



Rheingold Beer

“This is a classic brand, not a retro brand” – Tom Bendheim, CEO Rheingold Beer

In early May 2003, Tom Bendheim, CEO sat in his office staring out the window at his company’s billboards at the corners of Houston Street and Avenue B in New York City’s Lower East Side. Faced with the task of trying to reinvigorate what was once “New York’s beer”, he wondered if the Rheingold brand could enjoy the same popularity it once experienced almost half a century earlier. As the newly minted CEO of Rheingold beer he was confident that he could make this brand come alive once again. He had done it with other products, why not this one? However, the beer industry was a mature, and highly competitive market. As he headed out the door to meet a prospective new client who he hoped would begin to sell Rheingold beer, Tom grappled with a number of issues, not knowing which to direct his attention to first.

The History of Rheingold Beer

Rheingold beer traces its roots (Exhibit 1) back to 1840 in Ludwigsburg, Germany where the company’s founder, Samuel Liebman (original spelling: Liebmann)¹ founded the Liebman Brewery. In 1850, Joseph Liebman, Samuel’s eldest son, immigrated to the US to escape political persecution in Germany. Upon arrival in the US, Joseph bought a small brewery in Brooklyn, NY thus establishing a “home base” for the rest of the family when they emigrated from Germany. When the family realized that they could compete in New York’s competitive beer market, they built an even larger brewery on the corner of Forest and Bremen Street in Brooklyn. The Liebman family also benefited from Brooklyn’s unification with the rest of New

Phillip Karlsson, Gigi Lai, Matthew Novoselsky, Natasha Requeña, Poupak Sepehri and Regina Young prepared this case under the supervision of Professor Russell Winer as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The authors wish to gratefully acknowledge the help and support of Rheingold Beer’s management for their help in preparing this case.

York City, which until that point in time was still an independent city. The Liebman family was actively a part of the community in which they lived, giving back to their community by building streets and organizing drainage systems within their neighborhood.

After Samuel Liebman died in 1872, his three sons, Joseph, Henry and Charles took over the business. Joseph oversaw the finances, Henry was the brewing expert and Charles took on the role of the engineer and architect. In 1883, they launched the Rheingold brand, so named for the resemblance of its distinctive yellow hue to the golden color of the Rhine River. Prior to the three brothers' retirement in 1903, each had groomed two of his sons to take over his respective part of the business. The six grandsons were so adept at running the business that production of Rheingold reached a high of over 700,000 barrels a year (equivalent to more than 21.7 million gallons) by 1914. The brewery's success was largely due to its ability to obtain the finest hops for use in its beer. Its ability to obtain these hops was due to the marriage of Joseph's daughter to the best hops merchant in the US, also a German immigrant.

The Liebman Brewery encountered some difficult times as anti-German rhetoric grew during and following World War I. Immediately after the war ended, the Liebman brewery encountered another setback as a direct result of the beginning of Prohibition in 1920. However, the brewery survived this turbulent period by manufacturing lemonade and a product called "Near Beer", which tasted like beer, but without the alcohol.

After Prohibition ended in 1933, the Liebman Brewery began its ascent to become the most widely requested and best selling beer in New York City. Rheingold held on to this top position for the next 30 years. One primary event can be credited with this success - the brewery's ability to get Dr. Hermann Schülein, who was previously the General Manager at the world-renowned Löwenbrau brewery in Germany, to join the Liebman team² when he fled the mounting anti-Semitic sentiments that were taking hold in Germany. After arriving and acclimating to life in the US and to his new employer, Dr. Schülein together with Philip Liebman (a great-grand-son of the company founder Samuel Liebman) Rheingold implemented a new marketing campaign, which introduced two primary innovations. Soon the brand's advertising slogan, "Rheingold Extra Dry," and the later accompanying radio jingle, "Rheingold, the dry

¹ From the Rheingold Beer website: "Our History"(Originally published in Aufbau, June 21, 2001. Reprinted by permission of the author).

² The Originators of Rheingold Beer: From Ludwigsburg to Brooklyn – A Dynasty of German-Jewish Brewers By Rolf Hofmann

beer – think of Rheingold whenever you buy beer” were seen and heard everywhere throughout the city. The second promotional activity was the implementation of the “Miss Rheingold Election”, which was immediately extremely popular. Photos of the current Miss Rheingold were prominently displayed across New York City, and the annual contest drew upwards of 20 million ballots during the 1950s.

Rheingold’s ‘hey-day’ lasted from the beginning of the mid 1940s to the middle of the 1960s. At its height it enjoyed a 35% share of the beer market in New York City. The demise of the Liebman and other local breweries occurred largely due to the emergence of the large breweries such as Budweiser, Miller and Coors that utilized national marketing campaigns and were able to achieve economies of scale and distribution unattainable by smaller, local brands. Rheingold was eventually sold in 1963 to the Pepsi Bottling Company of New Jersey, which was owned primarily by the Bronfman family from Seagrams Liquor. The last bottle of Rheingold was distributed in 1978 in the New York area³.

The brand lay dormant until 1996 when Michael Mitaro, Rheingold’s current President and a veteran of the beer industry, leased the rights to the brand from the Stroh Brewery Company, which, at the time, owned the trademark. In September of 1997, he joined forces with Walter “Terry” Liebman, a descendant of the original founder - Samuel Liebman, and attempted to revitalize the brand. Rheingold’s original brew master, Joseph Owades, was recruited to his old post and in 1998 the F.X. Matt Brewery in Utica, NY was once again brewing Rheingold beer. The beer became the Mets’ official domestic beer sponsor on the radio and secured pouring rights at Shea Stadium. At the same time, Rheingold Beer also found its way onto many suburban grocery shelves, as well as traditional restaurants around New York City. However, with this marketing strategy, Rheingold beer failed to appeal to the largest segment of the beer drinking market – 21 to 27 years olds and the brand failed to make even a ripple in the New York City beer market.

Brewing Industry Overview: New York and the US

³ Company source

Sales for the U.S. beer market are nearly \$70 billion annually with sales in the New York Tri-State area accounting for 8.6% of this figure^{4,5,6,7}. New York City's brewing history goes back to the earliest days of New Amsterdam colonies. Its first breweries were constructed when it had only a few hundred residents, in the 1630s, along what was then called Brouwers Street. However, the brewing industry in New York City was constrained from significant growth until the completion of the Croton aqueduct in 1842 guaranteed a consistent water supply, which prompted the founding of many breweries.

Among them were three that became some of the largest in the country, the Schaeffer brothers, the Ruppert family and Rheingold. The Schaeffer brothers immigrated from Prussia to found their eponymous brewing company in 1842. The year 1855 saw the founding of the Liebmann's brewery, and in 1863 Jacob Ruppert Sr. started his brewery. Although all of these grew and prospered until Prohibition, Ruppert's was the best known. When his son Jacob Ruppert Jr. took over in 1916, Ruppert was the first non-national brewery to sell more than one million barrels (equivalent to more than 31 million gallons) in a year. He also increased brand awareness during Prohibition by starting the now commonplace combination of beer and sports, with his purchase and subsequent expansion of the Yankees into one of the most successful baseball teams of the era.

