

## **New Belgium Brewery: Maintains Quality, Sustainability and Growth<sup>1</sup>**

In 1991 after Jeff Lebesch was unable to secure financing from a bank, Jeff and his wife Kim Jordan with low capital investment started brewing beer from the basement of their home, and delivered it in the family station wagon. By starting so small Jeff and Kim were able to focus on quality rather than high volume for a wide market. The first two beers they produced 'Fat Tire' and 'Abbey' are still produced by the company. Within a relatively short period of time, New Belgium Brewing started earning a meager profit. Soon Kim, Jeff and a blossoming crew outgrew the basement operation, then overflowed a second location in a railroad depot, and finally, in 1995, they designed themselves a state of the art custom built facility. Their current facility houses two Steinecker brewhouses, four quality assurance labs, and a wastewater treatment facility that allows New Belgium to cleanse their process waters and create their own energy. The entire operation is powered by wind after an employee-owner vote to make that conversion back in 1998.

By choosing technology that is cutting edge, even when it is not proven, has helped move the company forward. New Belgium is an award winning brewery, not only for its beers but also the efficient and environmentally friendly way that it is produced. Quality and productivity have become fundamental aspects of New Belgium's business. Producing a high quality product efficiently for a moderate cost. Jeff and Kim maximize productivity at the company by fully utilizing their facilities and by employing new and

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<sup>1</sup> © O.C. Ferrell 2006. This case was prepared by Melanie Drever, University of Wyoming, under the direction of O.C. Ferrell for classroom discussion, rather than to illustrate either effective or ineffective handling of an administrative, ethical or legal decision by management. All sources used for this case were obtained through publicly available material and the New Belgium website.

innovative technologies such as the waste water reclamation plan which converts the waste water from the plant into energy that can be used by the factory.

New Belgium ensures that quality at the plant is monitored closely. Throughout the process the quality of the inputs as they are transformed is examined. Quality assurance is a critical element of operations management. However, it is difficult and challenging to maintain a consistent product. The quality of the product should never suffer because of the size of the company. When the company is large it is even more important for the quality to be closely monitored, as the product goes to even more people. At New Belgium Brewing the entire process from receiving the hops, to brewing and finally bottling is checked and monitored constantly, to ensure that each product is of the highest quality possible. Even though the quality of inputs sometimes changes, there should not be changes to the quality of the products produced.

At New Belgium employee involvement is taken one step further. After one year of employment with the company, employees become employee owners, which gives them a vested interest in the success of the company. Through the horizontal hierarchy New Belgium empowers its employees, which enables the employees to pursue quality within their own departments and achieve rewards as an employee owner. Even though there is a flat structure because of the empowerment of each individual all employees are considered area leaders, and everyone is responsible for ensuring that quality remains high.

New Belgium has had considerable success, receiving the Environmental Protection Agency's regional Environmental Achievement Award in 2004, and numerous other awards for ethics and contributions to sustainability. The company is now looking

to expand its facility and has announced that it will embark on its biggest capital expansion ever- a building and equipment addition, which is tagged at \$21.5 million. Following double-digit growth over several years the company has been expanding into new markets including Chicago and San Diego. This follows a national trend with craft-brew sales growing 9 percent to 7.1 billion barrels during 2005 following a 7 percent increase from the prior year, making craft beer the fastest-growing segment of the U.S. alcoholic-beverage market. Still craft-beers remain a microscopic part of the beer industry less than 4 percent of the total beer market industry. Interestingly the total craft-brew industry is only 7 percent of all of Anheuser-Busch domestic shipments. New Belgium Brewing will spend \$11.5 million on a 55,000-square-foot building, and the remaining \$10 million on new equipment. As they are continuing to grow the bottleneck has become the company's bottling capacity. The new expansion will feature an automated, high-speed bottling line, which will increase output to 700 bottles a minute compared to the current 300 bottles per minute. Current production is at 400,000 barrels per year, with the expansion that is expected to increase to up to 800,000 barrels. The new construction will continue to be efficient, high tech and environmentally friendly, by using recycled steel components and recycled concrete. Also a recycle program will funnel some of the construction waste away from the landfill. Natural lighting will be built into the building and the heating-ventilation-cooling system will not use Freon. Instead a direct-indirect evaporative cooling tower will be installed. By choosing efficiency and renewable energy as well as focusing on quality New Belgium has been able to expand successfully.

### **Discussion Question**

1. How would you describe operations management at New Belgium Brewing?
2. Why is it important to engage employees in ownership to enhance quality and efficiency?
3. Do you think New Belgium's focus on environmental responsibility and sustainability in its production process is a major cost or a benefit that enhances the profits of the company?

### **Sources:**

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