



Business Plan

MICHIGAN'S FIRST COOPERATIVELY OWNED BREWERY

Disclaimer: This Business Plan is furnished for the sole purpose of disclosing certain proprietary information complete with ideas, concepts, marketing plans and financial projections for this venture. It does not constitute an offer to sell or a solicitation of an offer to buy any securities. We reserve the right, at our own discretion, to modify or withdraw this plan, to reject any offers regarding an investment and to terminate discussion with a recipient at any time.



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Executive Summary

High Five Co-op is a grassroots effort to create Michigan's first cooperative brewery. One of its founding members got the project off the ground when he presented the idea for a cooperative brewery to a 5x5 competition panel sponsored by Rick DeVos and was awarded \$5,000 in startup capital. Since then, High Five has grown to over 130 member-owners who share a passion for craft beer and a vision for a cooperative brewing model in West Michigan.

Mission Statement: *The High Five Co-op Brewery is a democratic community space in Grand Rapids, MI where brewers and consumers come together to learn about, make and enjoy quality craft beers.*

While there has been a boom in the craft beer industry in the U.S., the concept of a cooperative brewery is somewhat new. Since 2010 there are now five cooperative breweries in operation and many more in planning. High Five will be the first cooperatively owned brewery in Michigan. There are many things that make us unique:

- As a cooperative we can serve the needs of people in Grand Rapids in ways that are different than other breweries. Other breweries have mug club memberships for their loyal followers. High Five takes the mug club membership one step further. Our members are owners of the brewery. **High Five will be more responsive to the changing tastes of consumers because member-owners are both the consumers and brewers.** Member-owners determine what we brew. We actively encourage community participation in our brewery.
- Our commitment to our workforce is different than anyone else. **By offering a living wage and giving our employees a say in how the business is run, High Five will be able to attract the best workers in town.** This will foster a loyal workforce that strives to offer the best service to our customers.
- As a co-op, High Five will function and operate differently than typical brewpubs. Co-ops are people centered businesses which drive social innovation. **Surplus from High Five sales will be reinvested to benefit our workers, our members, and the broader community.** The advantage of our model is that we direct a greater proportion of surplus towards building a business instead of excessively compensating our investors. That makes us a low risk, solid return investment.
- Unlike other breweries, High Five cannot be sold. Our cooperative structure means High Five will always be an independent brewery. **Our democratic model ensures that one individual investor or group of investors cannot control the organization to favor a short term gain over the long term success of the brewery.**

High Five is seeking investors to help fund our future brewpub. Because we are a co-op, we don't have access to all of the same traditional lending options as other small businesses. While we will be seeking a loan for part of our capital, we are also looking for investments from within our membership to bring our vision to fruition.

This business plan will demonstrate how High Five will differentiate themselves from other breweries in the area, define its management structure, explain how they will be marketed, and describe costs associated with this business venture.



Brewpub History

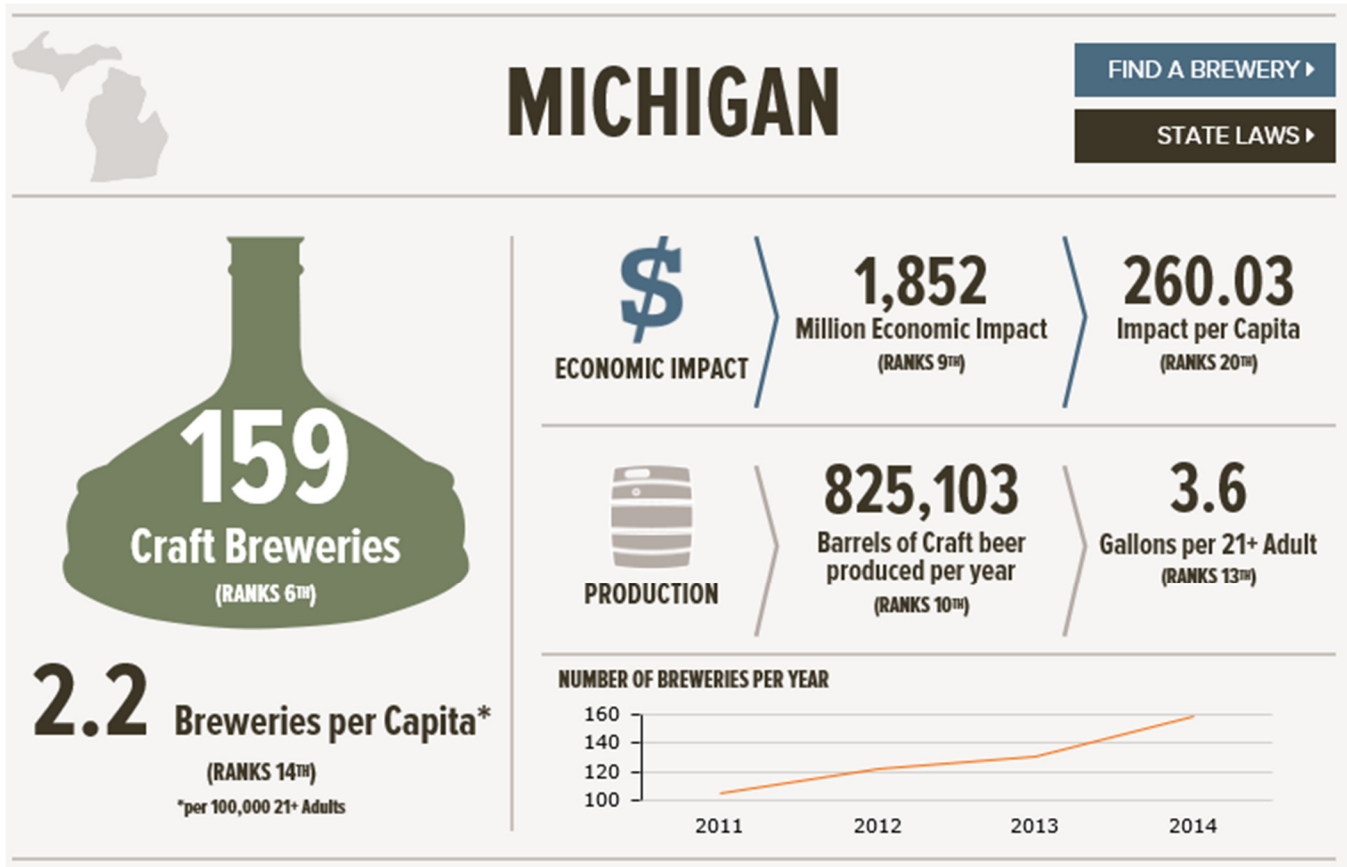
Beer has played an important role in the development of this country. In 1609 America's first "help wanted" ad, appeared in a London newspaper, seeking brewers to come to Virginia. The Mayflower stopped at Plymouth Rock instead of continuing on to Virginia as originally planned because of a severe shortage of supplies. As one passenger noted in his diary, "We could not take time for further search or consideration, our victuals being much spent, especially our beere." William Penn erected a brew house on his estate in 1683, and served beer widely, even using it to promote temperance among the Natives. In 1816, Thomas Jefferson discussed beer in a letter to a friend, writing: "I wish to see this beverage become more common." It has.

By 1880 there were 2,272 breweries in America, many of them brewpubs. The city of Boston had over 200 breweries itself and there were almost 100 small breweries in the State of Wisconsin devoted solely to brewing wheat beer. The decline of the breweries began in 1892 when the "cork crown" was patented. Beer could now be bottled and shipped reliably, and by 1910 only 1,568 breweries remained. The decline continued with Prohibition, and by 1930 there were only 231 operating breweries. They had survived Prohibition by producing a variety of non-alcoholic products. Upon repeal of Prohibition, thirty-eight States (including Michigan) adopted the 3-tier distribution system (manufacturer-distributor-retailer), making it illegal for the manufacturer to also be the retailer. The brewpub became history. The decline culminated in the early 1970's when, through industry consolidation and changing consumer tastes, there were less than 50 breweries in the United States.

In the 1970's, a microbrewing revolution began in America. In 1982 the legislature in the state of Washington approved a bill allowing a brewery to sell beer directly to the customer in a restaurant environment; the brewpub was reborn. Laws in other states were soon updated. Now, from California to Maine, Michigan to Mississippi, small scale "microbreweries" and "brewpubs" are reviving a cherished and historic tradition, the brewing of specialty beers. In 1983 there were 12 microbreweries and brewpubs, 29 by 1985, 171 by 1989, and 382 at the end of 1993. At the end of September 2015 the Brewers Association reported over 4,000 active breweries in the U.S., a milestone in the history of local American brewing.

Michigan alone has more than 159 brewing facilities contributing over \$571 million in wages and \$1.8 billion dollars in total economic impact to the state. A new generation of consumers is now able to discover the taste and sensation of drinking fresh beer. In the process they are rejuvenating a great American tradition, the brewpub.

Source: Brewers Association, Boulder, CO, www.brewersassociation.org



Grand Rapids in particular has experienced a boom in craft breweries. In 2012, Grand Rapids was named Beer City USA (tied with Asheville, NC). More than 30 craft breweries have now opened in West Michigan. The long term success of Bell's Brewery in Kalamazoo, New Holland Brewery in Holland, and Founders Brewing Company in Grand Rapids points to the rich craft brewing culture in western Michigan.