On the national front, other brewers were growing even more quickly. Anheuser Busch was created in 1860 and Adolphus Busch, who ran the company until his death in 1913, was quick to take advantage of the economies of scale granted by a wider distribution area. They were one of the first companies to take advantage of the pasteurization process in order to increase its beers' shelf lives, thus enabling a larger distribution area. He also started a refrigerated railcar company to increase the distance the beer could be transported. Other breweries founded during this time included the Milwaukee based breweries: what became known as Pabst (founded in 1866 by Phillip Best); the Plank Road brewery which is today known as Miller (founded by Best's sons Frank and Lorenz); and Schlitz which was founded in 1850 but grew to national prominence by supplying beer to Chicago after its breweries were

⁴Gregg Smith, *Beer in America, The Early Years – 1587-1840*, (Siris Books, 1998)

⁵Gregg Smith, *A History of Suds and Civilization from Mesopotamia to Microbreweries*, (Avon Books, 1995)

⁶Will Anderson, *From Beer to Eternity*, (The Stephen Greene Press, 1987)

⁷Philip Van Munching, *Beer Blast: The Inside Story of the Brewing Industry's Battles for Your Money*, (Random House 1997)

damaged by the great fire in 1871. The other large player was Colorado based Coors, which was founded in 1873.

By the time Prohibition began there were over 1,600 breweries operating in the US. The larger brewers counted on the eventual repeal of Prohibition, and therefore continued to maintain and upgrade their equipment. All brewers tried to survive by selling “near-beer”, ice, brewers yeast (for home brewing purposes) and other ancillary products; however, none of them could come close to earning the needed revenue and by the time Prohibition was repealed in 1932, only 700 breweries were able to reopen. Of those, 500 almost immediately went out of business. Meanwhile, the survivors thrived and business boomed. All three New York City breweries were extremely successful, each selling over a million barrels a year.

In 1949, the breweries’ unionized truck drivers went on strike. In order to keep New Yorkers on their side, the drivers continued to transport national beer, just not local brews. These actions served to open the doors of the New York market to the larger national brands and subsequently put Ruppert out of business. With their foot in the door, the national brands continued to apply pressure on the local breweries eventually acquiring or bankrupting most of them.

The most prominent characteristic of the brewing industry during the 1960s and 70s was consolidation. The increasing economies of scale in brewing, transportation, and advertising created an environment where smaller breweries were unable to survive. A small number of independent breweries managed to survive among them F.X. Matt in upstate NY and Yuengling in Pennsylvania. The most important acquisition was in 1970, when Philip Morris bought Miller for \$270 million. Philip Morris introduced the beer industry to the image driven marketing wars that have come to characterize the major brands since then.

The 1990s were characterized by the rise of microbreweries, among which the most notable and visible player was the Boston Beer Company with its Sam Adams beer. Jim Koch founded the Boston Brewing Company in 1985 and grew the business by door-to-door sales directly to bars and restaurants. It went public ten years later, in 1995, and raised \$54 million dollars during its IPO. By 2001 Boston Beer Company was producing 1.175 million barrels of Samuel Adams annually; however, this amount was still miniscule compared to Anheuser-Busch’s annual output of 99.5 million⁸. The largest New York City based microbrewery was

⁸ Modern Brewery Age, March 2002

Brooklyn Brewery, which was started in 1987 but did not grow significantly until the mid-1990s. Nationwide, the market for craft brews grew at astonishing rates, peaking at 51% growth in 1995 and has since slowed to between 1-3% per year⁹.

Beer Target Market

Like other mature product categories, beer is not subject to sharp fluctuations in sales during economic downturns. Demand is inelastic and changes in volume are driven primarily by increases in the size of the key demographic targets. The key consumer segment for beer companies is young adults where males represent the majority of sales. More specifically, the 21-27 year old population represents about 13% of the adult population, but accounts for more than 27% of total beer consumption¹⁰. The size of this consumer segment declined in the 1990s, but it is now projected to grow by nearly four million by the year 2010. The resulting industry volume growth driven by this segment is projected to be 1-5% annually throughout the decade¹¹.

The US beer market is dominated by the lager sector, which accounted for 97% of volume sales in both 2000 and 2001.¹² Due to greater disposable income and the subsequent desire for experimentation among consumers, premium-priced beers, e.g. imported lagers, pale ales, amber ales and stouts, grew faster than the overall beer market in both volume and value terms. Though consumers showed growing preference for certain ales and stouts, dark beers and stouts remain small, specialty sub-sectors controlled by regional and local breweries and microbreweries and imports.

Despite the overall industry's revenue growth, individual beer consumption has declined since the early 1980s and unit sales have been flat for several years. The revenue growth is due primarily to small, but steady price increases by brewers. Per capita consumption in 1999 was about 200 servings per year, slightly lower than half of all alcoholic beverage consumption¹³. Besides a 100% increase in the federal excise tax for beer in 1991, other factors that contributed to the consumption decline include public policies, private sector initiatives encouraging moderation and personal responsibility, increasing health concerns for carbohydrate in-take, and

⁹ <http://www.beertown.org/craftbrewing/history.html>

¹⁰ Anheuser Busch Annual Report, 2002

¹¹ Beer Institute Annual Report, 2000-01

¹² Euromonitor

¹³ Reuters Datamonitor analysis, 2000

competition from innovative prepared beverages such as “malternatives” and spirit-based mixed drinks.

Beer Consumer Profile

Typical beer drinkers are young males. Householders ages 24 and younger spend 41% more on at-home beer consumption than the national average¹⁴. Despite the growth of high priced brewpubs, beer remains an everyman’s drink. Blue-collar workers spend 58% more (in units consumed) on beer at home than the average wage earner; however, higher income groups and single consumers largely drive consumption of premium-imported beer (Exhibit 2).

One bright spot for growth is the female drinker. Currently, women account for only 25% of beer consumption, but their share is growing. Women’s consumption volume is expected to grow at 6.4% from 1999-2004, three times faster than that of men and twice as fast as overall consumption growth (Exhibit 3). Women present a growth opportunity particularly for light beer. One example of this opportunity is Amstel Light, which has about 45% female drinkers, one of the highest in the industry. Beer marketers are trying to capitalize on the trend of increasing female consumption, without alienating their core male targets.

Beer Drinker Behaviors

It is obvious that consumers have virtually unlimited choices when it comes to their beer options. Brand selection is a dynamic process driven not only by the taste of the product but also by price, the occasion for which it is being consumed, perceived quality, associated image of the brand, as well as tradition and local representativeness.¹⁵ There are even ranges of subjective attributes that define a good beer’s taste like its smoothness, percent water content and how “drinkable” it is. On-premise consumers are more likely to try new products and are more likely to be influenced by their peers. Though there is certain degree of brand loyalty, brand choice is largely dependent on occasion. For example, cheap beer may be good for “getting drunk” while more expensive beer might be viewed as a “personal badge”.

¹⁴ Euromonitor: Beer in the USA 2002

¹⁵ Brandadvisors study, July 2002

Of late, many Americans have become turned off by the mass-market strategies of über-breweries such as Budweiser and Coors. While these behemoths will continue to dominate the marketplace, there is room for smaller players to thrive. While microbrews such as Sam Adams, Stella Artois and Yuengling have enjoyed success in the Tri-State market and several beers, including Brooklyn Lager and New York Harbor Ale, attempt to leverage New York City heritage, there is still no true claimant to the “New York City” beer throne. Rheingold is counting on the appeal of its product as the New York beer to succeed.

Beer Distribution

One element of building a successful beer brand is a solid distribution system. Large national brands, such as Budweiser and Miller, have both the capital and existing extensive distribution networks to ensure a relatively easy rollout of new products. August A. Busch IV, President of Anheuser-Busch, stated, “the priority interests of Anheuser-Busch wholesalers are very closely aligned with our own. Roughly 65% of all Anheuser-Busch volume is now sold through exclusive Anheuser-Busch wholesalers. All Anheuser-Busch wholesalers derive less than 5% of their volume from competitors’ brands.”¹⁶ This arrangement gives Anheuser-Busch a significant competitive advantage when introducing new products and was a significant advantage that allowed the company to add nearly 1 million barrels of new product output in 2002: Michelob ULTRA (a low-carbohydrate beer) and Bacardi Silver (a malternative).

