

# **BEER SCHOOL**

**BOTTLING SUCCESS AT THE  
BROOKLYN BREWERY**

Steve Hindy and Tom Potter



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*This book is dedicated to our wives, Gail and Ellen, and to our children, Bill, Sam, and Lily. Without your love and support there would have been no book to write and no business to write about.*

# Foreword

A warning: Three things are bound to happen as you read this book. First, periodically, you will become thirsty. Prepare your refrigerator. Second, you will want to visit the Brooklyn Brewery for a tour. Prepare your itinerary. And finally, if you have ever considered starting your own business, you will be inspired—and scared. Prepare yourself.

As someone who began a start-up company in 1981 with three men and a coffeepot, Steve Hindy's and Tom Potter's story rings true as an honest accounting of the sheer determination—and good luck—required to nurture a business from conception to maturity—and the inevitable mistakes that are made along the way. But their success story is about more than the birth of a brewery; it's about the rebirth of a borough. In so many ways, the Brooklyn Brewery symbolizes—and helped to create—the renaissance that has taken hold in Brooklyn.

When Steve and Tom leased an old ironworks building in Williamsburg in 1994, the once thriving industrial district had long lost its vitality. For decades, manufacturing jobs had been moving out of Williamsburg and overseas, leaving behind abandoned warehouses and crumbling buildings. To many, Brooklyn seemed to be dying. But Tom and Steve believed in Brooklyn's history—its rich tradition of brewing and its wealth of cultural icons and institutions: Walt Whitman, Jackie Robinson, and all the Dodger greats, Coney Island and the Cyclone, the Brooklyn Bridge—to name a few. They understood that Brooklyn is more than an address; it's a spirit, an attitude, an identity. And they bet—correctly—that hometown pride would lead New Yorkers to embrace Brooklyn beer as their own.

In the more than 10 years since the brewery opened, Brooklyn beer has become a popular and successful brand, and Williamsburg has grown into one of New York City's hottest residential neighborhoods. Steve and Tom helped make Williamsburg hip—sponsoring block parties and music festivals and opening the brewery to tours and Friday night happy hours. But as the area changed from a decaying industrial center to a vibrant residential neighborhood, its antiquated zoning regulations prevented the development of new housing and sealed off the waterfront from residents.

As the city began the process of rezoning the area, community input was solicited. Steve and Tom helped residents participate in the discussion by hosting a public meeting at the brewery attended by city officials. In May 2005, with strong support from the community, the city completed the largest waterfront rezoning in its history, which will result in new housing along a waterfront esplanade. In addition, the plan creates a special industrial park to ensure that manufacturing companies—like the Brooklyn Brewery—can continue to succeed and grow in the area.

More than opening their doors to community events, Steve and Tom have taken an active role in Brooklyn's civic life, sponsoring fund-raisers for Prospect Park and exhibits at the Brooklyn Historical Society. New Yorkers, especially myself, are particularly grateful for their support of the Jackie Robinson and Pee Wee Reese monument commissioned for KeySpan Park, home of the Brooklyn Cyclones. Steve and Tom are helping to bring the monument to life by generously donating \$1 from every case and \$5 from every keg that they sell of Brooklyn Pennant Ale '55.

*Beer School* is the story of the incredible challenges—most of them unanticipated—that entrepreneurs experience and the hard road that is traveled from planning to profit.

But Steve and Tom have done more than build a profitable business; they have played an integral part in revitalizing Williamsburg and fostering Brooklyn's renaissance. In doing so, their public-spirited brewery has become part of Brooklyn's identity. I tip my hat, and lift my glass, to them both.

Michael R. Bloomberg  
New York City  
June 2005

# **Preface**

## **STEVE AND TOM INTRODUCE THE BROOKLYN BREWERY**

The Brooklyn Brewery is among the top 40 breweries in the United States, selling nearly 45,000 barrels of beer in 2004. With 17 years in business, the company has risen above many multinational giants to become the number six draft beer in New York City and a virtual institution in Brooklyn, a borough of more than 2 million inhabitants. How did we, Steve Hindy (a journalist) and Tom Potter (a banker), with no experience in the beer business, turn a hobby into a multi-million-dollar business and develop both a beer brand and a distribution company in the most competitive beer market in the United States?