Source: Brewers Association, Boulder, CO, www.brewersassociation.org

Cooperative History

A short history of the Cooperative Movement

The International Cooperative Alliance, based in Switzerland, defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”

In the United States, the largest and best known cooperatives are agricultural co-ops (e.g. Sunkist Oranges and Welch’s Grape Juice), rural electric cooperatives, and credit unions. However, there are over one million members of housing cooperatives, many small businesses are part of retailer cooperatives (e.g., ACE Hardware and REI), and worker cooperatives and food co-ops are a growing presence.

While there were earlier efforts to start cooperatives, the first cooperative to achieve great success began in Rochdale, England in 1844. In that year, a group of weavers and their supporters opened a small store that used principles now recognized as the guiding standards for cooperatives around the world. Interestingly, the organizers of the Rochdale co-op met in a small brewpub called the Weavers Arms to dream and plan for their future.

In the United States, Benjamin Franklin started one of the earliest co-ops, the Philadelphia Contributionship Mutual Insurance Company, which is still in operation today. Hundreds of farm cooperatives were started in the late 1800’s, and the first credit union opened in 1909. The Great Depression was particularly important, however, as thousands of people turned to mutual aid and self-help to solve their problems. Legislation, including the Farm Credit Act of 1933, the Federal Credit Union Act of 1934 and the Rural Electrification Act of 1937 all spurred cooperative development.

Another wave of interest came in the 1960’s and 1970’s, resulting in a “new wave” of consumer food cooperatives and housing cooperatives. Today, there are hundreds of successful food co-ops around the country, and more than a million people live in housing co-ops, many of which were constructed through HUD programs to serve as affordable housing.

Cooperative Principles

According to the International Cooperative Alliance, co-ops function according to a specific set of principles and follow an ownership model that allows more than just a limited number of individuals to benefit from the profits of the company. They exist to help communities and individuals better themselves through contribution.

The Principles

Principle 1: Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.



Principle 2: Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote). Cooperatives at other levels are also organized in a democratic manner.

Principle 3: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, at least part of which would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

Principle 4: Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

Principle 5: Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

Principle 6: Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

Principle 7: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Cooperative Breweries

The recent history of brewpub cooperatives

In 2006, Steven Yarek had an idea. He wanted to start a community bar in his hometown of Austin, Texas, owned by the people it served. After the first meeting of interested organizers was held, the bar became a brewpub, and the new organization was incorporated as a cooperative.

Black Star opened the doors on its new brewpub in 2010, after raising \$500,000 from its members. It not only was member owned, but its employees became part of a Workers Assembly to give them input on operations and a voice on the board of directors.



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Black Star has inspired and assisted a number of other efforts around the country. Not all of these new cooperatives follow the same pattern, however. Some are consumer cooperatives, while others are owned as worker cooperatives, and still others (like both Black Star and High Five) follow a hybrid model.

As of this writing, there are at least 11 cooperatives either in operation or in the planning stages in the US alone.

Open for business:

- [Black Star Co-op Pub and Brewery](#) (2506 Easy Wind Drive, Austin, TX)
- [Fair State Brewing Cooperative](#) (2506A Central Ave., NE, Minneapolis, MN)
- [Fifth Street Brewpub](#) (1600 E. Fifth, Dayton, OH)
- [Flying Bike Cooperative Brewery](#) (8570 Greenwood Ave. North, Seattle, WA)
- [Bathtub Row Brewing Co-op](#) (163 Central Park Square, Los Alamos, NM)

In planning stage:

- [High Five Co-op Brewery](#) (Grand Rapids, MI)
- [Full Barrel Cooperative Brewery & Taproom](#) (Burlington, VT)
- [Miami-Erie Brewing Co-op](#) (Middleton, OH)
- [San Jose Co-op Brewpub](#) (San Jose, CA)
- [4th Tap Brewing Co-op](#) (Austin, TX)
- [Together We're Bitter Cooperative Brewing](#) (Kitchener-Waterloo, Canada)
- [Yellow City Co-op Brewpub](#) (Amarillo, TX)

Cooperative pubs, as opposed to brewpubs, are also beginning in the United States and elsewhere. The Public House in Milwaukee is a neighborhood taproom, while in England, some small town pubs with financial problems are being transformed into cooperatives by the patrons. Community is often the driving force in these efforts, which is a factor supported and strengthened with the addition of a brewery and the strong community of brewers and craft beer enthusiast that comes with it.



Business Description

Legal

Co-ops as a Distinct Corporate Entity

Although the primary goal of a co-operative is not to maximize profits but instead to service its community, we are not a Nonprofit. We are not an LLC, C Corporation or S Corporation. We are a Co-operative. Co-ops in Michigan, including High Five Co-op Brewery, Inc., are typically organized as domestic non-profit corporations under the Michigan Nonprofit Corporation Act, but this is a technical distinction only. We do not have a 501(c) designation of any kind nor will ever have one. We are not a charity. Donations and membership fees are not federally tax-deductible. For the most part, High Five is subject to the same taxation as any other corporation.

However, the established purpose of co-ops, including High Five, is to benefit our member-owners and our community by way of our non-discriminatory and democratic principles. Our mission is to accomplish this through our brewery.

Tax Implications

Earnings in a regular corporation are double-taxed—the corporation pays income tax on the net earnings, and then the shareholders pay income tax when they receive dividends on those earnings. In contrast, under Subchapter T of the Internal Revenue Code, a cooperative can avoid some of the traditional corporate double-tax. Assuming the cooperative meets all the requirements set forth in the Code, patronage dividends are generally tax-deductible for the cooperative if at least 20% of each patronage dividend is paid out in cash.

Licensing

High Five will apply for a Micro-Brewery License. The state application fee for a Micro-Brewery License is \$50, plus a \$75 nonrefundable inspection fee to authorize the field investigation. A Micro-Brewery License will allow High Five to produce up to 30,000 barrels (930,000 gallons) of beer a year, sell it to its patrons for on premise and off premise consumption, and sell its beer to state-licensed wholesalers for resale to retailers.

Licensing is required on multiple levels; Federal, State, County, and City. Our first license, known as a Brewer's Notice, will be issued by the U.S. Alcohol and Tobacco Tax and Trade Bureau. Our next step will be to work with the State of Michigan Microbrewery licensing agency known as the MLCC. The Board of Directors has already been in contact with the MLCC and they are prepared for High Five's business model. Finally, a license will be issued by the Michigan Department of Agriculture which will inspect the actual facility to ensure that the brewery is following all health code requirements for a business of our type.

Additionally, the Kent County Health Department requires a Food Service Establishment license when tasting room sales exceed wholesale. The City of Grand Rapids also requires various permits for both general business operation (building codes, fire safety, ADA etc.) and brewery oriented items (producing and serving alcohol, live music, outdoor seating) that will be obtained in a timely manner. Much of this will be addressed by the City of Grand Rapids Special Land Use review process.



Products & Services

Beer

Cooperative Beer

High Five has been established with the mindset of collaboration, community, and sharing. These core beliefs are even visible when it comes to our beer. Our brewers committee has worked together as a team with other local breweries on collaboration brews. High Five has already done collaborations with Harmony Brewing, The Mitten, Grand Rapids Brewing Company, Rockford Brewery, Gravel Bottom, EB Coffee and Pub, B.O.B.'s Brewery, White Flame Brewing Co., and Final Gravity Brewing Co.

Tours

Many people come to the brewpub to see the brewing process. Tours will be available on a regular basis, given by the brewers themselves. Brewery operations and information will be made visible to the customers. Breweries are tourist destinations. People will travel to see the brewery and taste the beer. A recent study commissioned by Experience Grand Rapids showed that craft beer tourism contributes more than \$12.2 million to the local economy. The study also estimated that 42,000 people traveled to the area specifically to experience the West Michigan beer scene. Out of those people, 31 percent are from out of state. High Five will welcome tourists and show off our brewery space.

Source: <http://mibiz.com/news/food-biz/item/22978-kent-county-taps-into-#sthash.1pIW3zbE.dpuf>

Local ingredients

We strive to utilize Michigan ingredients whenever possible. More locally grown ingredients equals a more local beer! By working with regional flavors (many brewpubs make green chili, spruce, pumpkin and other regional specialty beers) High Five will develop a reputation as an innovative and exciting place to enjoy unique beers. Our beer will be brewed from grain in the traditional fashion, beginning with whole, malted 2-row barley. The finest hops will be sourced through the Michigan Hop Alliance, a Michigan farmer owned and sustainably grown, high quality hop producer as well as other Michigan farms. When supplies are available, we will purchase malt from local farms including Michigan Malt (Shepherd, MI) and the Pilot Malt House (Byron Center, MI).

Beer names

Beer names will be a great opportunity to tie our business to the community. We plan to use local landmarks, historical figures, regional wildlife, etc. to name our beers.