For smaller brands, however, it is a very different scenario. When the Brooklyn Brewery started, “They found most New York distributors were controlled by the big breweries and uninterested in small local brands with little marketing money. Their Brooklyn neighbor, Soho Natural Soda founder Sofia Collier¹⁷, advised the budding entrepreneurs to distribute their own brands with their own trucks. They bought a van and a small beverage truck, painted their logos on the sides and began peddling Brooklyn Lager store to store on their own.”¹⁸ As their own

¹⁶ Anheuser-Busch 2002 Annual Report

¹⁷ Soho Natural Soda had successfully won a lawsuit against Anheuser-Busch several years before when they had introduced “Zelter Seltzer” using a label astonishingly similar to that on Soho Natural Soda. (Philip Van Munching, *Beer Blast: The Inside Story of the Brewing Industry’s Battles for Your Money*, (Random House 1997) 100-101)

¹⁸ <http://www.brooklynbrewery.com/history.html>

product's sales increased, the Brooklyn Brewery expanded their distribution services as well, focusing on servicing breweries that manufacture and sold craft beers and microbrews. However, as Brad Kraus of Wolf Canyon Brewing Co. in Santa Fe, N.M. learned when he began distributing "Distributors deliver beer, I think that is a misunderstanding among many brewpubs or small micros, that the distributor will sell your beer. You have to sell your beer".¹⁹ This quote highlights the duality of beer distribution; while individual accounts need to be won personally by sales staff, a solid distribution system must simultaneously be in place to deliver the beer effectively and quite often both need to exist for either to occur.

The New York market is uniquely fragmented. With its over 20,000 independent retail accounts, it is extremely difficult for a new brand to gain share. Each account needs to be "won", one at a time, often by personally persuading each bar owner, bartender, store manager and other decision maker to purchase a particular brand of beer.

Competition

The U.S. beer market is a mature product category. Recent growth has only come about due to the increased availability of domestic microbrews and imported international brands as well as an increase in the number of brewpubs (bars and restaurants that brew their own beer on-premise). International brands have experienced 10 consecutive years of sales growth and in this time period have more than doubled in size.²⁰

Budweiser, Miller and Coors dominate US beer sales, however, their market share is relatively lower in the New York Tri-State area. In the New York market traditional media spend is not as effective and viral and guerilla marketing can often produce results, which helps account for the major brewers' lower market shares. As such, the New York market represents a unique opportunity for smaller, local breweries to compete head to head with the giants.

Eleven brands comprise Rheingold's competitive set. It is from these brands that Rheingold expects to take market share. These brands can be classified into three categories, "premium domestic," "import" and "micro/craft brew". Competitors' media spending, market

¹⁹ <http://www.beertravelers.com/business/distribution.html>

²⁰ Rheingold company data

share and brand positioning information is provided to better gauge Rheingold's probability of success (Exhibits 4, 5 and 6).

Premium Domestic

Budweiser

Budweiser is the top-selling beer in the US. It further entrenches its position as America's beer by using the tagline, "King of Beers." Considered by some to be a product of average taste, Budweiser's sales and high level of brand awareness are primarily due to its large marketing and advertising efforts, which assists consumer recall for "on-the-spot" decision-making. In 2001, Anheuser-Busch spent in excess of \$210 million advertising its Bud Light and Budweiser brands, respectively the #1 and #2 beers in the U.S.²¹

Coors

For years, Coors was primarily a regional beer that was difficult to locate and purchase outside of its home state of Colorado. Stories about people traveling hundreds or even thousands of miles to buy Coors helped build this brand's reputation and current tagline, "Straight from the Rockies". The introduction of the first all aluminum two-piece can and then the introduction of the Coors Light brand brought Coors to national prominence and distribution.

Miller

Miller employs a multi-brand strategy and its three top brands; Miller Light, Miller High Life and Miller Genuine Draft are respectively numbers 4, 8 and 9 in U.S. beer sales. Miller spends approximately \$170 million in advertising for all three brands combined. Miller High Life is targeted at the blue collar consumer utilizing the slogan, "It's Miller Time", while Miller Lite is promoted as a low calorie, quality beer with the "Tastes Great, Less Filling" campaign. Miller Genuine Draft does not have as clear a positioning, as its counterparts and is promoted under the tagline, "Pure MGD, Cold Filtered." In 2002, the brand was acquired by the South African Breweries PLC, prompting the resulting company to rename itself SABMiller

²¹ CMR Ad \$ Summary 2001

Rolling Rock

Rolling Rock was originally introduced in 1939. It born out of the remnants of the Old Latrobe Brewery which went out of business during Prohibition, but was re-opened in 1933 as the Latrobe Brewing Company. It had been owned and operated by Labatt since 1983. Rolling Rock, with its distinctive green bottle, painted label, mysterious “33” and horse logo is a once local Latrobe, Pennsylvania beer that now enjoys sizable national brand awareness.

Pabst Blue Ribbon

Pabst Blue Ribbon (affectionately known as PBR) has been produced since 1844 by the Pabst Brewing Company. It was the first beer to be introduced in cans in 1935 and it has experienced moderate success for many years. PBR currently has a 0.4 share of the U.S. beer market, but recently it has done an excellent job of combining its history with a sense of kitsch and retro to gain popularity as a fun, cheap beer, despite minimal ad spend.

Import

Corona

Brewed by the Mexican company Group Modelo, Corona’s positioning can be encapsulated by its current tagline, “Mile Away From the Ordinary.” Corona is a premium priced beer that has been able to achieve high brand awareness and substantial market penetration. Corona spends in excess of \$40 million annually to reinforce its positioning, awareness and status as the best selling import beer. In fact, Corona Extra is the fastest growing imported beer in US history.

Stella Artois

Stella Artois was introduced to the US market in 1999 as a premium priced brand. Its major strengths were its perceived high quality and a brewing heritage that dated back to 1366. While the beer is considered to be a non-premium beer in Europe, it has been able to leverage its European heritage to create an image of quality and prestige here. In 1999, Stella spent only \$443,000 on advertising, primarily on outdoor signage, but was able to make significant inroads to both the national and New York markets.

Heineken

Heineken proved the utility of a committed sales force with its stunning growth during the 1970s. During the 1960s, Heineken's management decided to switch from distributing the beer by themselves in the US to using distributors; however, they retained their internal sales force which was an action that was unique among import beers at the time and is still unusual even among domestic brewers. Sales increased from 254,000 barrels in 1972, to over 500,000 in 1975, and to over 1.8 million by the end of the decade.²²

Micro/Craft Brew

Sam Adams

Sam Adams enjoys high-perceived product quality among consumers due to its brand positioning as America's premium quality beer. It employs "America's world class beer" as its tagline. Sam Adams is one of the most successful regional brands, strongly identifying itself with its Boston beginnings and distinctive taste. While it enjoys a leading position in the craft beer market, Sam Adams composes only a .5% share of the total US beer market.²³

Yuengling

Yuengling utilizes a unique brand positioning statement with its tagline, "America's oldest brewery." Its heavy reliance on heritage, combined with the fact that it is still an independent, family-owned brewery, provides the brand with an aura of quality and value in the minds of consumers. Despite its distinctive heritage, Yuengling, which is brewed in Pennsylvania, is still a regional beer that receives 70% of its sales within the state. Additionally, it is not distributed outside of the East Coast and thus has low brand awareness.