It wasn't easy. We started, textbook style, with a wellresearched business plan and \$500,000 raised from family, friends, and an ever widening network of people who invested in the Brooklyn Brewery. We soon learned that starting a business was an all-consuming enterprise that tested us, our relationship as partners, and our relationships with our families and our community. As partners, we were essentially married. Our only child was the Brooklyn Brewery, and we faced many challenges in raising that child, the same way parents wrangle over how to raise their offspring. More often than not, we agreed on how to proceed, and we were thankful for such a strong partnership that could withstand the burdens and anxieties of building a company. When we didn't agree, the very foundation of the

company was threatened. Employees took sides. It got nasty.

We learned that when we could not find a conventional way to get something done, we had to make our own way of doing things. Sometimes we succeeded, and sometimes we failed miserably. We learned the value of maintaining a focus on the main purpose of the company.

We learned that we were attempting to become part of an industry that was dominated by large multinational corporations with tremendous resources at their disposal—companies that greatly value a presence in New York City because it is the center of the world's financial institutions.

We learned that start-up companies have some important advantages over large companies. The media and many other businesses are always rooting for David over Goliath. Exploiting these advantages is essential to success.

We learned that our investors' initial concerns about the Mafia in New York were not unwarranted, and that no company is too small to find itself a target of such threats. We learned that protecting your business and its employees sometimes means that you might have to look down the barrel of a gun. It is your business, and there is no one else to turn to.

We learned that entrepreneurs have to articulate a dream, inspire their followers to believe in that dream, and work tirelessly for its realization. But we also learned that entrepreneurs have to let go of control of the dream and allow their followers to take ownership.

We learned that the conventional wisdom of "getting in on the ground floor" of a successful business does not always mean that you are going to enjoy the fruits of that business. We learned that banks and venture capitalists are not

always the preferred way for an entrepreneur to finance an enterprise.

We learned that selling a successful business is a perilous undertaking, even when there are competing buyers.

Along the way, we have had others turn to us for guidance, and we've been regularly questioned about how we built our business. As our seventeen year partnership comes to a successful end, we thought it was time to write a book and share the lessons we learned with others who dream of starting a business. We also graded our performance in key areas of our business. Our cumulative average was a B. That's not bad when you consider that 80 percent of new business ventures get an F.

We hope you will find our story helpful as you set about bottling your own success.

Steve Hindy and Tom Potter  
Brooklyn, New York  
July 2005



# Acknowledgments

It's fun to write a first-person account about the founding of a successful business. "If you want a flattering history, you've got to write it yourself" is our motto. But we've tried to be honest about our failures as well as our successes, and share both the lows and the highs in our relationship as partners.

We also hope that we've adequately shared the credit for the Brooklyn Brewery's success. It was never just the Tom and Steve show. The early support of dozens of visionary investors got us off the ground. Mentoring from Milton Glaser, Charlie Hamm, and Bernard Fultz helped keep us on track. Early support from family, friends, and colleagues and substantial, and timely, financial support from Jay Hall and David Ottaway allowed us to pursue our ambitions. And perhaps most important, the business has thrived on the imagination, hard work, and dedication of its employees and managers since 1987.

We're fortunate to have had a chance to work with you all, and we'll always be grateful for your amazing contributions.

# CHAPTER 1

## Steve Tells How Choosing a Partner Is Like a Second Marriage

My head was thumping and I was drenched in sweat when I was jolted awake on a fresh sunny morning in May 1984 by the blasts of two mortar shells in the parking lot outside my second-floor room at the Alexander Hotel in East Beirut. Lebanese hotel workers were inspecting the damage to the cars in the lot—shattered windows and punctured tires. None had caught fire. No one was hurt. The mortar shells were a Beirut wake-up call from the Palestinians and Lebanese leftists on the other side of the nearby Green Line that divided the city. Nothing like a mortar blast to make you forget you have a hangover. *Mawfi mushkila*—no problem—the uniformed deskman would tell me when I trudged downstairs for breakfast with David Ottaway of the *Washington Post* (who would later play a major role in the Brooklyn Brewery). Well, no problem, unless your car was hit. I walked outside and picked up a piece of shrapnel from the parking lot—a fitting souvenir of my five-year assignment in the Middle East for the Associated Press.



I keep that shrapnel fragment in my office at the Brooklyn Brewery as a reminder of my last day in Beirut.

