

- KEN FIREMAN:** I'm Ken Fireman, the managing editor for SAGE Business Researcher, and I'm speaking with Lisa Roepe, who has written our report on the craft distillery business. Thanks for joining us, Lisa.
- LISA ROEPE:** Well, thanks for inviting me.
- KEN FIREMAN:** First of all, could you define for us what constitutes a craft distillery? What does it typically produce, and what distinguishes it from other distilleries?
- LISA ROEPE:** Well, craft distillers produce what's commonly known as spirits, which could be vodka, whiskey, bourbon, or rum. And a craft distiller will produce no more than 750,000 proof barrels. And it's also independently owned and operated.
- KEN FIREMAN:** Mhm. So the--
- LISA ROEPE:** But by that definition, it also means that a brand that has long been associated with craft distilling-- Tito's Handmade Vodka, you may have heard commercials for them-- they no longer qualify as a craft spirit because the distillery produces more than the allowed amount, which is 750,000 proof barrels.
- KEN FIREMAN:** So we're talking about small operations here?
- LISA ROEPE:** Yes.
- KEN FIREMAN:** Is that right? Yeah.
- You write in your report that the number of US craft distilleries has soared from less than 200 at the start of this decade to more than 1,700 now. What are the reasons for this big increase?
- LISA ROEPE:** Well, in the last decade, there's been a significant increase in the industry because there have been many changes to state laws and regulations.
- So after Prohibition, beer producers and wine producers were-- the laws changed for them. But the distillery industry remained heavily regulated with the same laws-- many of the same laws that were in existence after Prohibition. And these outdated laws made it really difficult for craft distillers who are really small operations to have enough money to obtain a license. And in some cases, it really hindered them from selling their products directly to consumers.

**KEN FIREMAN:** Mhm. It seems that New York has been at the forefront of this trend. Why is that?

**LISA ROEPE:** Well, they were the first state where distillers came together to lobby for what's known as farm-to-flask laws. Which-- they allow farmers to distill and sell spirits using their own produce. They also have created laws and regulations that allow distillers who are using locally grown produce to sell their own product at a farm store or to offer tastings of their product without using a wholesaler.

So that has been huge for them. And part of that reason was New York state has a really strong agricultural department and a really strong wine industry. So there was a model that craft distillers could point to. They didn't have to create laws that lawmakers had never heard of before. They could just point to existing laws in the state and say, we want to be able to do that too.

**KEN FIREMAN:** Mhm. In the beer business, there's been a fairly adversarial relationship between craft brewers and the big producers. I guess that's much less the case in the distillery business. Why is this?

**LISA ROEPE:** Well, one of the big differences between craft beer and craft spirits is that the craft beer movement was really created out of a desire to introduce different types of beers and different flavors of beers beyond the typical light, pilsner, lager.

**KEN FIREMAN:** Mhm.

**LISA ROEPE:** So they really were-- craft brewers were really railing against the existing beer industry, and that created a natural tension between the large beer distributors and the craft brewers. And then added to that, the market share for beer has been shrinking a bit, so large brewers and craft brewers are really fighting for shelf space. And we don't see that same tension between craft distillers and large distillers.

**KEN FIREMAN:** Mhm. OK. What's the most surprising thing you learned in the course of researching this report?

**LISA ROEPE:** Well, I didn't realize that many of those Prohibition laws were still in effect.

**KEN FIREMAN:** Like what? Can you give me an example of a Prohibition law that would still be in effect?

**LISA ROEPE:** Yeah. Well, not allowing distillers to sell sample-- well, not even--

**KEN FIREMAN:** Yeah, I see.

**LISA ROEPE:** --sell samples, not allowing them to even provide samples--

**KEN FIREMAN:** I see.

**LISA ROEPE:** --of their own product.

**KEN FIREMAN:** Their own product, yeah. Mhm.

**LISA ROEPE:** So if someone comes for a tour, in some states you can't have a tasting. In some states you could have a tasting, but you can't buy a bottle. And you have this very active and engaged audience who probably would want to bring home a bottle. But in some states, they can't. They have to go to a liquor store and find a liquor store that's actually selling that spirit. So it really affects their ability to have a viable business.

**KEN FIREMAN:** Mhm, Ok.

I've been speaking with Lisa Roepe, who has written the SAGE Business Researcher report on craft distilleries. Thanks, Lisa.

**LISA ROEPE:** Thanks.