Brooklyn Brewery, New York Harbor Ale and other local, emerging brands

Currently, there is no brand that owns the positioning of "New York's Beer" but there are some notable local beers that have a related claim to this title. Most prominent among these breweries is the Brooklyn Brewery, which positions itself based on the quality of its hand-crafted, premium priced microbrews. However, it is a young, local microbrewery with relatively low brand awareness and as its name implies, claims Brooklyn as its heritage. New York Harbor Ale is a

²² Philip Van Munching, *Beer Blast: The Inside Story of the Brewing Industry's Battles for Your Money*, (Random House 1997) 120-121

very recent entry to the New York beer market and although it is brewed by the Yankee Brewing Company of Staten Island, NY, it has little legitimate heritage to claim New York's beer title.

Saranac and New Amsterdam are two other smaller players in the Tri-State area beer market, whose positioning are also related to New York. Saranac describes itself as the beer of the Adirondack Mountains (located in upstate New York) which emphasizes its mountain freshness. Some consumers think of Saranac as the "Coors of the East". New Amsterdam positions itself as a New York beer, however it is a relatively new entrant that only began operations in the early 1980s and therefore does not have the heritage or historical connection to New York. Additionally, New Amsterdam is still a small brand with extremely limited brand awareness.

The New Rheingold

Management

The first step in the process to revive the Rheingold brand was to assemble a management team (Exhibit 7) and organization that was willing and able to accept the challenge. With his lease of the Rheingold brand from Stroh's in 1997, Mike Mitaro, Rheingold's current President and Chairman of the Board, spearheaded the revival of the brand. He recruited Tom Bendheim as Rheingold's CEO, as Tom had previous brand revival experience. Coincidentally, Tom was also related to the Liebman family by marriage. Walter Liebman, a member of the original founding family, was brought on-board as the company's historian; a valuable link to its powerful heritage and history. Befitting the nature of a start-up company, the remainder of the organization was quite lean, but Rheingold had additional resources not traditionally available to many start-up companies. One such resource was the group of prominent beverage industry leaders who comprised Rheingold's Board of Directors and investors. Notable people included Director Tom Schwalm, co-founder of SoBe (iced teas and juices), John Bello, also a co-founder of SoBe and Dr. Joseph Owades, an internationally recognized "brewmaster" and former Rheingold Technical Director. Rheingold relied extensively on its operational resources (Exhibit 8), which included a management advisory firm, a top re-branding consultancy, a creative branding ad agency and a public relations firm that specialized in inventive, guerilla campaigns.

²³ www.samadams.com

Positioning

Rheingold's first hurdle was to identify its primary target market. Then the appropriate locales for the re-launch needed to be identified. Rheingold quickly confirmed that its target market mirrored the target for other national brands, as adult males ages 21-27 compose the majority of the beer drinking market. In addition to their high percentage of consumption, younger drinkers are less established in the beer brand loyalties and more likely to sample and adopt new brands. Once the target was solidified, Rheingold moved on to the selection of the right neighborhood. The Lower East Side of Manhattan (LES) has traditionally been the home of New York's young creatives, who have a high propensity to seek out and try new and/or unique products, and equally as important are key influencers of other New York City consumers. In addition, it was hoped that Rheingold's positioning as an independent New York beer would resonate with the LES audience, who eschew mass market goods and their advertising campaigns and embrace products with true New York heritage and history.

Rheingold, in conjunction with its brand advisory company, identified a unique positioning that it believed would allow them to successfully re-launch the brand. The results of focus groups and one on one intercept testing yielded several key attributes that were deemed important to the primary target market. The first and foremost was Rheingold's localness and status as "New York's classic beer". The testing uncovered many components that are illustrative of the "New York" attitude, such as independence, confidence, creativity, determination, diversity, freedom, individualism, opportunity, self-expression and truth. Many of these attributes were similar to Rheingold's targeted positioning and history and no other beer truly embodied this positioning (Exhibit 9). Rheingold's New York heritage resonated with the target market. There was also a noticeable appreciation for many things "classic", such as clothing and automobile styles.

The other primary component of Rheingold's new positioning was its status as an independent, non-mass marketed brewery. This image was extremely important to the target, which is anti-big business, cynical toward corporate America and embraced small local shops, restaurants and products. As one focus group participant said, "I like independent guys-I feel they are someone who cares."²⁴

²⁴ Brand Advisors-Brand Revitalization Program Presentation 7/10/02

While the vast majority of the primary target market is not aware of Rheingold's past, they positively identified authenticity, honesty and quality as characteristics that exist within a beer that has heritage and tradition, such as Rheingold.

Advertising/PR

As a start-up company with a limited budget, Rheingold had to rely primarily on a viral campaign that utilizes "buzz" and word of mouth to influence new consumers. This is where the primary target, who are notorious for being early adopters of products, acted as the brand's unpaid spokespeople. Since the primary target was extremely web savvy, Rheingold also relied on its Internet site and direct email campaigns to help drive awareness. In addition to providing information on the product and the brand's history, the web site also featured a prominent section called the Backyard, which recommends local bands and venues (Exhibit 10). Rheingold's Internet marketing was proving to be successful thus far. In January 2003, the company recorded 5,000 hits on its website and by March this number had tripled. Furthermore, by that point in time over 1,000 people were on its online mailing list. In an effort to further increase website traffic, Rheingold was planning on releasing 200,000 coasters with the company's web address at the beginning of summer 2003.

Limited advertising has been launched in media channels specifically selected to reach Rheingold's target, such as on the Onion's website (a satirical off & on-line magazine) and the Howard Stern's radio show. Public relations events, most notably the reintroduced Miss Rheingold contest helped boost the level of brand awareness. The Miss Rheingold contest was planned to become the company's signature event with heavy signage in both on-premise and off-premise locations, as well as accompanying advertising and PR campaign, such as the 60 foot high billboard showcasing the previous year's winner (Exhibit 11).

Place

Rheingold initially focused on establishing itself in on-premise (bar) locations. The reasoning behind this was two-fold. First, Rheingold had established a relationship with one of the top beer distributors in New York, Manhattan Beer Distributors, granting them access to almost 20,000 on/off premise accounts. In addition, Rheingold had a sizable "brand captain" force that would assist Manhattan Beer Distributors in selling the beer into new accounts.

Second, focus group testing demonstrated that consumers were more likely to sample a beer in a social setting, i.e., a bar. This was due to the fact that they could see others drinking that beer, as well as the fact that most purchases in off-premises, i.e., grocery stores, etc., were pre-determined by the purchaser, dependent on the occasion and desired level of expenditure.

In an effort to capitalize on its independent status, Rheingold was committed to creating a relationship with the independent, “indie”, music scene in the LES and New York City. Rheingold hoped this affiliation would resonate with its primary target. The brand team selected 15 “alpha” bars and music clubs/venues (Exhibit 12) on which to focus their initial sales efforts. These bars were selected because the primary target, all of which were prominent locations on the New York City music scene, frequented them.

Product

Rheingold made slight adjustments to the original formula updating it to reflect the preferences of the modern consumer. Color is a prime signal of quality. Research indicated that a beer with a light yellow hue is usually a mass-produced, lower quality beer while a beer with a darker color signifies a handcrafted, high quality beer. Rheingold’s golden hue placed itself in the middle of the color spectrum. In its “past life”, Rheingold was known as a dry tasting beer, but consumer testing proved this preference outdated. Since the most important attribute of any beverage is its taste, Rheingold worked to craft a smooth, drinkable beverage with a slightly distinctive flavor that would reflect consumers’ current preferences. Its alcohol content was similar to or slightly higher than most domestic competitors (5% by volume).

