resources on Quality Assurance Management.
- I used a Cost of Goods Sold (COGS) model to accurately calculate my variable and fixed costs.





Section 4: Packaging and Labelling Requirements

In this section, you will learn about:

- packaging
- labels
- labelling guidelines

Packaging

Beer sold in retail, restaurants and bars is packaged in bottles or cans, which are then placed in corrugated cardboard to protect against damage during distribution and storage. Some brewers package beer in kegs which are sold only in brewpubs, bars and restaurants, and are available to consumers as an “on tap” option.

Glass

Glass bottles are the most common form of vessel used to store beer because they are rigid, tamper-resistant and nonporous, offering strength and durability for storage and transportation. Although glass is a renewable resource it cannot be refilled or recycled indefinitely. On average, a glass beer bottle can be refilled 15 times before it is recycled into new glass. Keep this in mind when thinking about choosing proprietary bottles over industry standard bottles. Consumers generally like glass bottles because they believe it maintains a pure crisp taste and stays cold longer.

Glass bottle options:

Colour

Beer is bottled in a variety of glass bottle colours such as clear, green, blue and brown; with the green or brown bottles as the most common options. Clear and green glass bottles are still used by some major breweries despite being susceptible to degradation from exposure to ultraviolet (UV) light causing a spoilt or “skunk-like” smell. The reasons for using clear or green bottles are many, but the most common reason is to maintain brand loyalty. Brown or amber glass bottles offer a protective barrier to UV light, preventing the “skunk-like” smell to the beer. Choosing the bottle colour is important as it will have an impact on the use of preservatives and the final taste of the beer once it reaches consumers.



Size

Beer bottles come in a variety of sizes with the 341 mL (12 oz) or Industry Standard Bottle (ISB) being the most common in Ontario. Proprietary bottles are another popular option with craft brewers. These bottles can be customized to size, shape, colour and branding, with the logo embossed for a unique finish. This option is especially desirable to craft brewers who want to differentiate themselves from others in the marketplace. The initial costs for proprietary bottles can be high because a mold for the glass bottles must first be manufactured and then minimum order purchases may be required. These bottles can be returned to you to be washed, sanitized and refilled which could potentially translate into significant cost savings on bottle purchases. Most importantly, if your proprietary beer bottles are not listed with the Beer Store (TBS) they will be crushed for recycling. This will ultimately have a significant impact on the cost of your glass bottles and your net profits. Conduct a cost-benefit analysis to determine whether proprietary bottles will be profitable given the volume of beer produced. Contact the TBS early in your planning process to understand the requirements and the associated costs involved.

Bottle Caps

There are two options for capping beer bottles: pry-off and twist caps. Although the twist cap is a convenient option for consumers, craft brewers tend to choose the pry-off cap. This is because pry-off capping equipment tends to be less expensive than twist cap equipment and pry-off caps may provide a better seal against oxygen (beer's worst enemy). Keep in mind that twist caps are not accepted by the LCBO unless it is tamper-resistant, i.e. either wrapped in plastic or the bottles packaged in boxes. Check with the LCBO for their requirements before deciding on which option to choose.



Glass Bottling Equipment

Regardless of the type and size of bottles used, bottling equipment and bottle washing systems are required. Bottle washing systems require sanitizers that use either water or ozone and are essential to ensure bottles are sterile to



avoid potential bacterial contamination. You will need to factor in the cost of the bottle washing system and sanitizers in your COGS costing model. Learn more about the different types of bottle washing systems from BLOOM's Water and Beer website (waterandbeer.bloomcentre.com/). See also *Sourcing Equipment and Ingredients* in Section 3.

Cans

In recent years, the use of cans in the craft beer industry has been gaining popularity among brewers and consumers. Craft brewers like cans because they are lightweight and cheaper to produce and transport. Shipping cans require less carbon burning fuel, thus reducing the overall carbon footprint. Consumers like beer in cans because they are convenient, chill faster (although will not stay cold as long as bottles) and are practical for outdoors and at public events where glass bottles may not be permitted.

Both brewers and consumers like the fact that cans protect beer against UV light. In the past consumers found beer in cans had a metallic taste, however this seems to be alleviated with advancements in canning technology.

Beer cans are available in different sizes and can be either pre-printed or have labels applied to them. Pre-printed cans require warehouse space for storage of empty cans prior to brewing, which could pose a problem for you if your brewery is small. As mentioned in the labels section below, using shrink sleeves on cans will eliminate the need to store large quantities of empty pre-printed cans.

