

**What's Brewing? -
The Rise of Craft Beer and Craft Liquor**

By Linda Buskirk

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Fort Wayne Quest Club

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I do not usually start my Quest papers with a personal note. However, this topic is a bit personal for me. I *suggested* it. And to my great surprise, the Quest Topic Team actually assigned it to me! Over the past many months, I occasionally wondered if they felt I was a natural for it. This is not a thought on which I lingered too long, as there is no point in questioning the wisdom of such a favorable assignment.

I suggested the topic because I am frequently curious about market forces that spring thousands of people and millions of dollars into action, getting millions more people to clamor for products that didn't exist just a few years before. I especially wonder about products emerging from industries that are highly regulated, with heavy taxes promulgated, in markets that seem to be fully saturated with plenty of fine consumer options.

My curiosity was stimulated in a delightful way when my husband Ron and I were driving through Brown County a couple of years ago and stopped at the Brown County Winery to see what was new for the season – and to buy some of their lovely Port. The owners asked if we knew that a distillery had opened just down the road - State Road 46 - in what might be mapped as “greater Gnaw Bone.” Bear Wallow Distillery was its name.

We have stayed in Brown County many times, and we knew that Bear Wallow Road isn't anywhere near State Road 46. However, when we heard that the specialty of the distillery was “moonshine,” we understood the folksy name. Of course, we stopped.

The hillbilly theme is played out in the names of its products: Hoosier Hooch™, Bear Trap Barrel Strength White Whiskey, Gnaw Bone Bourbon, to name a few.¹ But Bear Wallow owners Mike and Susan Spagnuolo, leave the home-spun names out of the description of their overall product line. These are, “Artisanal Distilled Spirits,” “handcrafted in small batches with 100% Indiana grown grains sourced from local farmers.”²

So, it was in the Bear Wallow tasting room, as a crystal clear liquid burned its way down my throat and sent warm fumes through my nostrils, that I wondered, “Is Jack Daniels worried about this?”

As it turns out, Jack may not be “worried,” but major distilleries are closely watching the upstart competition flowing into the marketplace – watching and buying up successful craft distillers, and creating their artisan-like labels. What’s happening in the distilled spirits market is a mirror to what is still evolving in the beer industry. Craft distillers and craft brewers are successfully attracting new fans in a market that cares about authentic craftsmanship and is willing to pay more for it.

My curiosity led me to examine and report to you “what’s Brewing” in the rise of the craft beer and craft liquor. The term “craft” is key.

The Brewers Association, a not-for-profit trade association with its purpose “to promote and protect American craft brewers, their beers and the community of brewing enthusiasts,”³ defines what craft beer is by virtue of who brews it.

“An American craft brewer is small, independent and traditional.

Small: Annual production of 6 million barrels of beer or less (approximately 3 percent of U.S. annual sales).

Independent: Less than 25 percent of the craft brewery is owned or controlled (or equivalent economic interest) by an alcohol industry member that is not itself a craft brewer.

Traditional: A brewer that has a majority of its total beverage alcohol volume in beers whose flavor derives from traditional or innovative brewing ingredients and their fermentation.”⁴

The “hands on production” requirements are important to the idea of being “craft” for both beer and liquor. It’s easy to be fooled.

For instance, take Sam Adams beer, brewed since 1984 by the Boston Beer Company. It is heralded as a leader in starting the craft beer craze. Is it still a craft beer? Yes, it is, by virtue of both volume and the innovative creativity of its beers.

In 2015, Boston Beer Company was the second largest craft beer company in America. Can you guess the top one by volume? It’s a beer that just came to Indiana last month.