## **THE LIFE OF A FOREIGN CORRESPONDENT**

My wife, Ellen Foote, had declared a month earlier that she had had enough of being the wife of a foreign correspondent

in the Middle East. She had spent two years with me in Beirut, giving birth to our son, Sam, in May of 1980, and three years in Cairo, where she delivered our daughter, Lily. Ellen had endured many dangers in Lebanon. There had been machine gun fire through the thick wooden door of our 140-year-old home in Beirut. Rockets had landed right beside the house, and often flew over the house and into the sea. Once, when I was away covering the Iranian revolution, guerrillas fired rocketpropelled grenades at the American embassy, just across the street from us. A month before the birth of Sam, I was abducted while traveling with a United Nations patrol in south Lebanon. Two Irish U.N. peacekeepers with me were tortured and killed in what turned out to be a vendetta. A third was tortured and released, and I carried him to safety. In my five years, I also covered the hostage crisis in Iran, the Iran-Iraq War, the Israeli invasion of Lebanon, and the massacres in the Beirut refugee camps. Ottaway and I were sitting in the grandstand behind Egyptian president Anwar Sadat when he was assassinated at a military parade in 1981. It was not a career for the faint of heart, and Ellen endured this life like a real trouser. But she firmly declared “no” when AP offered me my next posting in Manila, Philippines, where President Ferdinand Marcos was facing growing popular opposition.

So ended my career as a foreign correspondent. After nearly six years, I decided that my family and their safety meant more to me than my career as a journalist. Besides, there were not many foreign correspondents I admired or wanted to emulate. The best of them, like Ottaway, Tom Friedman of the *New York Times*, and Robert Fisk, then of the London *Times*, combined some sort of scholarship with the grind of daily journalism. They had studied the Middle East and their work reflected the historical context of the events unfolding before our eyes in the 1980s. They wrote books. Most correspondents, including me, were rogues and

adventurers addicted to the Big Story. Most were divorced, getting divorced, or getting remarried. Most drank too much, or took drugs, or stopped drinking and became real psychos. We all started out thinking we knew who the good guys were and believing we were on their side. My personal goal, never stated in the presence of my colleagues, was to foster understanding and make the world a better place. But the more wars I covered and the more I learned of the roots of conflict, the less sure I became of who the good guys were—and the less sure I was of the nobility of my role. Journalists, particularly war correspondents, are in a grueling competition to see who can tell the best story, and sometimes that is incompatible with doing good. Except in rare cases, as they get older, war correspondents become insufferable, cynical windbags.

## **MY LIFE AS AN ENTREPRENEUR**

My career as a war correspondent, however, did much to prepare me for my next career—as cofounder of the Brooklyn Brewery. The determination, focus, and endurance required to get a story is similar to the single-minded determination required to start a business. The necessity of responding quickly to unexpected events is similar to the flexibility the entrepreneur needs to respond to problems—and solving problems is the entrepreneur's trade. The distance journalists need to establish from the stories they are covering is similar to the distance entrepreneurs need to maintain between themselves and the pressures they are under. Journalists need to maintain a kind of buoyancy in the same way entrepreneurs need to maintain a sense of optimism about their venture. The overarching goal in business—to make money for yourself and your investors—certainly is not as noble as the journalist's goal of making

the world a better place, but it is more attainable and, with a special effort, it can bring some good to the world.

## **THE ART OF HOMEBREW**

In Cairo, I became friends with Jim Hastings, the inspector general of the Cairo Office of the Agency for International Development, which was responsible for spending \$2.3 billion in aid to Egypt annually under the terms of the Camp David Peace Accords between Egypt and Israel. Before Egypt, Jim had been in Saudi Arabia and had acquired a fascinating hobby; homebrewing. Jim made beer at home. In Saudi Arabia, alcoholic beverages are forbidden in a strict interpretation of the Muslim holy book, the Koran. King Saud banned alcoholic beverages in 1954 when Americans flooded into Saudi Arabia to develop the oil fields. At the same time, Aramco—the Arab-American Oil Company—issued a pamphlet to its employees explaining to them how to make their own beer, wine, and liquor at home. I since obtained a copy of this crudely mimeographed guide to homebrewing from a former Bechtel Construction Company executive who was one of the ringleaders of this bootleg operation and, years later, invested in a start-up microbrewery in California.