There are a few options available for a beer canning line:

- large canning line (the initial cost may be high)
- small lines may be ideal for a start-up brewery
- portable canning system

Most start-up craft brewers include an expansion strategy in their business plan at the 3–5 year mark. Usually an expansion plan includes the opportunity to export into other provinces and across the border, as well as installation of a canning line. In recent years some craft brewers have experienced rapid growth and as a result had to expand earlier than their initial 3–5 year expectation. This has prompted many craft brewers to use the services of an external company for a portable canning system or contracted out their canning at another brewery. At the moment, there is only one company that offers a portable canning system in the province, but that could change as demand increases.

Although canning has become an emerging trend in beer packaging, some brewers have made a conscious decision to stick with bottles. Regardless of the option you choose, both bottles and cans are recyclable



and returnable to the Beer Store, therefore both are environmentally-friendly options (See Recycling Alcohol Beverage Containers in Section 5 for more information).

NOTE: Non-refillable containers are subject to an environmental tax. For more information see Beer Taxes and Markups in Section 2.

Labels

Choosing the type and style of label is critical to your business as it lets your customer know they are purchasing a quality product. As with most products, consumers often purchase a new beer based on the label design before even knowing how it tastes. Depending on your target market, you can enhance your labels with textured, embossed or matted/glossed finishes for that premium look. Beer generally comes in glass bottles (coloured or clear glass) or aluminium cans. Hence the label you choose should be appropriate for bottles or cans, taking into consideration its durability and resistance to moisture, condensation and handling. Check the Ontario Craft Brewers website for a list of label suppliers (www.ontariocraftbrewers.com/marketplace/suppliers.php) or conduct your own search online.

Below are available label options to think about:

Sheeted Cut and Stack Labels

Cut and stack labels are the most widely-used option in the industry because they are cost effective due to bulk ordering. They come in paper only with an unlimited selection of shapes for both bodies and neck of the bottle. These labels are pre-printed on paper and then glued to the bottle during processing. They can be applied at a very high speed with either hot or cold glue.

Pressure Sensitive Labels

Pressure sensitive labels are die-cut and available in a variety of shapes and sizes with the ability to be laminated for added protection. They can be applied on both cans and bottles, and are well-suited for entry-level labelling. For cans, these labels eliminate the need to purchase pre-printed cans in bulk, which is ideal for the small brewer with limited storage space. Brewers can purchase blank aluminium cans and pre-order custom labels based on the quantity of beer to be produced. This option works well for seasonal or limited edition beers. Pressure sensitive labels offer a mid-range cost, are durable, and will perform well in a wet environment such as an ice bucket or cooler. For use on bottles, it is recommended that good, smooth, quality glass is used for the labels to adhere well to the surface.

Shrink Sleeves

Shrink sleeves can be applied on both bottles and cans; they are a friendlier option for cans. This is because cans have a simple surface whereas bottles have more curves, complicating the adhesion



process. Shrink sleeves have also been known to break glass during the application process, resulting in significant product losses during manufacturing. Hence the reason shrink sleeves are generally done by a specialist. Although the costlier option, shrink sleeves offer the advantage of 360° branding with a finished professional look. Important to note that shrink sleeves are applied with heat; take precaution not to store these labels in a hot place.

Although application of the label is the last step in the beer-making process, it should not be your last consideration. Apart from your logo and branding, your label declares a lot about you and the quality of your beer. Telling a good story about a great-tasting product using good quality materials gets repeat customers, which is the ultimate goal for any business to survive. This means you need to take the time to carefully select the type of label that will work for your product and appeal to your customers. Talk to as many label suppliers as you can, as well as other craft brewers already in the business to understand the pros and cons of each label type. This will help you decide which type of label is best for your beer at a price that will maximize your profits.



Labelling Guidelines

The LCBO has produced a document called *Product Packaging Standards and Chemical Guidelines* which is based on federal and provincial compositional labelling requirements. The intention is to assist brewers in designing labels that meet LCBO requirements. For more information see www.doingbusinesswithlcbo.com/tro/Packaging-Quality/Downloads/PPS_EN.pdf.

Microbrewers in Ontario must abide by the labelling rules and regulations as outlined by the Canadian Food Inspection Agency (CFIA). CFIA labelling acts and regulations include the *Food and Drugs Act and Regulations*, and the *Consumer Packaging and Labelling Act and Regulations*. The CFIA has developed an Industry Labelling Tool to help food and beverage manufacturers label their products accurately and within the confines of the law. This tool provides information on the core labelling requirements and a labelling checklist to help you through the process. (www.inspection.gc.ca/food/labelling/food-labelling-for-industry/eng/1383607266489/1383607344939). Contact your local CFIA office if you have further questions.