According to the Brewers Association, Yuengling, based in Pottsville, Pennsylvania, was ranked as “the largest American craft brewery for the second consecutive year in 2015.”⁵

Yuengling meets the craft definition because of volume and because of its recipe. Yuengling is made from a blend of ingredients, malt barley and corn grits. It is “traditional in every sense of the word,” according Brewers Association economist Bart Watson, adding that, “Yuengling is the oldest family owned brewery in the U.S.”⁶

Neither the Brewers Association nor government provides a “certification” for whether a beer is truly craft. On the liquor side of the aisle, the term craft is also tossed about liberally. “The word ‘craft is unregulated in advertising and labeling. Pretty much any producer can call itself a craft spirit.”⁷

The American Distilling Institute, which claims to be “the voice of craft distilling,” does offer certification for being authentically “craft.” The ADI’s definition is:

“Craft spirits are the products of an independently-owned distillery with maximum annual sales of 52,000 cases where the product is physically distilled and bottled on-site.”⁸

ADI says craft distillers “produce spirits that reflect the vision of their principal distillers using any combination of traditional or innovative techniques including fermenting, distilling, re-distilling, blending, infusing or warehousing.”⁹

The American Distilling Institute’s certification requirement states that “the spirit must have been run through a still by the certified craft producer, and its label, must state, ‘Distilled by’ followed by the name of that producer.”¹⁰ That definition is particularly relevant to the Hoosier state.

... in the new crowd of micro-distillers, it is now standard for the alcohol being sold to come not from their own distinctive stills, but from a hulking factory in Indiana.

Lawrenceburg, Indiana, ...is home to a massive brick complex that cranks out mega-industrial quantities of beverage-grade alcohol. The factory, once a Seagram distillery, has changed hands over the decades and was most recently acquired by food-ingredient corporation MGP. It is now a one-stop shop for marketers who want to bottle their own brands of spirits without having to distill the product themselves. MGP sells them bulk vodka and gin, as well as a large selection of whiskies, including bourbons of varying [recipes](#), wheat whiskey, corn whiskey, and rye. (They also make “food grade industrial alcohol” used in everything from solvents and antiseptics to fungicides.) Their products are well-made, but hardly what one thinks of as artisanal. And yet, much of the whiskey now being sold as

the hand-crafted product of micro-distilleries actually comes from this one Indiana factory.¹¹

Internet food blogger Steve Ury, has listed what he says is a comprehensive list of brands that bottle whiskey from liquor distilled and purchased at one plant in Lawrenceburg.¹² 120 of them at last count! They include this bottle of “Bone Snapper Rye Whiskey,” which Ron bought a couple of years ago when we heard rye whiskey was growing in popularity and I wanted to try it. We assumed this was from a trendy new little distiller. Handwritten on the label, it says this bottle is from “Batch #2.” The label also discloses that this was “bottled by Backbone Bourbon Co., Bardstown, Kentucky,” and it was “distilled in Lawrenceburg, Indiana.”

So, by the American Distilling Institute’s standard, this Bone Snapper Rye is not a craft whiskey.

It is easy to understand why a company like Backbone Bourbon would choose to buy rather than distill. The market is ready to consume NOW, and making one’s own whiskey takes time.

MGP has plenty of aged whiskey ready to go in the bottle right now. An upstart distiller has to buy a still and learn how to use it; then buy all the ingredients and actually ferment and distill them; buy barrels and build or lease warehouses in which to put them; and then sit on the investment for years. Todd Leopold, master distiller at Denver’s Leopold Bros., has managed to do it. But how much easier, he says with disdain, for those who just buy whiskey off the shelf and market it. “All that they do is hire salespeople, make up a BS story, and boom, they look like a distillery,” Leopold says.¹³

For example of an elaborate “BS story,” check out the website for Templeton Rye. There is a tale there about the “daring residents of Templeton, Iowa, who, during prohibition “crafted bootleg rye whiskey.” The story goes on to say that Templeton’s “good stuff” was the preferred drink of Al Capone.¹⁴

“And yet, for all this detail, the official ‘Production Process’ somehow fails to mention that Templeton doesn’t actually do the distilling.”¹⁵ It’s made in Lawrenceburg.

The MGP plant in Lawrenceburg does indeed sell “good stuff” – on their own terms and recipe. Eric Felten, the James Beard Award-winning author of How’s Your Drink? Cocktails, Culture, and the Art of Drinking Well, explains that,

“Originally, the rye that was made there had a particular purpose—as a component to ‘flavoring whiskey’ in the Seagram’s Seven Crown blend. But it turns out that the rye in MGP’s warehouses, when not used for blending, is very good whiskey all on its own—one more reason why the industrial product is behind so much of the ‘craft’ rye revolution.”¹⁶

While the craft spirits definition seems simple, there are other complications.