Mainstays

High Five will produce several styles of high quality ales and lagers ranging from light ales, designed to be an introduction to microbrews, to the rich exciting and diverse assortment of experimental and extreme styles of eccentric ales that West Michigan is known for. Specialty beers, seasonal beers, wild ales, and even fruit beers will also be produced. However, High Five also plans to have a core group of mainstays which customers can expect to always be on tap. What follows is a compilation of possible house mainstays, open to revision and expansion, with at least four beers available at any given time.

- **EGR Ale** - A light malty beer with a blend of hops that provides a fruity and floral hop aroma and flavor. 5% ABV, 25 IBU



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- **Westside Wheat IPA** - This is the IPA that started it all. Based off an award winning homebrew recipe, this IPA was chosen by our membership at one of our first gatherings as their favorite beer. It is a crisp IPA which doesn't overpower you with bitterness while maintaining a strong hop flavor and aroma. Don't let the word wheat in the title fool you. While wheat beers are typically a cloudy bunch by style, this beer is crystal clear and the little bit of wheat makes for a bright white, long standing head. 6.7% ABV, 67 IBU.
- **Eastown Sesh Ale** - A session ale made in the tradition of American IPA. The full flavor of Centennial, Citra, and Simcoe hops coupled with lower alcohol produces a light and refreshing taste. 4% ABV, 42 IBU
- **Forest Hills Nut Brown Ale** - An amber brown ale with hints of caramel and cocoa and a dark fruity aroma. 6% ABV, 20 IBU
- **Calder Stout** - A dark and heavy concoction made with a variety of dark malts and hops that combine a smooth chocolate taste of with a rich bittersweet finish that one desires in a full bodied stout. 4% ABV, 45 IBU.
- **Lookout Hill Lager** - A traditional style with a bit of a sweet twist. The Co-Op is the perfect place for brewers to implement more challenging fermentation techniques to achieve both a more commercial and also more sophisticated product.

Rotating Handles

Our unique configuration allows for member-owners to collaborate with our head brewer to come up with new, and interesting brews for our patrons. At High Five we want there to always be a beer inspired by one of our members on tap. This can also give the brewpub a great sales boost as there is no better way to market something than by word of mouth. The beer creators will be able to tell their friends and family when their beer is on tap at the pub and to come enjoy a pint or two with the person who brewed it.

Open Source Beer

At High Five, we believe in sharing information. This is why we have decided to borrow themes from the [open source community](#) and reveal the "source code" of our brewery. Not only will we openly share all our beer recipes but also the processes we've been through to open and run the brewery. Expect to see mash schedules, fermentation profiles, brew house and bar schematics and many other things related to High Five. We feel sharing of this information is a great way to give back to the brewing community and help educate others looking to open a brewery.

Other

Off-Site Sales of Beer

Distribution is designed to accommodate considerable increase in production with minimal capital investment. We envision starting with a 5 barrel system which will allow the brewery to utilize its full capacity. The brewery will sell kegs through distribution to other restaurants and to the public for special events such as weddings, holiday celebrations, and parties. Such keg sales - in addition to generating revenue - become an effective marketing tool for the pub, expanding the brewery's reputation throughout the community. Another effective method used to maximize production capacity and increase sales is the "beer-to-go" market. Many brewpubs have been able to do a significant amount of beer sales in 1/2 gallon containers ("Growlers") and small kegs. These containers require initial container fees for the jugs and deposits for the 5-gallon kegs. Growlers have become conversation pieces and collector's items, furthering the growth of the brew pub's reputation. Also mobile canning has become a viable option that we will consider for the future.



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Merchandise Sales

One remaining source of income is merchandise sales. Hats, T-shirts, gift items, and glassware with the High Five logo on them will be available from a retail area adjacent to the bar. These items have proven to be very successful in other brewpubs and will quickly become collector's items and gifts for tourists, students, and residents of Grand Rapids. These items also present the unique advantage that people are actually paying for the privilege of advertising the brewery.

Imperial Pint Club

Membership in our Pint Club will be included with owner benefits. Benefits include discounted beverages and a Pint Glass with their name, or nickname, etched on it. This will be a valuable way of maintaining customer loyalty.



Education, Training, and Information

Education

The fifth co-operative principle that the High Five Co-op Brewery abides by is education, training, and information. There are two large segments of education that High Five plans to implement as we start and grow our member-owned brewery.

The first segment is beer education. In an area like West Michigan, craft beer is booming, and the demand for an education in this market is huge. The High Five Co-op plans to be a place where customers can not only enjoy fresh in-house brewed beers, but also learn what it takes to create these beverages. Educational brewery tours will be a regular part of High Five's operations, as well as personal brewing classes with knowledgeable mentors. Classroom sessions will also be a regular part of operations, hosted by High Five mentors and featuring famous local brewers. Quality reading material will always be available to guests of the High Five Co-op Brewery, and menus will be of the most detailed descriptions in town. There is a lot to learn about beer. High Five plans to cover all areas including the brewing process, style descriptions, tasting methods, and proper pairings.

The second segment of education that the High Five Co-op will be focusing on is raising awareness of co-operative businesses. The leadership of High Five truly believes in the credibility of co-operatives and the benefits that these businesses have on local communities.

Training

Training will play a large part in the operations at the future High Five Co-op Brewery. The Board of Directors and managers of the Workers' Assembly will be responsible for the execution of training on both sides of operations. Training will be provided for all employees of the co-op, so that they are able to provide the best service possible to guests and also have the opportunity to grow into management roles as the co-op brewery expands.

Information

We already discussed High Five's goal to create a completely open sourced brewpub, where member-owners and the public alike can access all recipes to the co-op's food and beverages. However, the information sharing doesn't stop there. The co-op plans to be completely transparent with all financial and governance information so that the member-owners are always completely informed and educated enough to help guide their co-op when they so choose.

Community Orientation

High Five Co-op Brewery strives to connect with its surrounding community by encouraging both its membership and staff to engage with the surrounding neighborhood. Through contributions, promotions, and sponsorships of various neighborhood and non-profit, humanitarian programs (Community and Educational Foundations etc.), as well as in-house events for local causes, High Five will further enhance its reputation as a business tied to local roots, always willing to give something back to the community. The management and member-owners of High Five will play an active role in the community by volunteering for local organizations.

Operations & Management

Current Leadership

Laura Barbrick – President

Laura has been a member of the Co-op since October 2013. She was elected to the board in June 2014 acting as Board Secretary. In November 2014 she assumed the role as Board President. Laura has a Bachelor's of Business Administration in Marketing from Grand Valley State University. She has been working as a marketing professional in the corporate environment for over 19 years. In addition to High Five, she is active in the West Michigan craft beer scene, participating in Team Beer City, Fermenta, Pussy Cat Beer Guild, and other social groups.

Jorel Van Os – Vice President

Jorel is a technology professional, entrepreneur, home-brewer, and lover of dark beers. He works in telecommunications and holds a Bachelor's degree in Management Information Systems and Certificate in Nonprofit Board Leadership from Grand Valley State University. In addition to his involvement with High Five, Jorel is the co-founder and secretary of WORK+SHELTER, a women's shelter based in New Delhi, India. As Vice President of the Co-op, his focuses are on assisting the President, business development, corporate governance, parliamentary procedure, information technology, and the equitable treatment of our members.

Nick Duesbery – Treasurer

Nick is a long-time beer brewer with a love for hop-infused session ales. He has been a member of the Co-op since 2014. Nick has a Ph.D. in Biology from the University of Toronto. He has been working in life-sciences related research for over 25 years. He has a strong community focus and volunteers in his off time as a coach in a local youth hockey foundation. Nick was born in England and raised in Canada, but has called Grand Rapids his home for more than 16 years. Nick is proud to be a part of Beer City USA's first Co-op brewery.

Doug Petteys – Secretary

Doug made the jump from Member-Owner to Board member with a heightened passion for both this co-op and great beer. His love for distinct beer started when Guinness was one of few alternatives to the usual lager. Watching the first craft beer boom of the 1990s from his metro Detroit home made him a lifelong devotee and he now calls Beer City USA home. Doug plans to put his BA in journalism to good use presenting the unique High Five Co-op approach of hometown home-brew to an expanding fan base. Currently the CAD/Revit manager of a local engineering firm, Doug is very accustomed to juggling deadlines while maintaining accuracy, two attributes that fit in well with the Board of Directors.

Jim Jones – Director

Jim Jones has worked professionally with cooperatives since 1971. His specialty areas are housing cooperative development and management, accounting and cooperative education. He is in the national Cooperative Hall of Fame for his lifetime of work with student cooperatives and educational programs, including the Emerging Co-op Leaders Program, held in Washington from 2007 to 2010. He is in the Hall of Fame of the North American Students of Cooperation (NASCO) as a "Founder," for his work in starting the MSU Student Housing Cooperative and several other groups.



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Nationally, Jim twice Executive Director of NASCO (North American Students of Cooperation) in 1982-84 and 2003-06, General Manager of NASCO Properties, a national title holding company for cooperatives (1999-2003), and Executive Director for NASCO Development Services (2006-10). He served on their boards before his work as staff. He has also served on the boards of the National Cooperative Business Association, the University of Michigan Credit Union, Wheatville Food Co-op and the Michigan Farmers Union Foundation.