Alcohol: inspection.gc.ca/food/labelling/food-labelling-for-industry/alcohol/eng/1392909001375/1392909133296

Contacts: <http://inspection.gc.ca/about-the-cfia/offices/eng/1313255382836/1313256130232>

Advertising – Alcohol Beverages: inspection.gc.ca/food/labelling/food-labelling-for-industry/alcohol/eng/1392909001375/1392909133296?chap=7

Product Specific Information for Beer: www.inspection.gc.ca/food/labelling/food-labelling-for-industry/alcohol/eng/1392909001375/1392909133296?chap=9#s13c9

Industry Labelling Tool: inspection.gc.ca/food/labelling/food-labelling-for-industry/eng/1383607266489/1383607344939

Beer Labelling: www.inspection.gc.ca/food/labelling/food-labelling-for-industry/alcohol/eng/1392909001375/1392909133296?chap=9

Labelling Requirements for Alcoholic Beverages: www.inspection.gc.ca/food/labelling/food-labelling-for-industry/alcohol/eng/1392909001375/1392909133296

Addition of Carbohydrate Matter to Beer: www.inspection.gc.ca/food/labelling/food-labelling-for-industry/alcohol/industry-notice-2013-07-08/eng/1378949873785/1378949957591

Allergen-Free, Gluten-Free and Precautionary Statements: www.inspection.gc.ca/food/labelling/food-labelling-for-industry/allergens-and-gluten/eng/1388152325341/1388152326591?chap=2

Checklist

- I understand the pros and cons for using bottles or cans and have incorporated my packaging options in my business plan.
- I have done my homework on the different types of label options available to me.
- I have followed the necessary guidelines for packaging my beer that best communicate my brand to customers.
- I have checked the CFIA's Industry Labelling Tool to ensure my label meets regulatory requirements.
- I have sought the necessary professional assistance to validate the accuracy of my label before distribution.





Section 5: Retail and Distribution Options

Craft brewers in Ontario have several options to distribute their products and to maximize their reach to consumers. There are several distribution options available to craft brewers in Ontario: Direct Delivery, LCBO Warehouse System and the Beer Store’s distribution network.

In this section you will learn about the following retail and distribution options:

- Brewers Retail Inc. (BRI)
- Liquor Control Board of Ontario (LCBO)
- self-distribute to bars and restaurants
- authorized grocery stores
- recycling alcohol beverage containers

Brewers Retail Incorporated

Brewers Retail Inc., which operates as the Beer Store (TBS), is a private company authorized under the *Liquor Control Act* to sell domestic and imported beer to the public. It has an open listing policy and a brewer can list as many products in as many stores as it chooses. Brewers set their selling prices, subject to minimum and uniform pricing requirements.

Distribution Options

A brewer can deliver its products directly to the Beer Store locations or, for a fee, use The Beer Store’s warehouse and distribution network.

A brewer can also use the Beer Store’s “Service on Tap” program to deliver beer to licensed bars and restaurants.

The New Beer Framework

Based on the recommendations outlined in *The Premier’s Advisory Council on Government Assets (2015)*, the Ontario government finalized a series of agreements with the Beer Store. These were established with the objective of levelling the playing field for Ontario-based brewers while creating new opportunities for economic growth in communities across the province. Some of the changes under the New Beer Framework that relate to TBS include:



- Ownership – TBS has opened up its share ownership to all brewers with facilities in Ontario.
- Governance – TBS governance structure will be a board-managed business which operates at an arm's length from its owners.
- Shelf-space allocation – TBS applies the 20/80 rule, where a minimum of 20% of all shelf space, merchandising, marketing and promotional programs will be allocated to small brewers within the TBS.
- Improved customer experience – TBS has committed to capital improvements to help modernize TBS network.

Getting Listed at The Beer Store

Contact The Beer Store directly for a user agreement and a list of stores for your consideration. Provide your specification sheet for each product as this will help TBS identify stores where your product will sell well. Ontario brewers can list in as many beer stores as they wish in order to maximize their market potential and reach. Once you have your manufacturer's licence from the AGCO and wish to list in The Beer Store, submit to TBS:

- The completed user agreement
- Evidence that you have liability coverage insurance
- A list of stores you want to sell your beer

The listing fee of \$2,900 is waived for new Ontario craft brewers with TBS sales <10,000 hL per year. A fee of \$236 per store will be charged above 7 stores (there are free list fees for the first 7 stores). If your beers are already in the Beer Store, the new listing fee applies to the next time you list a new SKU. TBS has policies around delisting products; make sure you know what they are and your obligations should you wish to delist in the future.