The tortuous title of this recipe book is:

PERFECTED TECHNIQUES ON THE EBULLITION OF  
SUGAR, WATER & SUITABLE CATALYST TO FORM AN  
ACCEPTABLE ARAMCO ASSIMILATIVE IMBIBABLE  
POTION APPROPRIATE FOR CONSUMPTION

I can only guess it was thus named to dampen any suspicion about its contents, perhaps as an inside joke about the flowery, convoluted indirection often employed by Arabic speakers. Whatever the background, Hastings and

his friends made very good beer. It was dark and rich and hoppy, and had much more in common with the great beers of Europe than the fizzy massmarket beers of America.

Thus I developed an enthusiasm for homebrewing, or at least for drinking homebrewed beer. I could not yet make my own beer because I had no source for ingredients. Jim and other American diplomats got their malt extract, hops, and yeast through the diplomatic mail. My hobby had to wait until I returned to America.

## **RETURNING HOME**

In 1984, Ellen, Sam, Lily, and I settled into a two-bedroom apartment in the Park Slope neighborhood of Brooklyn. With two children, Ellen and I could no longer afford our old Manhattan neighborhood on the Upper West Side. I took a job as assistant foreign editor at *Newsday*. My colleagues at AP bought me a homebrewing kit as a going-away present, and I began making my own beer at home.

My first batch was a disaster. The tool for capping the bottles was a crude metal gadget called a “hammer capper.” The hammer capper fit over the uncrimped bottle cap. The brewer then hammered the capper, crimping the cap onto the bottle. I broke 30 of 48 bottles in my first batch. At one point in the frustrating process, I became enraged and began striking the capper with far too much force. The kitchen floor was covered with shards of glass. I was cut and bleeding and tired and angry. Ellen took the children to the back of the apartment while I swept up the mess. The beer that resulted had an unpleasant malt character, as if someone had slipped a few drops of cod-liver oil into the batch. But I stuck with my new hobby, comforted by the mantra of homebrewing guru Charlie

Papazian, author of *The Complete Joy of Homebrewing* (Harper Resource, 2003): “Relax, don’t worry, have a homebrew.”

Homebrewing enabled me to approximate the world of great beer I had experienced as I traveled through Europe—the malty ales of England, where the beer was served at cellar temperature; the wholesome, almost food-like lagers of Bavaria, which seemed perfectly appropriate at noon. In my college days, I was puzzled by the bad taste of American beer when I reached the bottom of the bottle or can. Why should the last ounce taste different than the first? English ales and German lagers tasted great to the last sip. Could it be that American beers only tasted good when they were cold? In 1984, Beck’s was my favorite commercially available beer, but even it seemed metallic compared to my homebrewed concoctions. I became an adequate homebrewer, learning to brew with raw ingredients, malted barley, and flower hops, as well as malt extract and pelletized hops. Apart from a few accidents—such as a five-gallon carboy exploding on top of our refrigerator, spewing sticky unfermented wort onto the ceiling and sending it cascading down the sides of the fridge—I learned to make good beer. Like all homebrewers, I craved approval. Beer must be shared. I served my beer to my friends and neighbors and, on Saturdays when the top editors were not in the office, to my colleagues at *Newsday*. On weekends, my kids helped me sterilize the bottles. The pleasures of homebrewing are a lot like those of cooking, but the product is even more uplifting than food.

I subscribed to the homebrewing magazine *Zymurgy* and began to read about the small breweries on the West Coast that were producing, on a small, or *micro*, scale, all-malt beers like those I was making at home. I read about Jack McAuliffe and New Albion, the first of the microbreweries. I read about Fritz Maytag, scion of the washing machine



family, who had revived the Anchor Brewing Company in San Francisco, and Ken Grossman, a former bicycle repair shop owner who had built a brewery in his garage to make Sierra Nevada Pale Ale. I met Bill Newman, a former state budget office employee who started Newman's Albany Amber in an English-style brewery in Albany, New York. In 1982, in New York City, Matthew Reich, a former banker, had started New Amsterdam, a rich malty lager beer that he brewed under contract at a regional brewery in Utica, New York.