Since 2010, Jim has produced a documentary film and written a book on the cooperative community in Austin; helped start the first housing co-op in Grand Rapids, Michigan; re-started the Society of Equitable Pioneers (a regional co-op think-tank); and worked on several projects through the Collective Seeds Consulting Cooperative.

Joshua Smith – Director

Josh Smith is a business student, kitchen manager, craft beer enthusiast and aspiring entrepreneur. He's worked with a few early-stage startup companies in Grand Rapids, Michigan as a business developer, marketer, social media doer, and PR guy. He's been active in the startup community over the past four years in Grand Rapids; participating in various entrepreneurial competitions, meetups, and seminars. Josh is currently pursuing a Bachelor's Degree in Business Management with a specialty of Entrepreneurship at Davenport University. He's also the Executive Kitchen Manager at Hopcat in downtown Grand Rapids. He's an amateur home brewer, local business advocate, and a huge fan of life in Grand Rapids. Josh can often be found at a local brewpub gushing about the co-operative business model and its potential for great impact here in Beer City, USA.

Cynthia Cooper – Director

Cynthia Cooper wants to live in a world where music, friendship, and brewing are enjoyed and creativity flows freely. As a web developer, designer, and business owner, she's been featured in various artist showcases and honored to be a co-founder of TheBrewvolution.com. When she's not fiddling away on a new design project you can find her brewing beer, exploring fitness adventures, and defeating Wookie's in games of Dejarik. Her latest project — GrandRapidsBox.com — hit the internet in June of 2015. She asks that you to visit DivergentDesignsllc.com to learn more.

Consultants to the Board of Directors

Gregg Hampshire

Gregg is a 29 year-old native of Grand Rapids, MI. For the past 10 years, Gregg has worked as a PR rep and marketer; he started promoting local events and shows before finding work as a sales and marketer for a local custodial business. As Gregg Hampshire became more interested in nonprofit administration, he has now found work as a Program Manager of the Education Program at Junior Achievement. A marketing guru and social improvement specialist Gregg focuses on the community and his involvement therein.

Barry Johnson

Barry is a 30-year resident of West Michigan and has aided more than a dozen breweries through the startup phase. He attended the World Brewing Academy, graduating on April 30, 2004 in Munich, Germany with a Diploma in Brewing Technology. He currently works for Craftwerk Brewing Systems helping design some of the best brew systems in the country.



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Nicholas LaVelle

Nick is an extremely active member of the local brewing community. He's spent the last 8 years home brewing and during that time he has been an employee of both a homebrew supply shop and the Hideout Brewing Co. Nick currently works as a brewer for Bell's Brewery.

Eric Pell

Eric is an Information Systems professional specializing in business processes and providing technology related solutions to help improve communication and efficiency. As an avid home brewer the prospect of joining like-minded individuals to start a brewery was too appealing to resist. Eric joins the team with a passion for open information sharing which parallels the thinking which powers much of the internet backbone today. Not only would he like to see High Five become a successful brewery but also for it to be a learning opportunity for the next generation of brewing professionals.

Brooks Twist

Brooks has been involved with the High Five Co-op from its inception. With work experience at Brewery Vivant and a love affair with craft beer, he leads with business finance and operations experience paired with a passion for beer education (grow it, make it, drink it, enjoy it) and business education (co-op model, triple-bottom-line, sustainability).

Rob Qualls

Rob is an extremely passionate home brewer winning O'Connor's Homebrew Supply's inaugural homebrew contest with his Unholy Belgian Trippel which was then brewed and served at Rockford Brewing Company in 2014. He has spent his last three years educating the public about homebrew and craft beer through his job as a store manager and homebrew expert at O'Connors Homebrew Supply.



Governance

Members Assembly

The Members' Assembly comprises all active Member-Owners of the Co-op. The Members' Assembly is the voice of the membership and holds the following powers:

1. election and removal of Directors
2. passage of advisory resolutions for consideration by the Board
3. and all other rights given them in the Bylaws, particularly as outlined in section 4

Workers Assembly

The Workers' Assembly will consist of all active Member-Owners currently employed by the Co-op. The Assembly will be divided into two sections: "Front of House" and "Back of House."

Board of Directors

Board members are the fiduciaries who steer the organization towards a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as making sure the Co-op has adequate resources to advance its mission.

The Board is responsible for setting policy, issuing Membership Certificates, Member Capital Certificates, Investment Certificates and Investment Bonds; creating and amending Operating Rules for the Cooperative and ensuring that all actions taken by the Cooperative are both lawful and consistent with the Bylaws. The Board has the authority to create standing committees or ad hoc committees that may include Board Members or other Co-op Members that are not Board Members. The Board shall determine the authority and duration of said committees.

The Board is elected annually, and consists of seven Directors elected by the entire membership and two directors elected solely by the Workers Assembly. The Board is also responsible for hiring and dismissal of the Front of the House Manager, Brewery Manager and any administrative staff, who in turn are in charge of hiring employees for their respective sides of the house.

At the end of each fiscal year, the Cooperative's accountant will determine whether there is any surplus (money left over after expenses.) If there is any surplus, the Board decides how much to money to reserve to cover unforeseen expenses or invest back into the business, and how much surplus to distribute as patronage rebates or dividends.

Front of the House Operations

Front of House Manager: A person with experience in restaurant management (X FTE) will be hired by the Board of Directors to manage the day-to-day operations in the tap room. The House Manager will be advised by an Operations Committee consisting of member-owners with experience in restaurant service and management. The House Manager will be responsible for the hiring and supervision of tap room staff. The Manager may be called on to serve beer in the tap room as needed. The Manager will also train service staff in the presentation of the beer and beer styles on tap. The front of the house staff shall elect one Director to the Board to act as a liaison and ensure their concerns are being represented.



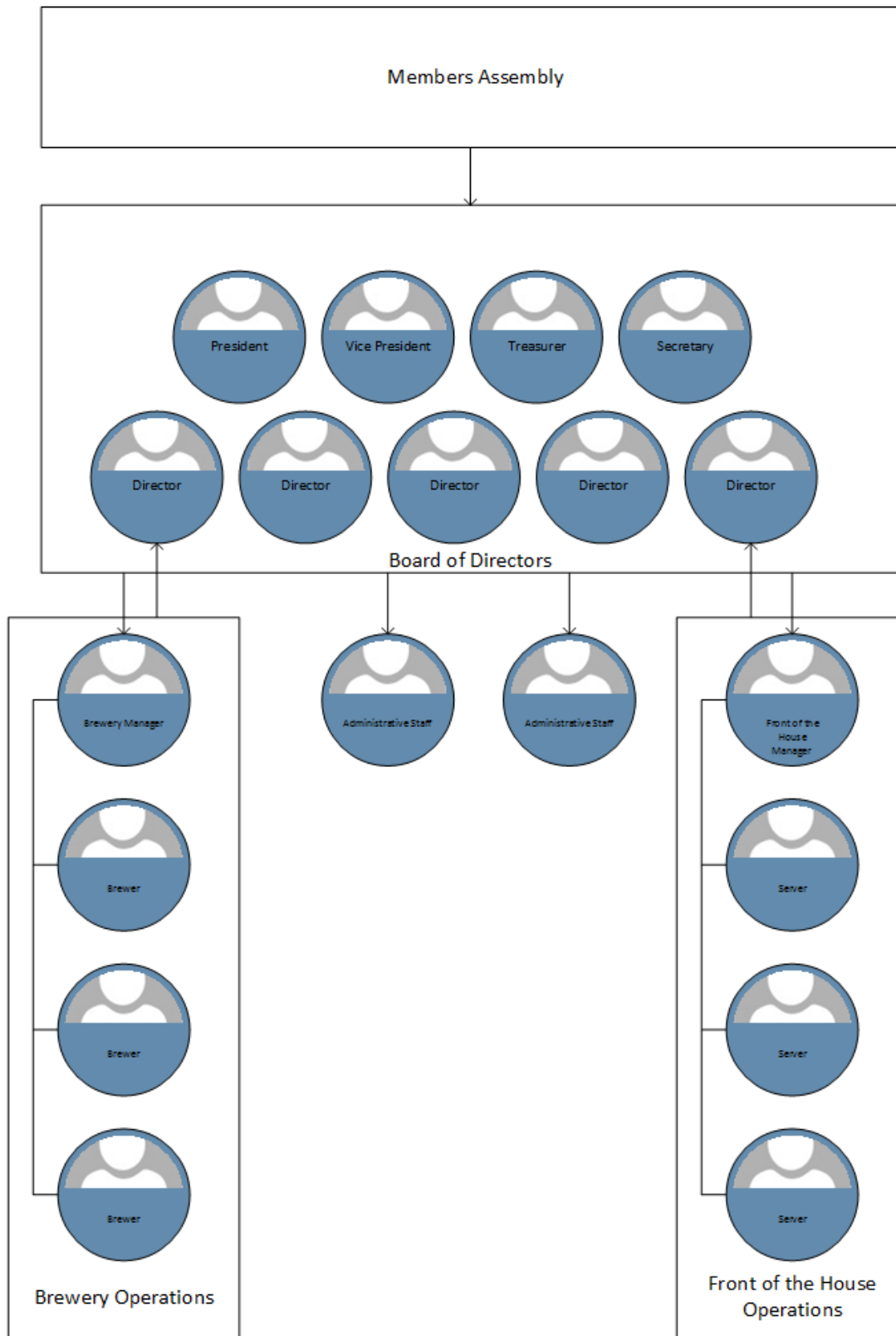
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Back of the House (Brewery) Operations

Brew Team: The brewing operations will be overseen by a Brewery Manager (X FTE) who will report to the Board of Directors. The Brewery Manager will be advised by a Brewing Committee consisting of member-owners with experience in brewing beer. The role of the Brewing committee is to suggest new brewing styles and to ensure that the Co-op is making the best beer in Grand Rapids. The Brewery Manager will be responsible for hiring and training the brewing staff and will work with the front of house Manager to ensure the beers being produced meet demand and are represented properly. The Brewery Manager may be called on to serve beer in the tap room as needed. The back of the house staff shall elect one Director to the Board to act as a liaison and ensure their concerns are being represented.