Packaging

By packaging its beer in a clear bottle, Rheingold hoped to distinguish itself from its competitors, which primarily use green or brown bottles. The clear bottle not only allows the golden hue to be clearly visible, but also is indicative of Rheingold’s honesty, by “showing you what you are drinking.” In addition, the bottle itself was thinner and slimmer than the traditional domestic beer bottle. The bottle cap required a bottle opener (unlike most mass produced domestics), which was viewed as a signal of quality in focus group testing and is consistent with a “classic” beer. As a further signal of quality and as a point of differentiation, the label was painted on the bottle. Rheingold chose to retain the majority of the stylistic elements of its 1930s

label design, excluding the “extra dry” phrase and placing the Rheingold name on a white ribbon to aid in visual recognition (Exhibit 13).

Strategic Rollout

Rheingold created a six-phase rollout plan (Exhibit 14) that emphasized grass roots and guerilla marketing. To differentiate themselves from its competitors, Rheingold blanketed its target market with heavy sales coverage. Phase 1 of the plan, which took place between Fall 2002 and Spring 2003, consisted of test marketing the product in hand picked on-premise locations in the LES, East Village in Manhattan, Williamsburg in Brooklyn and Bell Boulevard in Bayside, Queens. More specifically, this phase concentrated on capturing 5% of the beer business in these strategic locations and creating “buzz” among the target who would then influence others beer consumers. The second phase, which is to begin in Spring 2003, involves expanding the product’s availability to include other neighborhoods throughout the five boroughs and Long Island, as well as expansion into Hoboken, NJ, a suburb of New York City in Spring 2004. In this phase, Rheingold is planning on utilizing unique promotional events, such as the Miss Rheingold contest to create even more “buzz” about the beer. During the third phase, which is set to take place between Spring 2004 and Spring 2006, Rheingold will continue to expand the availability of its beer to the entire Tri-State area. It is during this phase, that Rheingold is hoping to achieve its 2% market share of the Tri-State area goal. Phases four through six of Rheingold’s strategic rollout are part of its long term planning and would not begin until late 2006. Therefore, more specific information about these phases is not available. Current plans are to increase availability to include the entire Northeast corridor followed by domestic expansion in select national cities. In the long run, the company would like to capture 1% market share in cities such as Seattle, Portland, South beach and Austin.

Cost

The majority of Rheingold’s costs were outsourced, providing the company with a relatively predictable cost model. Among the tasks that were initially outsourced were its sales and marketing as well as its brewing process. This task was outsourced to the FX Matt’s facilities in upstate New York. Rheingold’s brewing process required expenditures that were similar to virtually every other US beer manufacturer. This meant that Rheingold would not gain

a competitive advantage by minimized production costs. Additionally, Rheingold has maintained a lean cost structure. By minimizing fixed costs Rheingold was able to gain financial flexibility. These costs were comprised primarily of managements' and sales staff salaries and the cost of rent.

The firm expected gross profits to reach over 30% in the company's infancy and were projected to hit well over 40% a few years thereafter. Given its size, Rheingold could never hope to realize the economies of scale enjoyed by larger brewers, but as the category's sales are primarily image driven, the Company hoped to succeed on the basis of its marketing and positioning. As the firm gained a following in NYC and expanded its operations throughout the New York metropolitan area, its ability to retain a low cost structure would greatly increase its chances of achieving its goals.

Price

Rheingold was priced along the lines of premium domestic brands such as Budweiser and Coors, and below specialty brands such as Sam Adams and Brooklyn Lager. The price was typically \$4 to \$5 for a draft beer in a bar, and \$8.00 to \$11.00 for a six-pack in a supermarket or a convenience store in New York City. The Company believed it could maintain a competitive advantage by offering its high quality product at the price point of the mainstream mega brews, relying on its higher perceived value and image. In addition, the Company was trying to take advantage of the local-ness characteristics associated with the brand and hoped to leverage its heritage, attractive packaging and classic, independent status to achieve favorable comparison versus the mega brews.

The Future

On his way to his meeting, Tom considered the issues facing Rheingold. Was the company pursuing the correct positioning and target market? Would Rheingold's marketing efforts resonate with its intended audience? Could the Rheingold team out-compete its deep-pocketed competitors? How did the beer's taste compare to others like it? Was their pricing on target? Finally, how would Rheingold's initial overall strategy translate into long-term sales in Manhattan's hyper-competitive market? All these questions concerned him, but some more than

others. He felt that he needed to prioritize the key issues facing the brand in order to ensure the success of Rheingold both in the market place, and to his investors.

Exhibit 1 Timeline of events

Year(s)	Event
1799	Samuel Liebmann born in Aufhausen, Germany
1840	Liebman Brewery founded in Ludwigsburg, Germany
1850	Joseph Liebman immigrates to the US and is joined shortly by his father and his other brothers, Henry and Charles.
	Year when first brewery opened in Brooklyn, NY
	<p data-bbox="329 491 915 579">Second (larger) brewery opened in Brooklyn on the corners of Forest and Bremen Street (one year after the first one was built)</p>  <p data-bbox="380 762 959 793">Henry Liebman (center with white beard) and family²⁵</p>
1872	Samuel Liebman dies
1883	Rheingold brand established
1903	Joseph, Henry and Charles Liebman retire. Their six sons take over the business.
1914-1918	Tough times for the Liebman Brewery due to anti-German sentiments due to WWI.
1920-1933	More difficult times for the Brewery due to the beginning of Prohibition. The Liebman Brewery survives by producing “Near Beer” and lemonade.
1933	“Beer is back” due to the promise of the New Deal by presidential candidate Franklin Roosevelt.

²⁵ From www.rheingoldbeer.com

Exhibit 1 (continued)

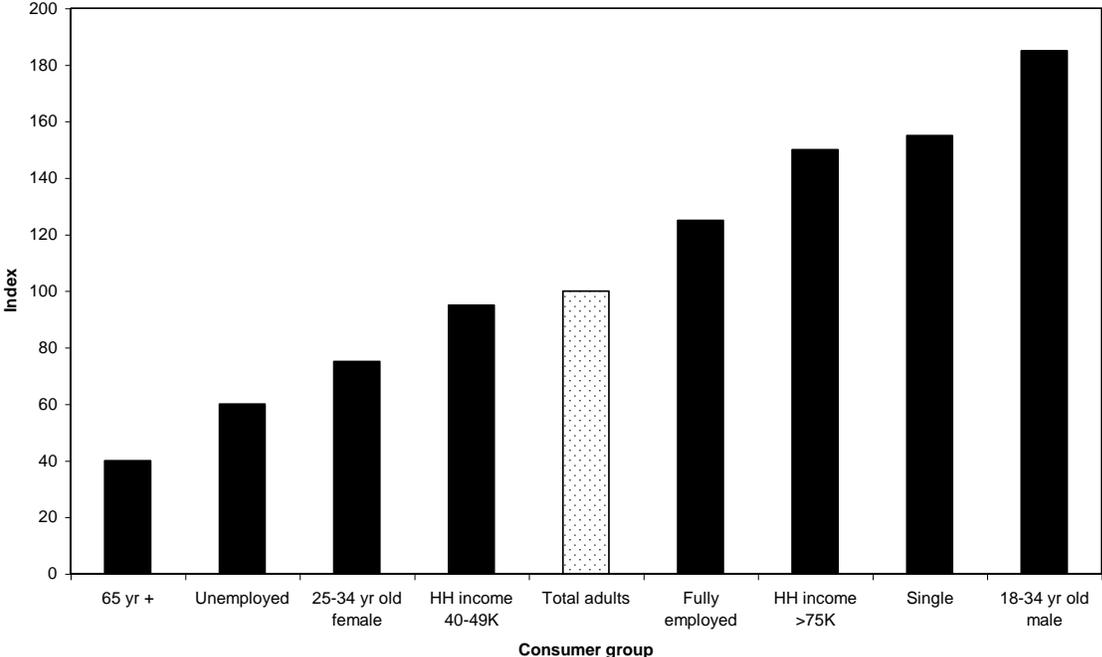
Year(s)	Event
Late 1930s	Dr. Hermann Schülein joins Liebman Brewery when fleeing religious persecution in Germany. He begins the “Rheingold” beer marketing campaign.
1940	<p data-bbox="326 436 781 499">First Miss Rheingold coined by Rheingold management</p> <p data-bbox="607 617 873 653">Rheingold billboard ad²⁶</p> 
1950-1965	<p data-bbox="639 821 862 856">Rheingold’s hey-day</p>  <p data-bbox="639 1031 971 1066">Miss Rheingold 1958 contest²⁷</p>
1959	Miss Rheingold contest gets 22 million votes (2 nd biggest election in the country)
1964	Last Miss Rheingold, Celeste Yarnall elected by the public
1965	Last Miss Rheingold: Sharon Vaughn (elected by Rheingold management)
1976	Rheingold brewery closes its doors
1996	Michael Mitaro licenses the defunct Rheingold brand from the Stroh Brewery Company
1997	Michael Mitaro and Walter “Terry” Liebman begin Rheingold’s brand revitalization process.
1998	Rheingold becomes the on-radio sponsor for the New York Mets.
2002	New management is hired to reposition and then relaunch the brand

