

Venture Capital Investing in the Craft Brewery Industry - A Simulation Game

Version 1.0, Oct 26, 2022

Who you are

You are a partner at a venture capital firm that invests in the fast-growing craft brewery industry. Almost by definition of the industry, though, no single craft brewer is likely to achieve a substantial share of the market for craft beer, though a larger corporate brewer could buy that brewery and extend its market size. In this game you will get money from wealthy investors for your VC firm to establish your fund. Then you will invest in the Series A rounds of craft brewery companies you find promising. These investments will help these firms grow (or not). Outcomes of the ventures will vary substantially, with some going bankrupt, others growing only modestly, and a tiny few who achieve terminal values of \$1 billion or more. When it's time to "slice the pie" you'll pay yourself a management fee, return the full value of money your investors provided to you, and then pay them 80% of the remaining profits. You keep your management fee and the 20% of profits you generated. The VC firms that have the greatest returns on investments for themselves and their investors win.

The Craft Brewery Industry

Overall U.S. beer volume sales were up 1% in 2021, while craft brewer volume sales grew 8%, raising small and independent brewers' share of the U.S. beer market by volume to 13.1%.¹

Retail dollar sales of craft increased 21%, to \$26.8 billion, and now account for just under 27% of the \$100 billion U.S. beer market (previously \$94 billion). The primary reason for the larger dollar sales increase was the shift back in beer volume to bars and restaurants from packaged sales.²

Investing Activity in Craft Brewery Companies

Crunchbase reports that there are 130 organizations that have reported receiving seed funding in the craft beer industry (Industry Groups Food and Beverage). One hundred and twelve (112) of these organizations are for-profit companies. The number of founders associated with this industry at these companies at this particular stage is 219.³ These companies combined have raised \$80.6M over 180 rounds from 72 investors, out of whom 22 have served as lead investors. The deal flow represents an average of \$447,000 per seed round (but you know that most investing and startup results are distributed under a power law rather than a bell curve).

¹ <https://www.brewersassociation.org/statistics-and-data/national-beer-stats/>

² <https://www.brewersassociation.org/statistics-and-data/national-beer-stats/>

³ List of Top Craft Brewing Companies with Seed Funding, 2022, October 26. Crunchbase.com. <https://www.crunchbase.com/hub/craft-beer-companies-seed-funding>, accessed October 26, 2022

What you need to do

You will establish a venture capital fund to invest in promising craft brewery companies at the Series A stage. You will first need to reach out to wealthy families and institutional investors who need your type of investments to sustain their wealth. There is a range of values of investments each source will want to make; there are no limits on how large your fund can be except those posed by competition between VC funds for rich people.

Once you have established your investment fund (includes naming it and stating how much money you have raised), you will begin evaluating different companies to invest in for your portfolio over the course of a Series A round. You will invest in the companies you believe are the most promising ventures for explosive growth in the craft brewery industry. You do not have to invest all your money, but it counts to be fast AND correct about the future. AND you need to preserve some of the money you are entrusted with by your investors to pay yourself your 2% annual carry fee. If you can't pay your annual "carry" then your firm will not be able to operate.

During the first part of the Series A round of investing you will need to choose which companies you will be LEAD INVESTOR in and how much you will invest. (The first VC firm to express interest in investing in a particular company is the LEAD INVESTOR). You are expected to invest at least 50% of the money the company is seeking in its Series A round. If you are the second VC firm to try to invest in a company, you can invest in the entire remaining stake (50%) or no less than 25%. A THIRD VC firm that wants to invest in a particular firm may be all of the remaining 25%.

IF you are the LEAD INVESTOR and no other VC firm wants to follow you in investing in a particular company, then your firm must invest the entire amount. If you are the second investor and no other VC firm wants to follow you as a third, you must buy the remaining 50% of the offering. You can wait and try to be the third investor in a round if you think there will be two earlier investors AND there is still a chance to invest money in the company.

After your VC firm has invested the amount of funds the companies will grow (hopefully) based on the cash you provided them based on your expert judgment.

Ending the game

Many, but not all, of the firms in the craft brewery industry achieved a liquidation event (IPO or acquisition). The value of the companies at the end of the liquidation or not is what you need to use to figure out how much money your investments returned. Figure out how much your investments in those portfolio firms are worth, pay yourself your 2% carry for the period of management. Return the entire amount of money you received from your investors. Then pay yourself 20% of the remaining money (i.e., your profits from your investments). How much money did you make in your VC firm? How much money did you make for your investors?

Worksheet for VC Firms

Your VC Firm's Name: (type in...)

Your VC Firm's Team Members: (type in...)

List of Wealthy Investors to Finance your Fund

- Alcohol Money-makers (“**A**”), \$50M to invest
- Jeff Bezos Institutional Fund (“**B**”): \$100M to invest. Does not want to invest less than \$20M in any single VC fund
- Capital Potable Company (“**C**”): \$50M
- Double Hoppy Management (“**D**”): \$100M
- Everdrunk Capital (“**E**”): \$200M to invest

Refer to the wealthy investor in the google form by its capital letter. **Place your orders by telling the BROKER (Professor Armstrong) how much you will raise and for whom; the BROKER will record those positions on the whiteboard.** Hint: You might want to look at the potential investment opportunities before creating your fund.

Evaluate and Invest in Series A Rounds

Use [this google form](#) to bid on an investment of a stated amount in a particular brewery company. All orders and bids will be publicly viewable on the screen in the classroom. If you're the LEAD INVESTOR, you're expected to invest at least half of the requested amount. If no other VC firms join you, then you must buy the remaining amount of the offering. If you're waiting to be second, you'll need someone else to be the first (LEAD) investor.

[Here is the list of potential investments](#)

Here's a summary of what happens

1. Form into student teams to create VC firms (2-4+) and give your VC firm a name
2. Determine how much money your VC firm will manage and seek it from the wealthy investors listed above - move fast since other teams are trying to get their money also.
3. Look at the firms in the potential investments link above. Determine which firms you will invest in.
4. Use the google form to bid on your investments
5. Invest as much money as you see fit
6. After bidding is completed, Harvest the investments
7. Figure out how much your VC fund is worth now that the companies have grown (or not)
8. Pay yourselves 2% of the money you managed as carry
9. Give your investors back all of the money they gave you.
10. Then give your investors 80% of the profits you earned. How much did you earn?