Administrative Support

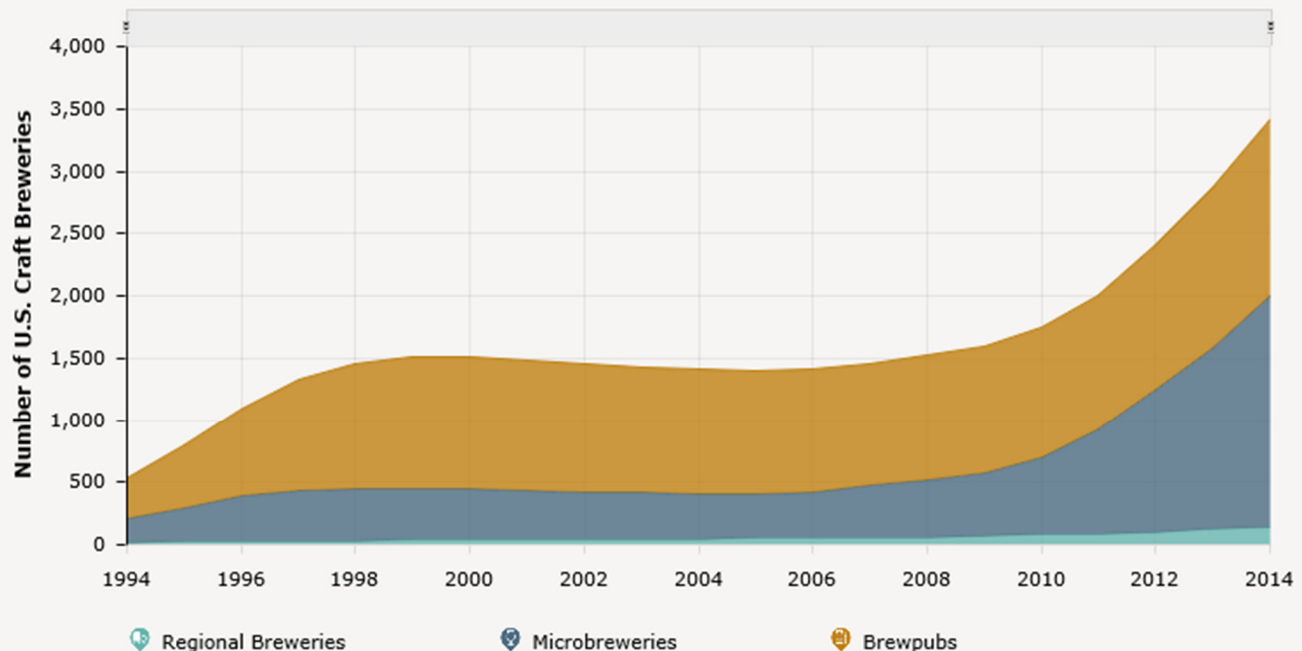
The administrative staff will be limited to a few individuals who will work on a part-time basis to maintain sales records, distribute beer, and manage the rental of space at the brewpub for special events and bookings of art commissioned for the brewery. In addition to these responsibilities the administrative staff will be in touch with the Co-op Community to help organize High Five member-owner voting events and special members only tasting parties/competitions. The administrative staff will report to the Board of Directors.



Marketing

Since the last part of the 1980's a trend has emerged indicating a shift in the tastes of the beer drinking public to imported and premium beers. While sales from large domestic breweries have declined in recent years, microbrewery sales have increased by leaps and bounds in the last ten years and over 400% in the last five years alone. Consumers searching for an alternative to the watery tasteless brands mass marketed throughout the U.S. are willing to pay a premium price for a quality beer. Imported brands showed impressive growth every year from 1980 through 1988 and then as microbrews became popular, showed four years of flat or negative growth. However, import sales are once again on the rise, growing every year since 1991, once again illustrating the American public's desire to find alternatives to the beer produced by the large American Breweries. Because of the trend away from hard liquors, and the growing awareness of micro brewed beers, these beers are now a sophisticated, upscale beverage with strong appeal to men and women.

U.S. Brewery Count by Category



Source: Brewers Association, Boulder, CO, www.brewersassociation.org

Our Beer

It will be important to distinguish High Five from its competition. In order to do this a clear and well-constructed marketing plan will be implemented. High Five will be quite unique in regards to its open source design, and atmosphere, but the initial marketing strategy will focus on the most unique aspect of the operation: the cooperatively run in-house brewery and the products themselves. The following underlying ideas are key concepts to the marketing plan:



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Taste

Brewed on the premises, brewpub beer simply tastes better than other beer because it is brewed with basic ingredients. It has more body, flavor, and color. Beer brewed at High Five will taste better than any canned, bottled or even other draught beer.

Price

Brewpub beers offer the freshest beer available. This high quality product is priced competitively with import draughts, which can be several months old by the time they reach the glass.

Originality

Although the number of brewpubs increases by a large percentage each year, they are still unique to many parts of the country. In addition to brewing a better beer, they offer an alternative to the typical bar scene. The key here is great beer in a comfortable atmosphere. Add to that a Co-Op business model and High Five will be a one-of-a-kind business in Michigan.

The brewpub has wide appeal in an age where people are reacting against the impersonal nature of large corporations and mass production. The appeal of handmade pasta, fresh bread, handcrafted ice cream, fresh roasted coffee, and small boutique wineries are examples of unique upscale quality driven businesses that consumers today feel good about supporting. People you may know make brewpub beers on premise, in full sight of the entire restaurant and bar. Beers named for famous people (both fact and fiction) and local landmarks give people a product they can identify with and are proud to share with friends. Developing local pride is the first step to a loyal local support.

Multiple beer styles

The small brewery design allows for the production of many styles of beer. Specialty and seasonal beers can be produced while maintaining a constant supply of the most popular beers.

Target Market

Demographic info for Grand Rapids, MI

According to the U.S. Census Bureau, the population of Grand Rapids in 2013 was approximately 193,000 people, an increase of 4,000 over 2010, and density within the city continues to grow. During this same time period, Kent County grew by 12,000. The new city master plan (now being developed) will call for another 10,000 units to be developed in the central part of the city.

Within one hour drive you can be in the communities of Muskegon, Grand Haven, South Haven, Kalamazoo, and Holland. The combined population of those communities well exceeds one million people. Within three hours drive you can be in the heart of downtown Detroit and Chicago. Given the logistics, Grand Rapids (Beer City USA) is well placed geographically to draw customers from large urban areas.

The average craft beer drinker in America today is between the ages of 21 and 54. The average age of residents in West Michigan is relatively young. The concentration of one particularly important group of craft beer enthusiasts,



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males 22 to 34 years old, is particularly high in the central city neighborhoods: Heritage Hill (34%), East Hills (27%), Belknap Lookout (25%), Midtown (24%), Eastown (21%), Fulton Heights (20%), and John Ball Park (20%).

Some of these neighborhoods have particularly high percentages of college graduates, another group particularly attracted to craft beer: Fulton Heights (69%), Heritage Hill (52%), East Hills (49%), Belknap lookout (47%), and Eastown (44%).

While neighborhood demographics are important, it's clear that the idea of a cooperative brewpub has a city-wide appeal. Current High Five members are distributed widely around the city and in nearby suburban areas, with no real concentration.

In long-range terms, the concentration of colleges and universities in Grand Rapids is also important. There are 15 of these in and around the city, including Grand Valley State University, the Grand Rapids campus of Western Michigan University and Kendall College, with a total full time enrollment of over 54,000 students. While the majority of these are underage for drinking, an increasing percentage will stay in the area as the number of businesses and jobs continue to grow. Grand Rapids is becoming a destination for young people, and that trend should continue as the central city becomes increasingly dense, sophisticated, and culturally relevant to the Millennial generation. The brewpub will fill a very definite niche in the Grand Rapids business district and with its unique service, affordable prices, and an atmosphere that lends itself to drinking responsibly. High Five will provide the residents of GR a distinct alternative to the choices presently available.

Market Segments

High Five will attempt to capture four distinct market segments.

