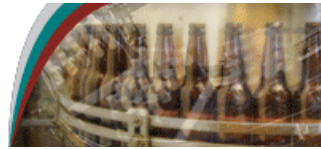




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**August Schell Brewing Co.: Crafting Tradition**

Written by Amanda Baltazar

Wednesday, 07 October 2009 11:17

It's unusual to find a fifth generation company these days, and August Schell Brewing Co. could be on to its sixth generation before we know it.

Ted Marti, president and CEO, heads this New Ulm, Minn., USA-based company and his three sons (ages 26, 25 and 22) are all interested in one day taking the reins from him.

Marti himself began working for the company in 1977, training under the brew master, then took over as president and CEO in 1985, stepping into the shoes his father, Warren, vacated. Marti comes five generations after German-born August Schell established the brewing company in 1860, having realized how hard it was to find good German beer in his new adopted country.

There are advantages that come with being a fifth-generation family company, says Marti, mostly in the trust and relationships that are developed with wholesalers.

"Wholesalers are, by and large, family operations and I think they appreciate that we are a family business, that we're not fly-by-night and are not going away," he explains.

Today, August Schell is known for traditional and craft beers. On the traditional side, it skews toward German-style lagers, in keeping with the brewery's heritage, and on the specialty side, beers range from alts to pilsners, pale ales and weizens. These specialty beers have all (except the Bock) been introduced during Marti's rein.



He introduced them, he says, because the big brewing companies seemed to have all of the advantages, especially in terms of their reach with advertising and marketing.

"All breweries made the same beers—American lagers—and the small brewers started to lose out to the national brands so craft beers became a way for the smaller breweries to compete. It was something we felt we had to do to survive."

But even these specialty products stay pretty close to the company's German roots. The weizen, for example, uses German yeast that is held in a US laboratory specifically for Schell, until the brewery needs it each year. The weizen beer is made annually in May and runs for two or three months since it's a lighter, more refreshing beer, says Marti.

The brewery's best-selling beers overall are its American lagers, which are a lighter version of the traditional German brews, especially the Grain Belt Premium. On the craft side, Firebrick is the favorite, followed by the Octoberfest.

Schell drinkers tend to be aged 25 to 50, mostly men, although the Grain Belt premium does attract a slightly younger audience because it has retro appeal, points out Marti.

And on the craft side, he says he's seeing more women drinking the brews. "I think

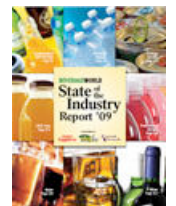
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they're a little more willing to try different products now and the variety has expanded," he says. "[Craft beers] used to be really highly hopped, chewy, meaty beers, which was more beer than most women wanted. But there are lighter ones now."

Since it's based in Minnesota, the state remains August Schell's biggest market, but the brewery also distributes beer in Wisconsin, Iowa, Nebraska and Michigan, and is about to move into Montana and Illinois.

"Our philosophy is to get into a state and work it," explains Marti. "We've always believed in a hands-on approach with people in the field, on- and off-premise, rather than shipping out a load [of beer] and some POP materials. The face-to-face relationship goes a lot further and lasts longer. And as you expand it takes a lot of manpower so we decided to expand slowly and spend more time with our wholesalers."

Add to that, says Marti, that it's more challenging the further a company gets from its home base because it is no longer local, and is competing with other 'local' breweries on its home turf. "You've lost your regional advantage," he explains.

The brewery uses a network of around 60 distributors, a number that can be quite challenging. "But the alternative also presents some challenges," Marti says. "If you go with the consolidated companies, you lose the importance of a smaller distributor, and you lose some importance in the distributor's house."

However, another challenge is that the number of distributors is becoming more and more limited, and sometimes, he says, you have two choices: The Budweiser or the MillerCoors network—although in larger metropolitan areas there tend to be more options.

August Schell Brewing spends a lot of time on its distributor relationships, offering incentive programs that are generally sales based. Marti takes a group of up to 26 people to Munich's Oktoberfest every year, and runs other fun trips like fishing and four-wheeling. "We're a family business and we try to keep the family feeling with our distributors," he says. "We try to operate not on a cold business level, but on a family level."

Like almost every other company, August Schell has been affected by the recession, but mostly in its on-premise business. Overall, says Marti, the company's sales were up 6 percent for the first eight months of this year compared with the same period in 2008.

Marti largely attributes this 6 percent sales increase to the fact that craft beers have not been hit as badly by the economy as other beers since consumers are opting to drink more local beverages, he says. "It seems local products have a more tangible impact on the economy. I think people are thinking 'Where's America left in this?' and because of that, they like the nostalgic brands like us."

And that nostalgia comes naturally to August Schell Brewing, given that it will celebrate its 150th anniversary next year.

"We're a traditional brewer and our brands have evolved as the country has," he says. "Beers have gotten lighter and less hoppy as American tastes have changed and carbonation levels have increased."

Going forward, Marti expects to see annual growth of at least 6 percent, mostly due to higher sales in both on- and off-premise locations in existing markets. "I'll look for the on-premise business to rebound as the economy rebounds, but we'll probably continue to do well in the off-premise business because of our retro appeal," he says.

#### VITAL STATS

##### AUGUST SCHELL BREWING CO.

**PRESIDENT & CEO:** Ted Marti

**HEADQUARTERS:** New Ulm, Minn., USA

**EMPLOYEES:** 47 full-time; 20 part-time

**ANNUAL VOLUME:** 95,000 barrels

**ANNUAL SALES:** Up 6 percent

**GOALS:** To grow and remain a family brewery—that's the driving force of its business.

*From Beverage World October 15, 2009*

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