²⁶ From www.rheingoldbeer.com

²⁷ From www.rheingoldbeer.com

Exhibit 2

Imported beer consumption index

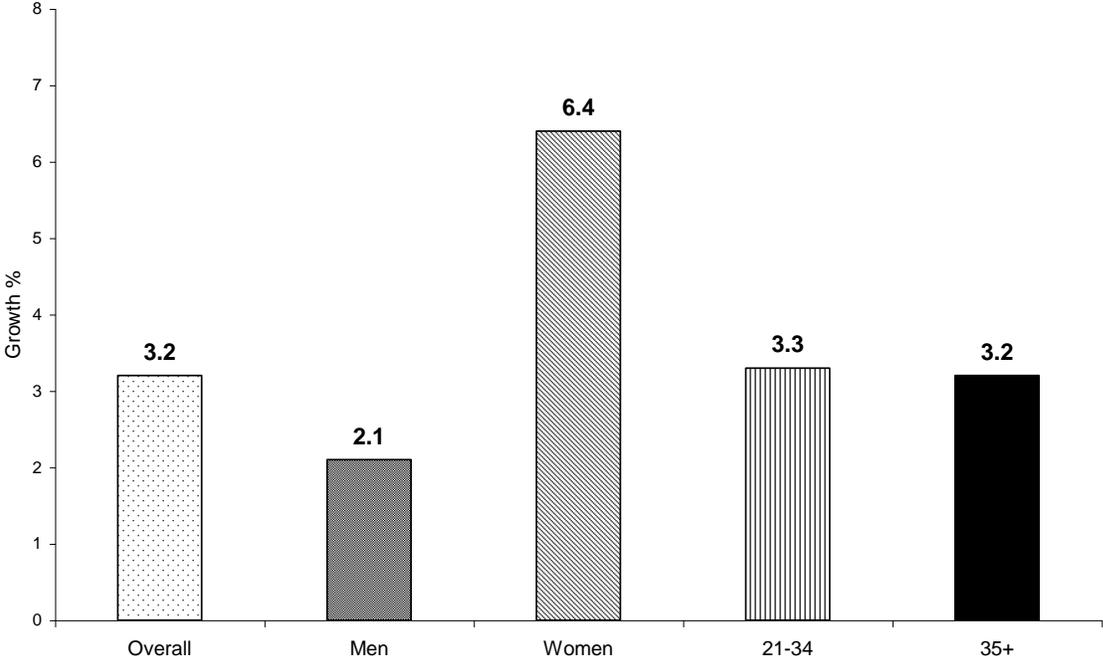


Note: Base case 100 for Total adults. Those over 100 are key consumption drivers. For example, male 18-34 years old on average drink 85% more beer than the average adult population.

Source: Euromonitor

Exhibit 3

1999-2004 US Beer Consumption Growth by consumer group



Source: Reuters Datamonitor Drinks database

Exhibit 4 2001 Media Spending by Rheingold Competitive Set

Brand	YTD spending in \$ (000)	Media Used
Bud Light	92,965.90	MWNSYC
Budweiser	117,788.40	MPWONSYC
Coors Beer	36,886.90	MWONSC
Coors Light	119,811.00	MWONSYCD
Corona Beer	2,470.80	ONSYC
Corona Extra Beer	31,144.50	MONSYCD
Corona Extra Light Beer	555.00	D
Corona Light Beer	29.70	S
Müller High Life	16,927.20	MNSYC
Miller Genuine Draft	49,372.80	ONSYCD
Miller Lite	102,819.10	MWONSCD
Rolling Rock Beer	1,082.50	MOSC
Rolling Rock Premium Beer	222.10	D
Sam Adams Beer	3,016.20	OSC
Sam Adams Boston Lager	1,490.90	SD
Sam Adams Light Beer	251.00	OS
Stella Artois	443.10	O
Yuengling Premium Beer	N/A	N/A
Yuengling Premium Lt Beer	N/A	N/A

Media Legend:

M=magazine

P=Sunday magazine

W=newspaper

D=national spot radio

O=outdoor

N=network TV

S=spot TV

Y=syndicated TV

C=cable TV network

R=network radio

Source: CMR AD \$ SUMMARY 2001

Exhibit 5 U.S. Market Share for Beer Brands in 2000- 2001

Volume Off-trade & On-trade Value Retail Brand Shares of Beer 2000-2001

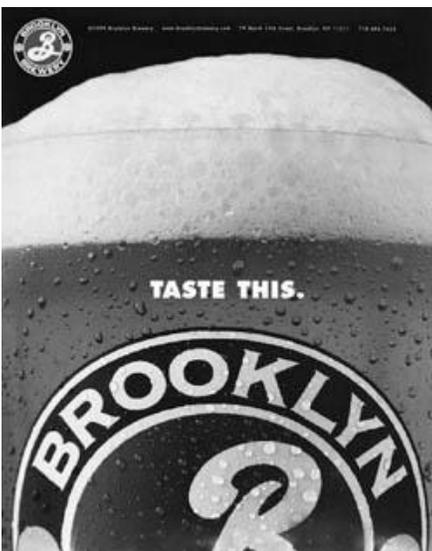
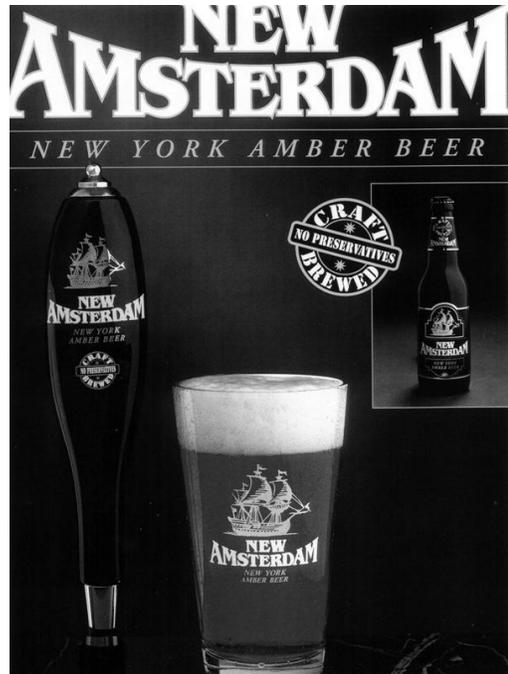
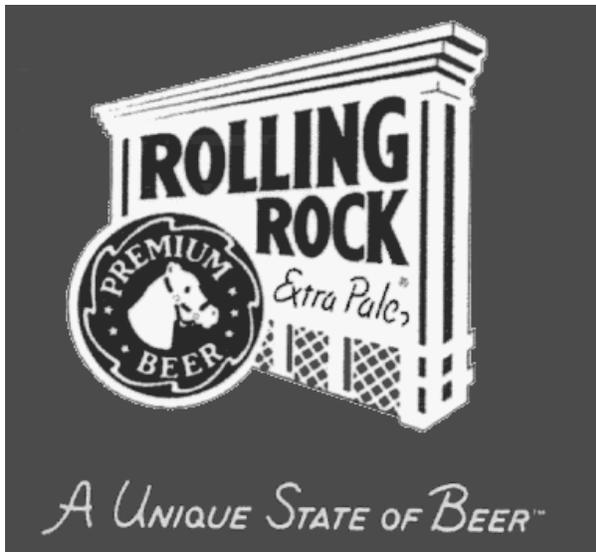
<i>BRAND</i>	<u>GLOBAL BRAND OWNER (COMPANY)</u>	<u>2000</u>	<u>2001</u>
Bud Light	Anheuser-Busch Cos Inc	15.9	17.1
Budweiser	Anheuser-Busch Cos Inc	17.1	16.6
Coors Light	Coors Co, Adolph (Coors Brewing Co)	8.3	8.3
Miller Lite	Philip Morris Cos Inc (Miller Brewing Co)	7.8	7.7
Natural Light	Anheuser-Busch Cos Inc	4.0	4.0
Busch	Anheuser-Busch Cos Inc	3.9	3.7
Corona Extra	Modelo SA de CV, Grupo (Gambrinus Co)	2.6	3.0
Busch Light	Anheuser-Busch Cos Inc	2.6	2.7
Miller High Life	Philip Morris Cos Inc (Miller Brewing Co)	2.5	2.6
Miller Genuine Draft	Philip Morris Cos Inc (Miller Brewing Co)	2.6	2.5
Heineken	Heineken NV (Heineken USA Inc)	1.9	2.0
Michelob Light	Anheuser-Busch Cos Inc	1.4	1.5
Milwaukee's Best	Philip Morris Cos Inc (Miller Brewing Co)	1.5	1.3
Keystone Light	Coors Co, Adolph (Coors Brewing Co)	1.1	1.2
Milwaukee's Best Light	Philip Morris Cos Inc (Miller Brewing Co)	1.0	1.1
Old Milwaukee	S & P Co (Pabst Brewing Co)	1.1	1.1
Natural Ice	Anheuser-Busch Cos Inc	1.0	1.1
Icehouse	Philip Morris Cos Inc (Miller Brewing Co)	1.1	1.0
Original Coors	Coors Co, Adolph (Coors Brewing Co)	0.9	0.9
Michelob	Anheuser-Busch Cos Inc	0.9	0.8
Bud Ice	Anheuser-Busch Cos Inc	0.8	0.7
Colt 45	Pabst Brewing Co	0.6	0.6
Labatt Blue	Interbrew NV SA (Labatt USA LLC)	0.5	0.6
Red Dog	Philip Morris Cos Inc (Miller Brewing Co)	0.5	0.5
Rolling Rock	Interbrew NV SA (Labatt USA LLC)	0.5	0.5
Olde English 800	Philip Morris Cos Inc (Miller Brewing Co)	0.5	0.5
Schlitz Malt Liquor	S & P Co (Pabst Brewing Co)	0.5	0.5
Tecate	FEMSA (Fomento Económico Mexicano) (Labatt USA LLC)	0.4	0.4
Pabst Blue Ribbon	S & P Co (Pabst Brewing Co)	0.5	0.4
Milwaukee's Best Ice	Philip Morris Cos Inc (Miller Brewing Co)	0.5	0.4
King Cobra	Anheuser-Busch Cos Inc	0.4	0.4
Guinness	Diageo Plc (Guinness-Bass Import Co)	0.4	0.4
George Killian's Irish Red	Coors Co, Adolph (Coors Brewing Co)	0.4	0.4
Foster's Lager	Foster's Group Ltd (Foster's USA LLC)	–	0.4
Samuel Adams Boston Lager	Boston Beer Co Inc, The	0.4	0.4
O'Doul's	Anheuser-Busch Cos Inc	0.4	0.3

Exhibit 5 (continued)

BRAND	<u>GLOBAL BRAND OWNER (COMPANY)</u>	<u>2000</u>	<u>2001</u>
Old Milwaukee Light	S & P Co (Pabst Brewing Co)	0.3	0.3
Beck's	Brauerei Beck GmbH & Co (Beck's N.A.)	0.3	0.3
Magnum	Philip Morris Cos Inc (Miller Brewing Co)	0.3	0.3
Amstel Light	Heineken NV (Heineken USA Inc)	0.3	0.3
Bass Ale	Interbrew NV SA (Guinness-Bass Import Co)	0.3	0.3
Old Style	S & P Co (Pabst Brewing Co)	0.3	0.3
Sierra Nevada Pale Ale	Sierra Nevada Brewing Co	0.2	0.3
Miller Genuine Draft Light	Philip Morris Cos Inc (Miller Brewing Co)	0.3	0.2
Modelo Especial	Modelo SA de CV, Grupo (Gambrinus Co)	0.2	0.2
Corona Light	Modelo SA de CV, Grupo (Gambrinus Co)	0.2	0.2
St Ides Malt Liquor	S & P Co (Pabst Brewing Co)	0.2	0.2
Mickey's	Philip Morris Cos Inc (Miller Brewing Co)	0.2	0.2
Löwenbräu	Spaten-Franziskaner-Bräu KgaA (Labatt USA LLC)	0.2	0.2
Genesee	High Falls Brewing Co	–	0.2
Dos Equis	FEMSA (Fomento Economico Mexicano) (Labatt USA LLC)	0.2	0.2
Molson Ice	Molson Inc (Molson USA LLC)	0.2	0.2
Hamm's	Philip Morris Cos Inc (Miller Brewing Co)	0.2	0.2
Labatt Blue Light	Interbrew NV SA (Labatt USA LLC)	0.1	0.1
Newcastle Brown Ale	Scottish & Newcastle Plc (Scottish & Newcastle Importers)	0.1	0.1
Henry Weinhard	Philip Morris Cos Inc (Miller Brewing Co)	0.1	0.1
Genesee Light	High Falls Brewing Co	–	0.1
Bud Dry	Anheuser-Busch Cos Inc	0.1	0.1
Pacifico	Modelo SA de CV, Grupo (Gambrinus Co)	0.1	0.1
Molson Golden	Molson Inc (Molson USA LLC)	0.1	0.1
Saranac Ale	Matt's Brewing Co	0.1	0.1
Sharp's	Philip Morris Cos Inc (Miller Brewing Co)	0.1	0.1
Tequiza	Anheuser-Busch Cos Inc	0.1	0.1
Coors Extra Gold	Coors Co, Adolph (Coors Brewing Co)	0.1	0.1
Foster's Lager	Foster's Group Ltd (Molson USA LLC)	0.3	–
Genesee	Genesee Corp (Genesee Brewing Co)	0.2	–
Genesee Light	Genesee Corp (Genesee Brewing Co)	0.1	–
JW Dundee's Honey Brown	Genesee Corp (Genesee Brewing Co)	0.1	–
Others		7.7	7.1
TOTAL		100.0	100.0