1. The brewing community. Brewers were largely responsible for the start of High Five, and they will be strongly motivated to become members and support its growth. The opportunity to participate in the brewing process will be of particular interest to home brewers, as will our educational programs.
2. Craft beer enthusiasts. This group will be drawn from the entire metro area and will be the financial backbone of the brewpub. They will be drawn by high quality beer, the warm atmosphere, events, and simple curiosity. This group will be augmented by steadily increasing numbers of tourists drawn to Grand Rapids by high interest events such as Art Prize, GR Beer Week, and homebrew competitions.
3. Those interested in cooperatives and local ownership. The same group of young people who are particularly interested in craft beer are also the core group of both the newly energized cooperative movement and the "buy local" movement. Involvement with other cooperatives and local businesses will have a synergistic effect on sales. The opportunity for ownership will be particularly important to this group.
4. The neighborhood community. High Five will seek to become involved with the neighborhood where it is located through participation in improvement projects, discounts on membership fees, offering meeting space for local organizations, and in general a welcoming atmosphere. The aesthetics of the business will be designed to make the customer feel comfortable. High Five will be a place to talk business, visit with old friends, meet new friends, or bring the family; an energetic, fun pub conducive to the enjoyment of hearty food and delicious ales.



Educational programs and events

The educational events, focusing on beer and brewing, will attract both home brewers and those in the larger community who are interested in learning more about how beer is made. Events centering on beer (e.g., beer dinners, brewing competitions, etc.) will be aimed toward these same groups, while cultural events (e.g., musicians, stand-up comedy, sporting events on the television, and speakers/films on topics of community interest) will appeal to several of our target markets.

High Five will take advantage of its local presence to tie into all festivals and celebrations, as well as creating a few of its own. Special celebration ales will be brewed for most holidays and appropriate tank tapping ceremonies will announce these specialty brews. Well-publicized seasonal festivals such Oktoberfest, or Irish on Ionia festivals will occur on a regular basis with announcements sent to an ever-growing mailing list of beer enthusiasts.

Grand Rapids does have a very active tourist business largely because of its history in furniture, significance in brewing and, artistic culture. Tens of thousands of people visited the area last year. According to the Convention and Visitors Bureau these people spent significant money per person per day on eating and drinking alone. Grand Rapids's largest tourist attractions are Art Prize, breweries, convention centers, and downtown shopping. Every effort will be made to market with these assets.

Because of the Convention Center, an increasing number of conferences with thousands of attendees are held in Grand Rapids, including the National Homebrew Convention. The majority of these people stay in Grand Rapids at such hotels as the Amway Grand and JW Marriot, both of which help support local businesses and are receptive to the beer culture in Grand Rapids. Many tourists and conventioners are familiar with the brewpub concept and will want to compare the beer to their own hometown favorite. By offering such a unique and diverse concept in a dramatic facility, High Five will become an anchor for the local tourist industry.

Key strategies for the tourist and convention market segment

- Appealing and informative promotional brochure for use in hotel information racks
- Advertising in tourist oriented publications and internet media
- Developing local pride in co-operatively run businesses including the brewery
- Developing a relationship with West Michigan Conference planners
- Making High Five Co-op Brewery a stop on local brewery tour bus services



Promotional Plans

Press and Media Coverage

One of the single largest advantages in opening a Cooperative brewpub is that it is a unique concept to Michigan; a concept the media loves because it is part of the "Restructuring the community" trend in our Grand Rapids. Microbreweries and brewpubs continue to be the subject of numerous articles in the media, including the Wall Street Journal and USA Today. If other brewpub openings throughout the country are any indication, local media will follow the progress of High Five from the beginning, with an announcement of the building lease and plans for the space. They will be kept involved during key times in the opening process such as the beginning of construction, the granting of the brewery license, the delivery of the brew equipment, etc. Trade journals and industry-oriented newspapers will also be sent press releases at these times. In addition, as grand opening approaches press releases will be sent to all regional and college papers as well as those in surrounding towns. The underlying theme in all publicity will be the unique concept of the cooperative brewpub!

Social Media

Utilizing social media will be a key factor in promoting High Five. Through Facebook, Twitter, and Instagram the brewpub will post events, news and updates, and have contests to encourage more likes and shares to create an online buzz.

Release Parties

Initial promotional plans will evolve around the focus of the operation, the house beer. Periodically, the brewpub will feature seasonal beers and spotlight one of our home brewer's talents with a special release party. Tank tapping parties can be a diverse and effective means of generating interest and drawing new visitors to the brewpub.

Guest Brewers

Specific strategies are in place to attract predetermined target markets. One example is a guest brewer, where a member, a professional brewer or a celebrity is invited to brew a uniquely collaborative beer with High Fives Counsel of Brewers. Publicity is gathered not only on brew day, but when the beer is served.

Incentives to Return

Retaining the curiosity seekers as regular customers depends on serving a quality product in an enjoyable atmosphere. This is a crucial time in our development, and every effort will be made to make sure that each customer leaves ready to tell his/her friends about the quality experience they had at High Five. Incentives may be offered to encourage repeat business through discounts and special offers.

Community Involvement

High Five will strive to be visible and active in the community through contributions, promotions, and sponsorships of various neighborhood and non-profit, humanitarian programs (Community and Educational Foundations etc.), as well as in-house events for local causes.



Focus on local

We will locally source as many ingredients for our beer as possible. We will occasionally highlight a local artisan's product by using it in a beer or pairing it with items on our menu. In addition, High Five would also like to serve as a facility to showcase local talent by inviting musicians and artists to perform. With so much talent in the area, High Five would like to serve as vessel to share and celebrate all of these trades with the community.

SWOT Analysis

In order to have the right marketing strategy, it's important to consider the strengths, weaknesses, opportunities, and threats within the marketplace. A SWOT analysis for High Five uncovered the following:

Strengths

- Unique: First co-op brewery in the State of Michigan
- Customers: Currently have 130 member-owners who will also be patrons and word-of-mouth marketers
- Experience: Our members are made up of home brewers, beer enthusiasts, and employees working in the craft beer industry
- Volunteers and advisors within the membership provide a robust base of talent and experience to draw upon
- Opportunity for tasting unique brews on a rotating basis
- Education: Home brewers, beer enthusiasts, and area residents will be able to have a hands on learning experience at the brewpub through training sessions, community brew days and interacting with one another
- Cooperatives are statistically more likely to successfully weather economic downturns than other types of businesses (Resilience in an Economic Downturn. 2013. International Labor Organization. Geneva).
- Living wages will attract and retain excellent staff
- Long term horizon for planning and decision making

Weaknesses

- New Concept: People are unfamiliar with a co-op business model – may or may not know that it's open to the public
- New Brewery: Introducing new beers to the marketplace, where there are many established breweries with mainstays and regular patrons
- Cooperatives tend to be less flexible in their decision making
- Cooperatives can't offer a larger share of ownership in exchange for investment (one member, one vote)
- We can only accept investments from members

Opportunities

- Location: Will attract tourists and beer enthusiasts due to location in Grand Rapids, Beer City USA
- Community: High Five plans to invest in a community by revitalizing a vacant space, bringing new business and employment to the area, and becoming the go-to neighborhood pub
- Comradery: The local brewing community is very welcoming of new breweries to the market even collaborating together on beers
- Microbrewery licensing is significantly less expensive than obtaining a liquor license
- Direct to consumer sales are more profitable than having to utilize a distributor
- Microbreweries which produce <1,000 barrels of beer a year can self-distribute their beer to retailers and bars



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Threats

- Competition: Multiple breweries in West Michigan already
- High Standards: Some of the top craft beers in the world are brewed in the area
- High cost for most desirable locations
- Difficult to navigate state liquor laws

It is evident that High Five has many positive attributes working in its favor. It's a unique business model that's new to the market. While this uniqueness may be unfamiliar to some, through marketing and promotion High Five will make it clear that it's open to the public and has more to offer than the ordinary brewpub. Not only will it feature an interesting rotating tap list and unusual pub fare, it also offers the community a space to come and learn about craft beer and have a hands on educational experience. Being located within Beer City USA will also generate excitement among locals, tourists, and craft beer enthusiasts who seek out the next new beer in town. It's true there are a number of outstanding breweries in the area, however, High Five intends to use this to its advantage through collaboration beers and inviting guest brewers to brew at the brewpub.

Competition & Collaboration

In the craft beer industry, competition is looked at much differently than any other industry...

Local Market

High Five has a distinct opportunity in the local beverage community, the in-house brewery. Not only will this brewery produce a superior product; it offers a unique marketing edge. Parties, festivals, and tank tapping ceremonies can become the anchor of the marketing program. The visibility of the brewery enhances this image. People will come to the brewpub to watch the brewers at work.

Although there are many restaurants and bars in Grand Rapids, most of these are downtown. They will continue to draw large crowds, and probably sell our beer. We have been approached by several event placing organizations and distributors to assess when our beers will hit the market. This encouraging atmosphere in the West Michigan community lends itself to optimism that tap handles will be ready for the brewery as soon as it can distribute (with our first priority always to the taps at the pub itself). Brand awareness will be established during the formative years and High Five envisions rapidly carving its own niche in the Grand Rapids beer scene by the second year of operation.