Take the example of gin—a product commonly made by start-up distillers who are looking to enter the market without aging spirits.

Gin is often made starting with a neutral spirit purchased in bulk from an industrial supplier. It’s then redistilled with hand-selected botanicals to yield the final product. Most in the business agree that the craft behind gin comes in the selection of ingredients and the redistillation techniques. ...Thus, the craft doesn’t involve the actual making of any alcohol.

Further complicating things, several small distillers note that they do both—make gin from bulk-purchased ethanol, but also make their own rum from molasses or whiskey from local grains. Is it a craft distillery or not?¹⁷

Wayne Curtis, a writer for Punch, an on-line magazine about the world of beer, wine, spirits and cocktails, says to clear up the confusion, rather than worrying about definitions, “advocates for craft distilling should focus more on educating consumers about what’s behind the production of their favorite spirits, and push for more transparency among themselves. The more buyers know, the more they can make their own reasoned decisions about what’s ‘local’ or ‘craft.’¹⁸

It seems the moral of this part of the story is, you might be able judge a whiskey by its label – or you might not.

With a *somewhat* better understanding of what is “craft” and what is not, I return to my original wonderments about the rise of craft beer and craft liquor to more prominence. It is time to explore the market forces that spring thousands of people and millions of dollars into action, getting millions more people to clamor for products that didn’t exist a few years ago. As we explore, we will raise a glass to the entrepreneurs who serve this market in an industry that is highly regulated, or, in Indiana’s case, weirdly regulated.

To begin, let’s explore the beer aisle at Meijer or Kroger. It wasn’t so long ago that paying less than \$15 for a case – 24 cans - of Coors Light, Miller or Budweiser was a great deal.

Today in those aisles, shoppers are studying literally hundreds of beer and hard cider options. They are not looking for bargains. They are paying \$6, \$8 or over \$9 for six bottles – sometimes just four cans!. It’s no wonder Meijer has a “Beer Frontier” page on their website, (<http://beerfrontier.meijer.com>), where the brewers in Meijer’s “back yard” – the state of Michigan – are featured, and the complexity of varieties of beers are explained.

If you are ever in Chester, Virginia, you could stop at The Tap House at Kroger Ironbridge. Yes, inside Kroger Store #524, you can enjoy some beers with your friends at a “20 seat bar with 2 TVs, 12 beer taps and 8 wine taps. Pints, flights, Growler fills and kegs available.”¹⁹ Beer on tap is also available in some Kroger stores in Cincinnati and Columbus, Ohio.

The marketplace of beer has evolved. More flavors, more choices, higher prices, and willing buyers.

It is obvious that what is new here is NOT that people like to drink beer. People have been doing that for thousands of years. “Historians speculate that prehistoric nomads may have made beer from grain and water before learning to make bread. ...Noah's provisions included beer on the Ark. In 4300 BC, Babylonian clay tablets detail recipes for beer.”²⁰

What is new here – for both beer and spirits - is the thirst for authenticity, as advanced by the generation of Americans who last year surpassed Baby Boomers as the nation’s largest living generation: Millennials.²¹

Suhas Sreedhar, of GT Nexus, a cloud-based global supply chain management platform, asserts that to understand retail markets today, one must understand millennials. GT Nexus and YouGov, a market research firm, conducted a study in 2016 to try to learn more about the brand loyalty decisions of millennials. The study found that “67% of 18-34 year olds changed brands in the last year but surprisingly, major factors in disloyalty occur behind the scenes in operations and supply chain. ... US millennials care about how their favorite brands are made. Thirty-two percent of respondents would turn on a brand if it doesn’t treat or pay its workers

fairly. Twenty-seven percent would switch brands if the product isn't environmentally friendly.²²

Sreedhar says the study found that having “a social media presence, mobile apps, and cool website” are not at the core of what millennials care about in the brands they purchase.

