

BLACKWATER

Chris and Jon Cook Distill the Nuances of Entrepreneurship By Eric Tegler

A tour of Blackwater Distilling in Stevensville on Kent Island yields two important insights into the process of distilling spirits. The first is that when distilling vodka, rum, or rye whiskey as they do at Blackwater, one of the most vital ingredients is... accounting. "I personally fill out processing, production and storage forms for the Federal authorities once a month," co-founder Chris Cook relates. "We have excise tax forms that go out twice a month. We also have state excise tax forms to send out."

Every bottle of Blackwater's award-winning Sloop Betty vodka is subject to \$2.14 in excise tax. Thus, when the distillery ships a 720-bottle pallet, about \$1500 in excise tax goes out with it, before a penny of revenue is realized.

The second insight is that the penultimate step in the distilling process prior to bottling involves sending Blackwater's wheat/sugar cane-based vodka or rum through a series of carbon filters. The resulting 80-proof blend emerges black from the carbon dust – you could call it "black water."

Once the carbon settles, the clear spirits we're familiar with are bottled. But as Blackwater co-founders and brothers, Chris and Jon Cook have learned, the dust that comes with entrepreneurship never really settles. "It's a labor of love though that can become cyclical," Jon acknowledges. "Every small business has times that are easier than others. It's funny how you can experience those simultaneously. We're in a difficult period now for a lot of reasons, but it's also a very rewarding period."

The difficulty Jon alludes to stems from growth. In early April, Blackwater released its new Picaroon Rum. Its rye whiskey will debut in late 2015. The distillery—which is open for tours Friday through Sunday—

now has a steady flow of visitors eager to see how Sloop Betty is made and to get a taste.

The Cooks admit they're still assessing the best way to deal with increased volume and sales. But they anticipate moving or expanding their current production space, hiring additional staff beyond the mix of full and part time help they currently employ, and expanding their tour hours by 2016.

Blackwater began production in 2011, but its origins reach back to 2004—a reminder that despite the feverish pace of start-ups in the tech sector, entrepreneurial ventures often have a long on-ramp. Chris and Jon Cook appreciate the contrast. In 2004, Chris was (and still is) working in IT for the Federal Energy Regulatory Commission (FERC). Jon worked at a small IT firm in Annapolis and moonlighted at the State Archives on the weekends.

There, Jon stumbled across a recently donated collection of bottles of spirits produced in Maryland. "It was clear there were such a variety of spirit products that used to be available here." I immediately thought, "We have this environment with beer and wine, why don't we have it with spirits?"

The brothers had often discussed going into business together, compelled by the notion of producing a tangible product. "The allure of making something with our hands was attractive," Chris explains. "There's something nice about stepping away from the virtual confines of IT and making something historic."

A self-described history buff, older brother Chris confesses to looking at the world in a historical context. "For me, imagining a time when there were lots of mom and pop distilleries making rye whiskey throughout the Maryland countryside is romantic."

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Would reviving that tradition through a micro-distillery work? Chris and Jon tried to find a fatal flaw in the idea. “We still haven’t found it,” Jon says before bursting into laughter. The pair incorporated in 2005, at which point there were 45 craft distilleries nationwide. Their first significant lesson came with writing their business plan, a highly detailed 250 page document.

“We overdid it,” Jon admits. Nevertheless, both consider it essential in reaching Blackwater’s current plateau, laying out the company’s basic internal logic, and appealing to banks and investors. It turns out *not* to have been a step-by-step guide to launching the firm. However in crafting the plan, they heard the voices of those who said they would never succeed—familiar voices to anyone contemplating a business. “I think we had to satisfy that question ourselves,” Chris opines. “The naysayers had some valid points, but that was also motivation. I think we take great delight in proving some of them wrong.”

For the Cooks, proving the doubters wrong required overcoming more than the standard start-up challenges of raising capital, building a structure/process, and selling. They had to reignite the state’s regulatory framework.

Prior to Blackwater’s 2011 opening, the last Maryland distillery closed in 1972—in a state whose distilling industry had once been the nation’s fifth largest, producing millions of gallons of gin, vodka, and whiskey. Maryland Rye became renowned in the Colonial period, remaining popular through Prohibition up to World War II.

When Chris and Jon contacted the State Comptroller’s Office, there was just one official with any experience of distilling regulation, a gentleman named Lou Berman. They had already embarked on getting a federal license, a required first step whose months-long bureaucratic delay required patience. Cleverly, they used the federal application to spur the State.

“We told the State that we were pretty far along in the process, even if that wasn’t entirely accurate,” Chris reveals. We explained, “We want to play some catch up with you guys and get our state license.”