I was happy in my job at *Newsday* while growing more successful at my hobby of beer making. Being an assistant foreign editor seemed like a dream job—I could work with *Newsday's* nine foreign correspondents and travel a couple of times a year on special assignment. But it lacked the adventure of my years abroad. I was restless. I also envied those guys starting breweries. Starting a brewery ... what an incredible enterprise. Why couldn't I do that?

As a young man in southeastern Ohio, I had run a very large newspaper delivery route. I had won a statewide newspaper and magazine sales contest, becoming "Most Popular Newsboy in Ohio" and winning a two-week trip to Brazil. I won every candy and greeting card contest my church and the Boy Scouts held. I won my high school golf championship in upstate New York. My dad had worked for big companies all his life and ended up bitter about being replaced by "college boys" and put out to pasture before he was ready to retire. My two grandfathers both ran businesses—a supermarket and a cinema—and I was always envious of their confidence in themselves. I hadn't been to Harvard Business School, but I always harbored a conceit that I could succeed in business if I put my mind to it.

But, really, what did a journalist know about starting a business—let alone a brewery—in the most competitive

beer market in the country, if not the world? Clearly, I needed help. And help came from a serendipitous source: my downstairs neighbor in Brooklyn, the best customer for my homebrew, banker Tom Potter. As I look back on the evolution of the Brooklyn Brewery, I am struck by the role serendipity—or as some would say, dumb luck—played in the development of the company. David Ottaway would eventually become our biggest investor, and his two sons would join the company and eventually become my partners. The chemistry that developed between Tom and me was a critical piece of luck. Our relationship was vital to the sound development of our company. My enterprise, drive, and activism always were balanced and tempered by Tom's patient, calculating, and analytical mind. All of our best decisions were the result of a dialogue between our very different ways of approaching problems.

In retrospect, the ideas Tom and I developed in the early days of the company were crucial to our success. Our relationship began as a friendship. My wife, Ellen, an editor, and Tom's wife, Gail Flanery, an artist, had become friends through their involvement in the local public schools attended by our children. In 1985, Tom and Gail purchased the two-bedroom apartment below ours in a cooperative apartment building on Eighth Street, on the block bounding Brooklyn's wonderful Prospect Park. The Park Slope neighborhood of Brooklyn was being revitalized by a flood of young couples like us, many with young children, who had been priced out of neighborhoods in Manhattan. Eighth Street was on the far edge of that revitalization. Today, it is in the heart of a prosperous neighborhood. Property values have increased five times since we bought our apartments.

## **FRIENDS BEFORE PARTNERS**

Tom and I quickly became close friends. Tom was 29 years old and I was 36. We shared a passion for reading. He had majored in English at Yale, and I at Cornell. He was very articulate and thoughtful. We ran together in the park. We played tennis and golf together, and we raised our kids together. On summer weekends, it seemed Tom and I always shared child care duties. Tom was not a beer enthusiast, but he liked my homebrew. Neither of us was making much money, and homebrew was cheap. In the summer of 1986, I was brewing beer about once every two weeks. We would sit in Tom's backyard drinking homebrew and watching the Mets on a beat-up black-and-white television set. Unlike many summers, that was a fun summer to watch the Mets, because they were on their way to a World Series championship. My children, Sam and Lily, and Tom's son, Billy, played in a sandbox.

In 1986, I was following the progress of New Amsterdam Brewing Company, one of the first start-ups in the East. Founder Matthew Reich had gotten lots of publicity for his venture. His New Amsterdam Amber Beer was delicious. Reich had started out in 1982 brewing beer at the F.X. Matt Brewing Company in Utica, New York, a 100-year-old regional brewery with a lot of excess capacity. His elegant black-and-gold label depicting New York's original name and proud heritage as a seaport was showing up in supermarkets and restaurants. Reich was raising money to build a brewery in Manhattan. His confident, smiling face appeared in articles in the *New York Times* and *New York* magazine. About the same time, the Manhattan Brewery, a brewery restaurant, successfully started up in Soho. In Albany, Bill Newman's four-year-old Newman Brewing Company was thriving. All these ventures seemed to be successful. They were developing a new market for domestic beer brewed to the standards of imported beer—100 percent malted barley, no corn or rice, lots of rich and

flavorful hops, resulting in richer-colored and -flavored beers.

