

Penn Brewery

Should an entrepreneur buy back the brewery that he launched nearly a quarter-century before?

Tom Pastorius and his wife Mary Beth started Penn Brewery, an authentic German microbrewery in Pittsburgh, Pennsylvania, in 1986. They built the brewery into a successful business, producing more than 15,000 barrels a year and generating annual sales of \$3.5 million. Along the way, their microbrewery won 14 medals at the Great American Beer Festival and built a base of devoted customers for its brands, which included Penn Pilsner, Penn Oktoberfest, and others. They also added a German-themed restaurant that Mary Beth managed. In 2003, Tom and Mary Beth, both approaching 60, decided to cash out and sold the brewery to Birchmere Capital, a local private equity firm. Tom retained 20 percent ownership and agreed to stay on as president of the company for 5 years. He had lived up to his contract but was miserable working for the new owners, who made many significant changes to the company's strategy. "I am not a good employee," says Tom. "I'm a solo act."

Not only did Birchmere Capital close the brewery's restaurant, but it also decided to outsource production of beer to the Lion Brewery in nearby Wilkes-Barre and close Penn's brewing operation. The moves proved to be disastrous; once-devoted customers departed, and sales tumbled. "It was so hard to sit back and watch this place sink," says Tom, who was becoming bored with retirement. Then Birchmere offered to sell the brewery back to Pastorius for a fraction of what they had paid him for it a few years before. Tom was ready to buy the brewery back and restore it to its former grandeur, but convincing Mary Beth would take some doing. She had been instrumental in its success but told Tom that she had no intention of going back to it. "It's too risky at our age (now 65)," she says. "We don't have the

luxury of time." Besides, Mary Beth had launched a retirement business of her own, a company that restores historic buildings.

Tom, however, could not get rid of the idea of owning Penn Brewery again. He began working clandestinely on a business plan preparing a risk-benefit analysis. The principal risks he identified included the brewery's \$1 million debt, the tarnished brand name, and the fact that he would be buying back his former business at age 65. However, he was still very energetic and had the experience necessary to turn around the foundering brewery. He was confident that he could restore the luster to the Penn Brewery name by returning beer production to the Victorian-style red brick building in which he had launched the company years before. After weeks of candid discussions, Mary Beth told Tom, "If you want to do it, you are crazy, but keep me out of it."

Questions

1. Should Tom Pastorius buy Penn Brewery? Explain.
2. Tom Pastorius says, "I'm not a good employee." What does he mean? Do you think the same is true of most entrepreneurs?
3. What challenges does selling the businesses they create pose for entrepreneurs?
4. If Pastorius decides to buy the brewery, what steps should he take before closing the deal?

Sources: Based on Cristina Rouvalis, "Case Study: Penn Brewery," *Inc.*, July–August 2010, pp. 71–74; "The Pennsylvania Brewing Company," www.pennbrew.com/data/english/about.htm.