NOTE: Listing fees can change annually so keep up-to-date on fees and changes to rules at the Beer Store. Check out the website (www.thebeerstore.ca/).

The Liquor Control Board of Ontario (LCBO)

The LCBO is the largest retailer of alcoholic beverages in Ontario. Local craft beer is the fastest growing beer segment at the LCBO. New breweries are welcome to make product submissions according to the LCBO's product call tenders. There are two calls annually for new breweries, in addition to, two for existing breweries and four for seasonal products. Breweries are free to set their own retail prices, which must be uniform across all retail channels, under Ontario legislative requirements.



Before doing business with the LCBO, you can learn more about the process by:

- Talking to the Ontario Craft Brewers, as well as other craft brewers that are already listed with the LCBO for their experiences and advice.
- Visiting www.doingbusinesswithlcbo.com/ to access forms and documents, and download the Product Management Policy and Procedures manual.
- Visiting an LCBO store in your community or near where you are manufacturing your beer and talk to the store manager and staff for additional guidance.
- Getting in touch with the LCBO Beer & Cider category management team to discuss your plans; details regarding beer style, format, pricing, target audience and marketing are helpful in these discussions.

Distribution Options

The LCBO has two distribution channels for craft brewers:

Direct Distribution

The brewer delivers products directly to LCBO stores either themselves or through an approved third-party.

LCBO Warehouse System

Product is delivered to the LCBO Distribution Centre (DC) and shipped to the stores by way of the supplying DC.

NOTE: When contacting the LCBO make sure and ask about the lead time between when orders are made and date of delivery as this could impact your inventory management and warehousing capabilities.

Self-Distribute

Small brewers in Ontario can deliver their own beer, as well as other small brewers' beer, directly to LCBO stores, licensees and grocery stores authorized to sell beer. Brewers can use a third party to warehouse and deliver their beer on their behalf.

See the LCBO Policy regarding Ontario Small Brewer Distribution for more information:

www.doingbusinesswithlcbo.com/tro/Forms-Documents/Documents/Downloads/Ontario%20Small%20Brewer%20Distribution%20October%202015.pdf.



Grocery Stores

The government has expanded the sale of beer and cider to authorized grocery stores. Up to 450 grocery stores will eventually be authorized to sell beer and cider in Ontario. More information about the sale of beer, cider and wine in grocery stores can be found here: www.ontario.ca/page/beer-wine-cider-sales-grocery-stores.

Authorized grocery stores cannot have financial interest in the brand or trademark of beer and are not allowed to offer retail-level discounts or rebates for multiple package buying. Like the Beer Store, authorized grocery stores must dedicate at least 20% of shelf space for beer to small brewers' products (less than 400,000 hL/year). Under the uniform pricing policy, the price of the same beer will be the same across all retail outlets in Ontario.

The LCBO has established a Grocery Operations Group to facilitate business with grocery stores (www.doingbusinesswithlcbo.com/big/index.html). It is entirely up to you to decide whether you want to sell through this channel. When listing your products with the LCBO, let them know you also want your beer available in grocery stores.

The craft beers that are eligible for sale in grocery stores must meet the following criteria:

- 750 ml or less
- total alcohol content does not exceed 7.1% ABV
- packaged with 6 containers or less
- no malt-based coolers
- no exclusive products or private label brands

Under the eligibility criteria above, craft beer listed with the LCBO is supplied to the authorized grocery store by the LCBO, TBS and directly from brewers. All orders are to be placed with the LCBO and then fulfilled through multiple delivery options. To know more, download the *LCBO Grocery Operations: Addendum to LCBO Product Management Policy and Procedures Manual for Wholesale to Authorized Store Operations* (www.doingbusinesswithlcbo.com/big/docs/Supplier%20Policies%20&%20Procedures%20Manual%20for%20Grocery%20Oct%202016.pdf).

Recycling Alcohol Beverage Containers

Ontario has two deposit return programs for beverage alcohol containers:

- the Beer Store's beer container deposit return program; and
- the Ontario Deposit Return Program (ODRP)



Beer containers in Ontario fall under one of these programs. Beer products listed in the Beer Store become part of its deposit return program (even if it is also sold in the LCBO, grocery store, agency store or at a brewery retail store). If the beer products are not listed for sale in the Beer Store, they become part of the Ontario Deposit Return Program, meaning they are crushed and not returned to the brewery. This could have a significant impact on the cost of bottles for breweries using proprietary bottles. To know more about proprietary bottles see Packaging in Section 4.