It seemed to me that Brooklyn, with 2.5 million inhabitants and a proud, storied history, would also support a brewery. Tom was skeptical. He had recently completed a master's degree in business administration at Columbia University. Among other things, I think they taught him that you should never start a business based on your upstairs neighbor's hobby.

One rainy day, daydreaming as I ran on the road that wound through Prospect Park, I passed a runner wearing a sweaty old T-shirt that said "Breweries of Brooklyn" in classic Victorian font. I lacked the presence of mind to stop at that moment, but I ran into the same guy on the other side of the park. I stopped him and asked about his shirt.

"Oh this," he said, panting. "It's a book I wrote. It's been out of print for 10 years."

"I'd like to talk to you," I said. "I'm starting a brewery in Brooklyn."

"Yeah," he said skeptically. "You and everybody else."

His name was Will Anderson, and he was a crotchety sort of guy, a collector of breweriana and, fortuitously, author of a lovingly written book about Brooklyn's brewing history. His cramped Brooklyn apartment was a jumble of old beer posters, signs, and beery bric-a-brac. He said he was moving to Maine soon, but not soon enough. Brooklyn, he very wrongly declared, was going to hell. He had only one copy of *Breweries of Brooklyn* left, and he agreed to let me photocopy it.

## **FINDING THE HISTORY**

The book made me an instant expert on the history of brewing in Brooklyn. Will had painstakingly documented the history of 28 of Brooklyn's breweries. He had visited and photographed many of the old brewery buildings. The former Federal Brewing Company on Third Avenue was being renovated as apartments; the Fallert Brewery housed Roman Furniture; the old Schaefer Brewery housed a lumberyard, a kosher winery, and a yeshiva. The 28-acre Rheingold Brewery plot was mostly bulldozed. Other former brewery buildings housed small manufacturing businesses. Brooklyn had been known as "the borough of churches," but it might have been called the borough of breweries. In 1898, when Brooklyn became part of New York City, there were 48 working breweries within its borders. As late as 1962, Brooklyn brewed 10 percent of the beer consumed in America. Schaefer and Rheingold had closed their doors in 1976, ending the wonderful history of brewing that began in New Amsterdam in 1613, with a Dutch brewery on the southern tip of Manhattan.

On weekends, Tom and I drank homebrew, and I began to dream out loud about starting a brewery in Brooklyn. I argued that Brooklyn occupied a special place in the history of American brewing. Brooklyn also was a special place in America and the world; it deserved to have a beer named after it. I pointed to the success of Reich, a former banker, and Newman, a former state bureaucrat. If they could do it, why not us? Tom was intrigued by my research, but not convinced. He grudgingly admitted that there was a brewing tradition in Brooklyn. He even learned that his father-in-law had been a security guard at the old Schaefer brewery. But that did not mean we should start a business. Look at the brewing industry, he said: The big breweries and distributors are getting bigger, and the small are getting swallowed up. How could we compete in that environment? More and more articles about microbreweries were appearing in the press.

William Least Heat Moon wrote a rhapsodically romantic article, called “A Glass of Handmade,” about the trend in *Atlantic Monthly*. Wasn’t that proof enough?

Not for Tom. Sitting at my desk at *Newsday* one quiet Saturday in the summer of 1986, I did an electronic library search of the word *microbrewery*. The result was a half-inch-thick stack of articles about the growth of this new industry. Reading glowing news articles about Anchor and Sierra Nevada, about Hart Brewing in Seattle and Newman and New Amsterdam, it was clear that something new was happening in the beer business. These articles—and his growing taste for my homebrew—caught Tom’s imagination. I was subscribing to *Zymurgy*, published by the American Homebrewers Association, in which I learned of a conference of small brewers to be held in Portland, Oregon. Tom decided to attend the microbrewers conference in Portland. At that time, there were only 33 microbreweries in the United States. All were represented at the conference, most by their founders. And all were eager to talk to the quiet banker from New York wearing a Brooks Brothers suit. Little did they know that he longed to chuck his suits and join the beer revolution.

## **AN IDEA BECOMES A REALITY**

Tom returned from Portland believing that we could start a business. He said he had been impressed by many of the entrepreneurs he had met in Portland. It was not just a bunch of wild-eyed homebrewers. These people were serious about making money, he said. I was thrilled. Tom represented many talents I thought I did not have. Like me, he had majored in English in college, but he had been to business school and had some firm ideas about how a company should be structured. A member of a