It is the philosophy at High Five that competition is good and cooperation is even better. It keeps the business constantly working to operate more efficiently.

High Five will also generate business for the production brewery from the local bar and restaurants by offering to brew special "private label" beers for their own establishments. The business owner will be invited to come brew a batch of beer and create a special name and label. This then becomes their "house beer" and the owner has a great story to tell about the brewing process and his special recipe. We also plan to do this in collaboration with other breweries.

National Market

On a national scale beer sales continue to rise. In 2014 craft beer sale volume has shown growth at 17.6%. With an overall beer market at \$101.5 billion, craft beer has seen a 22% increase in sales sitting at \$19.6 billion. These numbers illustrate the craft beer market's expansion as well as its enormous opportunity to continue to grow.

Co-op breweries are also building up across the nation. Being one of the first, Black Star Brewing has been open since 2010. More companies are realizing the greater role communities can play in their businesses and cooperative breweries are the next step in revisiting community based beer production. High Five would be the Midwest's first Cooperative Brewery.

The craft brewing industry is also unique in that the competitors are also some of the biggest supporters to new members of the brewing community. For example, Sam Adams offers the American Dream loan, which is meant to support small businesses and their growth. Furthermore, organizations like The Brewers Association are built around the idea of brewers helping other brewers. And on top of that, breweries work together by supporting each other through collaborations.

Source: Brewers Association, Boulder, CO, www.brewersassociation.org



Personnel

Quite often the success of the independent restaurants and bars is based on one key ingredient, the owners themselves. Their style, dedication, knowledge, ethics, and unwavering desire to provide the customer with the best dining and drinking experience possible, while providing a fun and fair working environment for their employees are more crucial than any other aspect of the business. These beliefs are shared by every member of the High Five team:

- The Staff is our most valuable asset.
- There are no customers, only guests.
- The guest is always right (with few rare exceptions.)
- The service industry is one to be proud of.
- Each time a guest comes in contact with any member of the staff, or the business in any form, they have a chance to form a positive or negative impression. Each of these 'moments of truth' is critical to the success of the business.
- If you are not directly serving the guest, you better be working for someone that is.

The restaurant business is known for its high turnover rate. High Five realizes that the staff is the most valuable asset of the company. While our philosophy is to provide a better working atmosphere than other restaurants, monetary rewards are also very important. Quite often the hourly employees are overlooked when it comes to sharing the success of the company. At High Five, The Cooperative Workers Assembly concept will ensure that employees are more than just hourly staff, they are owners and have control over operations at the pub. This vested interest model has helped co-ops succeed in Grand Rapids (such as Bartertown) and around the globe. At High Five, these employees will earn their pay based on sales volume. While this model has a monetary cost to the brewpub, it is also the spirit and heart of the co-op model. A brewery for the people, by the people.



Financials

Startup Expenses and Capitalization

Startup costs (Uses of Funds)

Location. We are basing our cost projections on a leased location with 5,000 square feet of floor space. The facility will be established in a warehouse/factory type structure, retrofitted for brewing and retail operations. Although our rent will be less than for other retail/commercial space, we are using the industry standard for remodeling costs.

The operations will be established in two stages. In Phase I, we will develop a brewery and a taproom utilizing 75% of the available space. There will be no kitchen for food service in this phase, although space will be reserved for a kitchen. Instead, we will seek partners for food delivery or will contract with a food truck. We will use only a part of the potential service area in the first two years, when we expect to be building our customer base, then expanding our seating to its full potential in year three.

In Phase II, planned for year six, a kitchen will be built and food service established. Because this is beyond our five-year horizon, we will put aside reserves to assist with expansion, but we are not including Phase II in our financial projections.

Brewery. Our brewing system costs are based on a five-bbl brew house plus four 5-bbl fermenters and two 5-bbl brite tanks as well as associated equipment.

Other uses of funds. We have included money in our development budget for marketing, legal and accounting work, a security deposit, and working capital. Other initial expenditures include furnishings, bar equipment, a point of sale system, and merchandise inventory. We also are planning a sum to cover losses during the startup phase.

All of these costs have been reviewed by experienced brewing and food service professionals. However, we realize that nothing ever goes completely as planned, and we will have a reserve for contingencies of 5% of the total capital budget.

Capitalization (Sources of Funds)

Membership fees and Mug Club memberships will supply capital for some of the startup expenses, but the major sources will be member-owner investment certificates and a loan from a financial institution or other lender. The loan will be for 75% of the value of the equipment, inventory, and part of the construction costs, while the investment certificates will cover the other initial costs.

Investment certificates are extremely important, not only for covering costs that cannot be secured, but also to demonstrate support to potential lenders. Investments are treated differently for cooperatives than for other kinds of businesses. Because the co-op is member owned and democratically controlled, investors cannot legally possess any more control than other member-owners. They're also limited to a maximum return of 8%.

Member-owner investments also instill a sense of ownership and commitment. They are consistent with Cooperative Principle #3, "Member Economic Participation." While big loans can get us to our goal, lots of small loans will build a huge commitment pool. Member-owner investment also gives us leverage in negotiating for our loan. It sends a very



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powerful message, showing that we've already raised thousands of dollars from our future customers.

While there will be no return on member-investor certificates in the first year of operation, we will pay a dividend in later years, assuming adequate profitability. High Five will aim for a dividend of 8% return on investment certificates, with investments covering roughly 50-55% of the total startup budget.

Loan capital. High Five will seek a short term loan from a financial institution to cover the remaining costs, with the amount borrowed based on assets which can be used for collateral. High Five will seek to borrow from a cooperative financial institution if possible, such as a credit union or co-op loan fund.

Loan terms are anticipated to cost 7.25% interest, with interest only in the first year, and with the principal amortized over the next four years of a five-year term.

Contingency plan for lower member investment

Because we may have difficulty in attracting traditional large investors, our plan attempts to minimize the need for such large loans, with reachable goals based on smaller amounts from many members – a sort of crowd funding approach.

Still, it is possible that we can't raise the necessary amount to finance a 5,000 square foot rental space. However this size is only necessary if we want to eventually include a kitchen on site, and we can meet the same sales volume with a smaller area (minimum of 3,500 square feet). Such a smaller facility would reduce the investment capital necessary by roughly 15%.

If using this "Plan B," we believe that an expansion or second location, including a kitchen, would be feasible after four or five years.

Financial Operations

Property rental

The size of our property must be adequate to serve the number of expected patrons over time, but not so large that we lose our sense of community. The size of the serving area needed for maximum sales after five years can be calculated, based on the number of tables needed and the number of patrons necessary to reach consumption of our maximum production.

In order to keep our capital needs at a minimum, we are planning to locate our brewpub in a warehouse type of building. As a model, we are using a space in a converted factory structure, where rent (including triple-net costs) are \$3.27 (yearly) per square foot. This is well below the city average rental cost of \$12 per square foot for commercial property.

Hours of operation

The brewpub will be open only Wednesday through Sunday during the first two years of operation, with Tuesday added in the third year. Hours of operation will be 4:00-Midnight on weekdays, 11:00-Midnight on Saturday, and 12:00-Midnight on Sundays.

Staffing

The largest expense, as always, will be for wages, taxes and benefits. We are committed to offer our workers a living



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wage, which shall be no less than that defined by the Universal Living Wage Formula. We believe that this high level of compensation will allow High Five to hire and retain excellent, highly qualified staff, a key to long-term success. For this reason, we will have a “no-tip” policy.

The number of hourly workers will increase over time. In the first year, we intend to hire two to five workers per shift, increasing to three to six in year two and six to eight in the following years as we grow.

In Phase I, there will only be two salaried employees, the Front-of-House/General Manager and the Back-of-House/Head Brewer. While their initial salaries will be only a few thousand dollars more than the wages received by our workers, we plan to increase salaries by five percent a year as the brewpub becomes more profitable.

Because all staff will be well compensated, we believe they will stay employed at our brewpub for long periods, and we will also expect both hourly staff and managers to be flexible in assisting with all phases of brewing and service.

Professional services

In order to keep our managerial staff at a minimum, we will contract for accounting, tax services and other services as necessary, and we will retain an attorney when needed.

Volunteer brewers

Because this cooperative is intended to be educational as well as a retail establishment, we will encourage members to participate in the brewing process. The Master Brewer will ensure quality in all production where members participate.

Revenue projections

We are projecting only moderate sales by the end of the first year, as a conservative approach to our growth. While craft breweries are becoming well known and widely used in Grand Rapids, our approach is unusual, and acceptance and membership are expected to grow at a reasonable rate after the initial phase. We expect to sell only 50% of our brew house capacity in the first months, due to excitement about the opening, but then have reduced sales for the balance of the year, resulting in an average for the first year of 40%. We also expect 61 new members during this year (which also includes four months of construction). We are also expecting an initial surge of interest in High Five merchandise.

We expect sales of beverages to grow steadily after the first year, with 83% of brew house capacity sold by year five. We are anticipating 84 new members per year after the first two years, which is a conservative measure.



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Cost of beverages sold

The cost of brewing varies somewhat, depending on the type of beer produced. However, in a brewpub, there are no other parties involved, no distributors, no outside retailers, only patrons. Therefore the profitability is potentially much higher than for those breweries that sell through others.