*The big takeaway for retailers is that in reaching millennial customers, consumer-facing technology isn't the ends, it's just the means. A generation raised with the ubiquity of information ... expects their brands to also respect the fact that information is widely available, and that shoppers will use that information to judge, punish and reward brands. Authenticity, therefore, becomes paramount.*²³

Sreedhar's conclusion makes one wonder how quickly the folksy tale from Templeton, Iowa, could backfire.

According to Punch magazine, in a recent Nielsen survey, Gen-Xers and Millennials listed “craft” and “local” among the reasons they choose the liquors they do. “In short, they're looking for ...smaller brands made by actual people using old-school methods.”²⁴

Authenticity. Locally sourced. In your neighborhood. These align with the very heart of craft brewing and craft distilling, as proclaimed loudly by Brewers of Indiana Guild and the national Brewers Guild. Author and chief economist for the Brewers Guild, Bart Watson, explains why “buying local” matters to the local economy where it is brewed and sold:

Money from the beer value chain is made up of producer-distributor-retailer (and taxes). Where that money goes varies by retail channel, product, etc., but on average, roughly one-third ends up with the producer. When that producer is local, that means the money goes to local workers, investments, businesses,

taxes, and more. When that producer isn't, you still get the value from the other portions, but you simply lose that 1/3 that would have gone to the producer.”²⁵

Independent craft brewers almost demonize the “massive conglomerates” of the beer industry. Consumers beware, the craft brewers warn. As the giant beer makers buy up the smaller brands, consumers won't have the choices they have now to enjoy.²⁶

There are other reasons why “buying local” matters, according to the craft brewers. One is that favored millennial value: community.

According to the Brewers of Indiana Guild, nearly 2/3 of Hoosier Breweries are brewpubs, which function as full-service restaurants. “These are places where, in addition to beer direct from the source, you can enjoy local food, artwork, music, events, and much more.”²⁷

Looking for some local community and craft beer? In Indiana, there's an app for that! It's free in the App Store or Google Play – search for “drinkINbeer.” Let the app know your location, and you will find what you are looking for.

The closest to us now (at Fort Wayne Country Club), is Junk Ditch Brewing Company at 1825 W. Main Street. According to its website:

Affine Hospitality – the team behind Affine Food Truck and GK Baked Goods – brings craft beer and creative food to the west end of Main Street. Located in the old Korte Paper Company warehouse, Junk Ditch Brewing Company delivers a casual, but refined experience using ingredients from the backyard and farther. With an “everything from scratch” philosophy and a passion for hospitality, Andrew Smith, Dan Campbell and Jack May invite you to experience Junk Ditch Brewing Company.²⁸

Other Fort Wayne brewpubs that are locally owned and operated are Mad Anthony Brewing Company, Trubble Brewing, Chapman's Brewing Company's Fort Wayne Taproom, Summit City Brewwerks, and Birdboy Brewing Company. The app lists 21 brewpubs in northern Indiana. The list does not include national chains that brew their own beer on site, such as BJ's Restaurant and Brew House and Granite City Food and Brewery. But Visit Fort Wayne and other tourist sites do promote chain that brew beer on site.

According to the Brewers Association, as of last year, there were 1,916 brewpubs in the U.S., and 3,132 microbreweries.²⁹

Indiana ranks 15th in the number of craft breweries, at 115. In 2014, Indiana's craft breweries yielded just over \$1 billion in economic impact, a figure that the Brewers Association "derived from the total impact of beer brewed by craft brewers as it moves through the three-tier system (breweries, wholesalers and retailers), as well as all non-beer products like food and merchandise that brewpub restaurants and brewery taprooms sell."³⁰

Brewer Association economist Bart Watson, noting that breweries have been opening at the rate of two per day in the U.S. for the last few years, insists this is not an economic bubble:

...growth in the market, both in sales and the corresponding number of breweries, has recently been built on solid fundamentals: increasing demand that can be seen in rising sales. That doesn't mean that growth will last forever, and all signs point to a future with slower growth in demand. A slowdown isn't a bubble bursting and what we won't see is a cratering number of breweries.