Source: The Beer Institute, Adams Handbook Advance 2002, Adams Beer Handbook 2001, Beverage Marketing Corp, trade press, company research, investor brokerage reports, store checks, trade interviews, Euromonitor estimates

Exhibit 6 Competitor Brand Positioning Messages



Organizational Chart

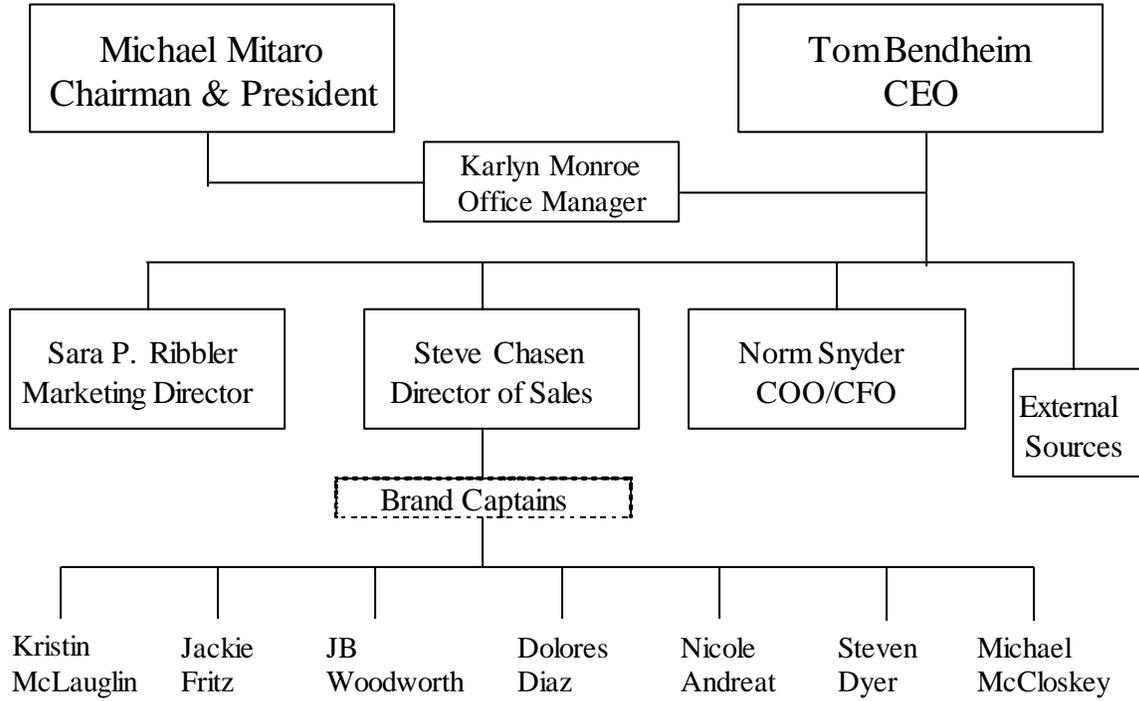


Exhibit 8 Operational Resources

Palisades Advisors: Palisades Advisors is a management advisory firm providing growth and middle market companies with strategic advisory, management, operating and sales& marketing know-how. They provided Rheingold with initial consultation and continue to provide as needed input.

brandadvisors: brandadvisors, and its principal Charles Rashall, are specialists in integrated brand and marketing strategy. Charles has been instrumental in the re-branding of FEDEX, the NFL and DuPont and he directed a marketing and branding study for Rheingold that was utilized to establish the brand's positioning and integrated marketing strategy, and subsequently the creative direction.

Powell: Powell is a uniquely creative branding advertising agency, which is known for solving clients' business problems inventively. They defy the old guard print and TV ad agency model by discovering a single strategic idea, suitable across all forms of communication. They will spearhead Rheingold's ongoing creative efforts.

Harrison & Shriftman: Harrison & Shriftman is a publicity, special events and marketing company that builds brands in the fashion, lifestyle, film, publishing and entertainment industries. H&S has created a PR, Marketing and Brand Awareness campaign for Rheingold that will help build "buzz" via Brand Ambassadors and other guerilla activities.

From: Rheingold company materials

Exhibit 9 Competitive Positioning Perceptions

<u>Beer</u>	<u>Place of Origin</u>	<u>Positioning/Image</u>
Budweiser	America	America's Beer/ "King of Beers"
Stella Artois	Belgium	European Heritage/Tradition
Corona	Mexica	"Escape from the Everyday"
Sam Adams	Boston	Quality/"America's World Class Beer"
Heineken	Germany	European product quality/ "Its all about the beer"
Coors	Colorado	Active/Light, clean taste of the Rockies
Rolling Rock	Latrobe, PA	PA's beer
Brooklyn Lager	Brooklyn	Product quality
Saranac	Upstate NY	"Beer of the Adironack Mtns"
New Amsterdam	NY's craft beer	NY's craft beer
Yuengling	Pennsylvania, PA	US Heritage/Tradition, "America's Oldest Brewery"

* No one beer makes the specific claim of being New York's classic, independent beer!

From: Brand Advisors-Brand Revitalization Program presentation 7/10/02



BACKYARD

BEER BACKYARD COMPANY

PHOTO ALBUM | JOIN OUR E-LIST | PICKS ARCHIVE

If you call yourself a New Yorker, then you should know what's going on in your own backyard. There is so much talent out there worthy of attention. We at Rheingold pick the best of the NYC music scene to help you navigate your weekly musical calendar. Marisa from 'Sup Magazine here in NYC is here to BE YOUR GUIDE.

RHEINGOLD PICKS



 featured this week

WHERE
..

Iridium Jazz Club
1650 Broadway
212-582-2121

FEATURED PICKS



[PRIVACY & TERMS](#) | [WHERE TO GET RHEINGOLD](#) | [DRINK RESPONSIBLY](#) | [EMAIL US](#)

© 2003 THE RHEINGOLD BREWING CO., NEW YORK, NY

Exhibit 11 Miss Rheingold billboards



Exhibit 12 Alpha Bars

1. Ace Bar (Lower East Side)
2. CBGB (Bowery)
3. Hi-Fi (Lower East Side)
4. Knitting Factory (TriBeCa)
5. Lakeside Lounge (Lower East Side)
6. Living Room (Lower East Side)
7. Luna Lounge (Lower East Side)
8. Lit (Lower East Side)
9. Luxx (Williamsburg, Brooklyn)
10. Motor City (Lower East Side)
11. NorthSix (Williamsburg, Brooklyn)
12. Red & Black (Williamsburg, Brooklyn)
13. Southpaw (Williamsburg, Brooklyn)
14. Tonic (Lower East Side)

From: Rheingold internal marketing materials

Exhibit 13 Rheingold Bottle and Can



Exhibit 14 Strategic Rollout

Phase	Expansion Plan	Timeframe	Activities
Phase 1	Test marketing in LES, East Village, Williamsburg, Bell Boulevard. Create “buzz” and capture 5% beer consumption in these markets.	Fall 02 – Spring 03	Create “buzz” about product with trend influencers. Promotional introduction –
Phase 2	Greater Manhattan, Brooklyn, Hoboken, NJ	Spring 03 – Spring 04	Miss Rheingold contest, new Rheingold jingle.
Phase 3	Tri-state expansion with goal of 2% of this market	Spring 04 – Spring 06	Traditional media
Phase 4	Northeast corridor expansion	Spring 06+	TBD
Phase 5	Domestic expansion in major cities including Seattle, Portland, Austin, TX.	Spring 06+	TBD
Phase 6	International expansion	Spring 06+	TBD