Under both programs, a refundable deposit is charged at the point of sale. When the container is brought back to the Beer Store, LCBO agency stores or empty bottle dealers, the customer is refunded the deposit. Licensees that are part of the Beer Store’s “Service on Tap” program can have their empty containers picked up for free with a beer delivery.

The Beer Store

The Beer Store beer container deposit return program started in 1927. The Beer Store collects beer containers and secondary packaging on behalf of over 200 brewers that sell through its retail and wholesale systems. To learn more about the Beer Store’s bottle return program, visit www.thebeerstore.ca/about-us/environmental-leadership.

Bag it Back or the Ontario Deposit Return Program (ODRP)

Bag it Back or the Ontario Deposit Return Program is a program started by the Ontario government in 2007 to help divert recyclable materials from the landfill, as well as to ease the load on the Blue Box Program. The program covers wine and spirits containers (over 100 mL) sold in Ontario, as well as beer products not listed for sale in the Beer Store. Visit the website to know more about the program, as well as eligible items and deposit rates www.bagitback.com/en/index.shtml.

Checklist

- I know where I want my products to be sold (i.e. LCBO, TBS, authorized grocery store).
- I understand the different distribution options and have contacted the LCBO, the Beer Store and my local grocery store for further details.
- I understand the two different distribution options at the LCBO.
- I have identified the appropriate deposit return program for each of my beers.



Appendix A

Common Definitions

The following are definitions for common types of brewery operations in Ontario:

Craft Brewer

According to the Ontario Craft Brewers, the current maximum size of an Ontario craft brewer is 400,000 hL of annual worldwide beer production.

Microbrewery

A craft brewery's worldwide production is not more than 50,000 hL of beer, annually (1 hL equals 100 L).

Nanobrewery

A nanobrewery produces less than 3,000 hL of beer annually.

Brew-Pub

A brew-pub is a restaurant-brewery that sells 25% or more of its beer on-site.

Contract Brewer

A contract brewer uses the production site, equipment, and in some cases, the workforce and expertise of an existing brewery to produce their beer. A contract brewer is responsible for its own marketing and promotion activities. A contract brewer may be a new business or an established bricks-and-mortar brewery that chooses to expand production output by contracting out some of the beer making to another brewery.

Business Registration in Ontario

Search all applicable permits and licence requirements in Ontario by checking out this website called Bizpal: services.bizpal-perle.ca/?b=35.

New businesses in Ontario obtain the following (where applicable):

- registration for a Business Number (BN) (www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses.html). Register for a BN if you require:
 - GST/HST
 - payroll



- Excise Duty
- corporate income tax
- import/export account
- registration of a Business Name for a corporation (www.ontario.ca/page/business-name-registration)
- articles of incorporation ([www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/AttachDocsPublish/007-07116~1/\\$File/07116E.pdf](http://www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/AttachDocsPublish/007-07116~1/$File/07116E.pdf))
- registration of a sole proprietorship or general partnership ([www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/GetFileAttach/007-07219~1/\\$File/07219E.pdf](http://www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/GetFileAttach/007-07219~1/$File/07219E.pdf))
- registration for a partnership/limited partnership ([www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/AttachDocsPublish/007-07215~1/\\$File/07215E.pdf](http://www.forms.ssb.gov.on.ca/mbs/ssb/forms/ssbforms.nsf/AttachDocsPublish/007-07215~1/$File/07215E.pdf))
- SOCAN musical performing rights licence (www.socan.ca/licensees): submit an application to the Society of Composers, Authors and Music Publishers of Canada if you want to perform, authorize a performance or communicate music to the public
- Ontario Regulatory Registry (www.ontariocanada.com/registry/): find information on new and proposed regulations that may affect your business

Permits and Licence Requirements

New craft brewers in Ontario obtain the following (where applicable):

- Canada Revenue Agency Excise Duty licensing and bonding (www.canada.ca/en/revenue-agency/services/forms-publications/publications/ed200-2-guidelines-excise-duty-licensing-bonding-application-issuance-excise-duty-licenses/guidelines-excise-duty-licensing-bonding-application-issuance-excise-duty-licenses.html)
- AGCO's Beer Manufacturers' Guide May 2017 (www.agco.ca/sites/default/files/2092_beer_manufacturers_guide_eng_1.pdf) and apply online at www.agco.ca/
 - manufacturer's liquor licence
 - on-site brewery retail store authorization
 - by the glass licence
- permit to take water (www.ontario.ca/page/permits-take-water)