Hopefully, the 2,000+ breweries in planning will pay attention to history and are realistic about the challenge of opening in a crowded market.³¹

Just like craft beer, craft liquor is riding on a growing wave of popularity. Of course, craft distilling on this continent pre-dates the United States of America. “British colonists drank lots of rum imported from the Caribbean throughout the 1600’s, ...it didn’t take long before they started making it themselves from sourced molasses and cane sugar.”³²

*George Washington was a talented home distiller who made a lot of money making rye whisky, and even though he added the first excise tax on American-made whiskey, he at least allowed citizens to make it at home. But since Prohibition of 1920, making hooch at home has been forbidden.*³³

Craft distilling, as a business, is legal, and a growing industry. According to MarketWatch, in 2003, there were 60 craft distillers operating in the United States. As of 2016, that total was 760.

*As with craft beer, the craft spirits category is ascending swiftly. The American Distilling Institute estimates current growth at around 30 percent. Its market share has doubled in the past two years, and analysts at the ADI believe that it could hit 8 percent by 2020, coming close to recent share levels achieved by craft beer.*³⁴

While the overall market share is growing for craft spirits, there are a couple of challenges facing their distillers. For one thing, the giant companies often gobble up small producers who are growing. The craft distillers go away richer, perhaps, but they do go away.

For the ones who stay, a major challenge is taxes. Taxes are a cost factor for producers and distributors of any form of beverage alcohol, but “distilled spirits are one of the most heavily taxed consumer products in the United States,” according to the Distilled Spirits Council.³⁵

Significant tax breaks have been given to craft beer and wine producers. Craft distillers want Congress to give them a break too.

The non-profit trade association representing the U.S. craft spirits industry, the American Craft Spirits Association, is working hard on this issue. In 2015, then-Congressman Todd Young, Republican from Indiana, joined with Kentucky Democrat Congressman John Yarmuth to introduce the Distillery Fairness and Tax Reform Act. The bill would reduce the Federal Excise Tax Rate on the first 100,000 proof gallons of spirits from \$13.50 per proof gallon to \$2.70. The bill also reduced the federal tax for all production over 100,000 proof gallons to \$9.00 per proof gallon.³⁶

(“Proof gallon” is the tax measurement used by the federal Alcohol and Tobacco Tax and Trade Bureau, or TTB, which defines it this way: “A proof gallon is one liquid gallon of spirits that is 50% alcohol at 60 degrees Fahrenheit. Distilled Spirits bottled at 80 proof (40% alcohol) would be 0.8 proof gallons per gallon of liquid.”³⁷)

The valiant effort in the House failed, but is still alive in both the House and the Senate, with the same tax breaks proposed in the Craft Beverage Modernization and Tax Reform Act. The craft distilling industry is working to keep the tax breaks something a bipartisan majority will imbibe.

Back home in Indiana, craft distillers are also working to change state law to bring them to parity with beer and wine makers – but the subject here is about sales.

It was just 4 years ago, in 2013, that Indiana granted the ability for craft distillers to sell directly to the public. Ted Huber of Huber's Orchard and Winery in southern Indiana, was a

leader in advocating for changes in state law. His family's company had been making wine for more than 100 years, and he started his Starlight Distillery in 2001.³⁸

Any Hoosier enterprise with a federal distilling permit can sell products wholesale to a distributor. What Huber helped spearhead was legislation that created the Indiana Artisan Distiller's Permit, which allowed Hoosier distillers to sell directly to consumers.

"Stringent limitation" strings were tied to the new permit. Applicants had to have possessed a federal distilling permit before the end of 2012. They had only a short, six-month window in 2013 to file for an Artisan Distiller's Permit, and "applicants had to be a winery, brewery, or distillery for three years prior to be able to sell directly to the consumer."

Six craft distilleries were grandfathered into legality, including Huber's Starlight Distillery, and Bear Wallow in Brown County. So was Hotel Tango Artisan Distillery in Indianapolis, whose President, Travis Barnes, appreciates that the permit does lead to direct sales so we can, "See where the product is made, meet the guy who distilled it, and then try it in a cocktail."³⁹

Indiana's artisan distillers are working to get the three year window reduced. Among them are Fort Wayne's very own – and only – craft distiller: Three Rivers Distilling Company.