For example, the cost of a batch of Wheat IPA is roughly \$402.50 per batch, while the revenue per batch, at \$5.00 per 16 oz., is \$5,700. A pale ale costs less, at roughly \$308 per batch, but brings in the same revenue.

We are calculating that profit on an ounce of beer is 29-30 cents, or \$4.65 for a 16 oz. glass. At \$5.00 for a glass of beer, this generates a large gross profit to cover fixed and variable expenses. This number is significantly more than can be generated through sales to distributors, where a typical gross profit is 33%. By comparison, we are estimating the cost of merchandise sold at 50% of sales revenue.

Break-Even analysis and Cash Flow

High Five will break even on a yearly basis at roughly \$25,000 per month in sales. While we may reach this number during our initial "bounce," we don't expect to break even in a sustained way until early in the second year.

Because we are borrowing a considerable amount of money for working capital and to cover our initial losses, we plan to still have \$24,700 cash in reserve at our low point after construction and as we begin operations.

Dips in cash flow at the beginning of each year are expected due to several factors: payment of dividends on investor certificates, licensing fees, and initial payments on insurance premiums (it will be important to finance insurance premiums in order to even out cash flow over the course of each year).



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Statement of Sources and Uses

"Sources" indicate where we will raise the funds for our startup and initial operations:

Sources of funds	Number	
Membership fees expected before opening	150	22,500
Mug Club memberships before opening	20	1,000
Loan Capital (NCDF)		86,320
Donations and merchandise sales before opening		500
Member-Investor Shares		126,170
Total sources		236,490

Uses" outline how the money will be spent:

Uses of funds

Improvements and equipment

<u>Construction costs</u>	60,000
Allowance for contingencies (10%)	6,000
	66,000

Furnishings

Tables and chairs: <small>Percent of capacity =</small>	75%	
Table tops - 30"x48"	34.125	2,448
Table bases - 24" round	34.125	1,433
Chairs - black metal with cherry seat	136.5	4,776
Bar chairs - Black metal w/cherry seat	12	636

1 TVs and related equipment	1,300
Sound equipment and stage lights	-
Glassware and tableware	120
Office furniture and equipment	2,000
	12,713

Draught Beer and Bar

Brew house and fermentation	44,880
Pumps, hoses, filters, glycol, CIP, other	3,500
Refrigeration	5,000
Kegs	4,500
Keg washer	5,000
Brewing ingredients/inventory	2,500
Bar equipment	5,000
	70,380

Kitchen

Equipment	-
Walk-in cooler	-
Hood	-
Inventory	-
	-

<u>Merchandise inventory</u>	5,000
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Other start-up costs

Fee for Special Land Use application	1,900
Point of sale system and IT	5,000
Initial marketing	5,000
Security deposit (at 3 months rent)	5,000
Professional services, license fees, pre-development	30,000
Working capital	13,200
Start-up operations	11,126
Contingency (5% of capial budget)	11,171
	82,397

Total Uses of funds	236,490
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Loan as a percent of equipment and inventory **75%**

Loan as a percent of renovation costs **25%**



BUSINESS PLAN

Pro-Forma Profit and Loss

Assumptions:		Year 1	Year 2	Year 3	Year 4	Year 5
Average % of brew house capacity sold (Note 1)		34%	48%	68%	75%	83%
Average number of customers served per day		61	131	183	204	227
Days open during the week		5	5	6	6	7
Customers served per year		14,680	31,534	44,039	48,932	54,369
Pints needed per year		36,699	78,835	110,098	122,331	135,923
Batches needed per year		32	69	97	107	119
New Member-Owners		61	60	84	84	84
New Mug Club members		50	50	50	50	50
Square feet in facility:		5,000	5,000	5,000	5,000	5,000
Percent annual inflation (Note 2)			3%	3%	3%	3%

Revenue from operations:						
Revenue from beverage sales		183,496	394,177	550,488	611,654	679,615
Less: cost of goods sold (see "Rev&Cost")		(23,943)	(51,433)	(71,829)	(79,810)	(88,678)
New Member-Owner fees		8,700	9,000	12,600	12,600	12,600
New Mug Club mbr. Fees		2,600	2,850	1,200	1,200	1,200
Food sales (half of total)		-	-	-	-	-
Less: cost of food sold	35.0%	-	-	-	-	-
Merchandise		1,857	3,970	9,900	11,500	11,500
Less: cost of goods sold (50%)		(928)	(1,985)	(4,950)	(5,750)	(5,750)
Net Revenue		171,782	356,579	497,409	551,394	610,488
Expenses						
Credit Card Fees (2%)		3,707	7,963	11,010	12,233	13,592
Rent		-	20,000	21,514	21,632	22,497
Wages, taxes and benefits		105,115	174,911	237,809	247,322	257,214
Professional services		6,000	6,180	6,365	6,556	6,753
Utilities	6%	11,277	24,060	33,695	37,461	41,539
Depreciation		6,924	11,870	12,585	13,299	13,299
Supplies		1,050	1,082	1,114	1,147	1,182
Lisence		5,040	5,191	5,347	5,507	5,673
Trash		1,500	1,545	1,591	1,639	1,688
Phone/Internet		4,250	4,378	4,509	4,644	4,783
Marketing		3,200	3,296	3,395	3,497	3,602
Trade association fees		1,000	1,030	1,061	1,093	1,126
Repairs/maintenance		-	15,000	12,000	12,360	12,731
Office Expenses		950	979	1,008	1,038	1,069
Insurance		12,600	12,978	15,450	15,914	12,731
Member Perks	3%	5,624	12,030	16,848	18,731	20,769
Misc. and contingencies	5%	8,412	20,050	28,079	31,218	34,616
Total operating expenses		176,649	322,542	413,381	435,291	454,864
Savings or (loss) on operations		(4,867)	34,037	84,029	116,103	155,623
Other costs:						
Share Dividends (4% yr 2, 8% in yrs after) (Note 3)	8%	-	2,487	10,094	10,094	10,094
Estimated tax liability		-	9,905	24,452	33,786	45,286
Interest on debt	7.25%	6,258	5,625	4,179	2,624	952
Net Savings or loss		(11,126)	16,019	45,304	69,600	99,291
<i>Debt service coverage ratio</i>		<i>0.17</i>	<i>2.90</i>	<i>5.80</i>	<i>7.69</i>	<i>9.94</i>
<i>Note 1: Maximum percent of capacity that can be sold, given size of tap room:</i>				104%		
<i>Note 2: Inflation factored in for expenses but not for revenue</i>						
<i>Note 3: Return rates are not guaranteed and may vary</i>						

Future Plans

All successful businesses continuously reassess their situation and address their future plans accordingly. High Five will be no different.

Higher priority goals include creating a long-term home for the brewery with an in-house restaurant, live music and possibly outdoor seating. The additional profits of a kitchen are highly desirable from both the additional customers and larger margins on food. Keg distribution and contract brewing are two viable options that will be put in place as soon as plausible. Additional bottle or can distribution will also be addressed. Currently, mobile canning companies are an option to provide quick, short-term can releases. Special events could utilize this procedure with little investment.

More important to the co-op aspect of High Five, and quicker to reach, are the many educational oriented goals. As a brewery owned by a large number of homebrewers, we will have a number of experienced resources available to keep interest in beer and brewing high. Social media will go beyond simple "likes" and be expanded to include videos such as, how to brew specific styles, how to expand to a big brewing system, tasting guidelines, and troubleshooting recipes. Recipes for our brews will be open sourced, encouraging personalized versions. This DIY mentality of homebrewers is a natural match for the co-op principle of education. The ultimate educational tool would be a brew-on-premises operation.

The Grand Rapids beer community is a proud one and High Five will fully participate in the many Michigan beer festivals and encourage future brewers by hosting homebrew contests. Collaboration between brewers and breweries continues to be popular and High Five will have the ability to do this internally as well as externally. Our multiple brewers will be able to work with one another merging styles and techniques with our taproom customers being the benefactor. Homebrewer swap meets will be planned with the local home brewing community able to exchange old hardware while enjoying the current taps.

Cooperation among cooperatives is something no other Grand Rapids brewery can commit to. Our work with local co-ops and community supported agriculture will show in our use of local or co-op produced ingredients and supplies. Close ties to farmers will help spread education regarding various crops and harvests and their impact on different beer styles. Yeast banking is another area local breweries would be challenged by- not High Five. High Five can even act as a distributor of these ingredients to homebrewers in the form of ingredient kits. Local co-ops, and other groups, will always have a location to utilize as a meeting place and to share their own talents as workers.

Sharing a physical location with one or more other co-ops in Grand Rapids is highly desired. Until that time, we will participate in virtual events with the many other co-op breweries worldwide. Recipes and even finished brews can be shared over the growing network of breweries that have chosen the co-op path.

In following the fifth co-op principle, High Five also plans to have a Brew on Premise system available to encourage education, training, and information. This hands on system will allow people to try their own hand at brewing a small batch of beer from a pre-selected book of recipes. The system will be available for individuals or groups to schedule in advance and will be done under the guidance of one of our own brewers.