Three Rivers is distilling a full line of products through their shiny stills at 224 E. Wallace Street, on the south edge of downtown. They include: Harvester Vodka, Summit City Gin, Three Rivers Early Bourbon, River City Rum, and soon, a coffee liqueur. You are welcome to come in and visit, but you cannot taste, because Three Rivers is still in its "three year waiting period" for an Artisan Permit. Their spirits are available for purchase at many local liquor stores and restaurants, including the Fort Wayne County Club!

In fact, Three Rivers will provide a tasting just for Quest Club at our Spring Party. The law lets the company come here to serve a tasting, and their products are available at the bar because the Country Club purchased them from a distributor.

Three Rivers Distilling Company owners are preparing for the day when they can sell directly to us at their distillery. They recently broke ground on a tasting room on E. Wallace. These entrepreneurs are risk-takers, as they broke ground not knowing the fate of legislation that would allow them to operate a tasting room this year.

Let us toast their risk-taking spirit, as just last week, House Bill 1496 was approved by both the Indiana House and Senate by solid margins. It shortens the waiting period for an artisan distiller's permit from three years to 18 months for an applicant this is a farm winery, brewery or distiller. Now all Three Rivers Distillery is waiting for is the governor's signature, but their plan is to open the tasting room August 1."⁴⁰

Three Rivers' vision for its tasting room echoes the dreams and realities of craft distillers around the country. More than just a place to taste and sell, they want it to be a tourist destination, according to Marketing Director Aaron Pence:

*We hope that we will become one of the premier craft cocktail places in Indiana. We want people to experience the art and science that goes into distilling. We will have entertainment options throughout the year. We actually just received approval as the first legal outdoor bar in Fort Wayne, which took a ton of work with the Department of Health. We will also be offering an executive locker program that will include first release bottles, space rentals, private dinner parties, and more.*⁴¹

"The science of smooth," is an important part of the brand identity of Three Rivers Distilling Company. Unlike Bear Wallow's folksy moonshine theme, Three Rivers owners are

aiming for more sophistication and palate appreciation for the quality that they pour into each stage of the process: choosing ingredients, the conservative cuts during distillation, and the filtering process. Aaron Pence details it this way:

Major distilleries don't necessarily know where their grain comes from when they are making their mashes. We know the farm, farmer, and that the fields are certified organic. ...Next, we take extremely conservative cuts in our process. For example, in Harvester Vodka, only about 23% of all alcohol produced during fermentation ever actually makes it to the bottle. We ensure the purest ethyl alcohol is being used. ...Finally, the filtering process is very important. With our Harvester Vodka, we filter it four times throughout the process. That can be time consuming and costly for larger distilleries, but we invest that time because it produces a better product.⁴²

The extra attention is paying off. As you may have heard on the news, Three Rivers Distilling has won some national awards. Harvester Vodka was awarded a bronze medal at the American Craft Spirits Association competition in February, where nearly 600 spirits were entered. Just this month (April, 2017), the American Distilling Institute awarded bronze medals to both Harvester Vodka and Summit City Gin. That contest had 680 spirit entries throughout the categories.⁴³

Three Rivers Distilling Co-Founder and CEO, Stephen Blevins stated, "It is an honor to have been recognized by these amazing industry professionals. Our hard work and dedication in this first year has shined in these spirits. It is humbling to see our team awarded so early on in our career. We will continue to strive for excellence in spirit production right here in downtown Fort Wayne."⁴⁴

And now, a toast:

Here's to millennials driving us to think

It's best to buy local for good food and drink.

Here's to millennial entrepreneurs

investing in libations that are authentically pure.

Here's to farmers supplying ingredients organic

for distilling and brewing on this side of the Atlantic.

To all artisans crafting new spirits and beers,

Let's raise our glass with a thankful, "Cheers!"

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By Linda Buskirk

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