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Blackwater was stepping into a sort of regulatory blank space, daunting but ultimately advantageous. The Cooks realized they’d be able to establish new boundaries. State officials often didn’t have an answer for questions they asked, so instead the Cook brothers would tell State officials what Blackwater wanted to do. The Comptroller’s Office always reacted positively—it was partial compensation for the required \$2500 in yearly permits just to get started. But even here, they were lucky—compliance cost even more elsewhere. At the time, New York charged \$25,000 for a tri-annual permit.

The most visible product of Chris and Jon’s efforts is a 2012 bill (HB 717) which allows craft distilleries to conduct tours, offer tastings, and sell up to three bottles per person on-premises. Previously, such permits were only available to wineries and breweries. This pioneering legislation is key to Blackwater’s success and surely

appreciated by the other four craft distilleries since established in Maryland.

While proving effective lobbyists, Jon and Chris sought input to help them craft their brand. Pouring through hundreds of ideas for the business and product names, they fell back on the advice of a couple of young marketers, Lindsey Wasley and Ahava Liebttag, who tied together family and regional history to arrive at Blackwater and Sloop Betty.

Blackwater alludes to the Blackwater Wildlife Refuge south of Cambridge, where the Cooks spent time growing up and which was a haven for rum-runners during Prohibition. *Sloop Betty* is a nod to a cargo ship which plied the Chesapeake in the 1700s. In 1717, the pirate Blackbeard caught wind of *Betty*’s cargo of Madeira wine and dispatched a crew to seize it. They did so, summarily drinking the cargo and scuttling the ship in the process. “I still

think he should've seen it coming!" Jon quips.

The Vargas-like artwork of "Betty," which adorns every bottle, was inspired by the Cooks' grandfather—a larger-than-life WWII pilot who flew C-47 glider-towing transports on D-Day, was shot down three times, and later flew experimental aircraft like the P-61 Black Widow night fighter. Betty would be at home as "nose art" on any of these aircraft.

The personal and historical elements that comprise the Blackwater and Sloop Betty brands were literally drawn out of the company founders by others—proving the maxim that effective entrepreneurs are open to outside advice and rely on the strengths of those around them. Chris and Jon agree. "We're only as smart as everybody in the room," Chris affirms.

It's a room that keeps getting bigger. There will soon be another distillery on Kent Island. Its principal chose to locate there specifically to be near Blackwater, to leverage the accommodating climate which the Cooks' work has created in Queen Anne's County, and to informally tap their expertise.

The makers of Sloop Betty have acquired a certain celebrity as a result of their efforts. Other entrepreneurs take the Blackwater tour and ask questions. The Cooks have 'fans' among the staff of the legislators they've worked with, and a dedicated, growing group of craft-distillery nerds similar to the craft beer crowd proselytizes about Sloop Betty and others.

Chris and Jon are flattered and, tellingly, not threatened by competition. "We're competing," Jon acknowledges, "we're just competing together. Our first competition is to get out there and inform people that this segment exists."

Like any successful startup, Blackwater exists because of its founders' tenacity. Chris and Jon secured initial financing for the capital-intensive business by borrowing against their homes. Though they still have full-time day gigs, both recognized at that moment that they were metaphorically, "taking the island and burning the boats."

Why did they persist? "Fear of failure," Chris deadpans. "Some of it is stubbornness at this point," Jon adds.

The lessons of their experience are many and unexpected, from learning to manage Blackwater's "glass burn" (the quantity of bottles it uses) to figuring out how to buy a forklift. "I knew how to buy a car but Good Lord, how do I buy a forklift?" Jon muses. The brothers also learned that exhaustion was effectively relieved by unwinding in specific ways.

For Chris it takes the form of acting as Cub Scout Pack leader for his kids, demanding of himself involvement in their lives along with his wife. "This Blackwater thing gets in the way sometimes," he admits. Jon's outlet is the meditative pastime of running. "If I can't do it, I'm out of sorts."

As BizPeake's first issue coincides with the Fourth of July, we asked Chris and Jon what role the idea of independence plays in their drive as business owners. Each says it is at the core. "The world has changed," Chris observes. "Entrepreneurship and small business is the backbone of our economy. If you're going to succeed in life, I think you have to embrace that on some level."

"We could still fall flat on our faces," Jon allows. "We walk a tightrope without a safety net. If it's over tomorrow, it was still a fun ride. I think it speaks to a psychological need to do something like this."

It's a sentiment worth drinking to. ■



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Eric Tegler is a multifaceted freelance author from Severna Park, Md. His work appears in a variety of international publications on subjects ranging from political and governmental affairs to the military, motorsports, business, aviation and automotive reviews, and lifestyle. He is a regular contributor to The Verge, Autoweek, Aviation Week & Space Technology, Popular Mechanics, Wired and The Economist. He also hosts "Jazz Straight Ahead" on Morgan State University radio, WEAA, 88.9 FM and appears on-stage and as a voice-over performer.

ABOUT **BLACKWATER** DISTILLING

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At Blackwater Distilling, Maryland's first fully-licensed beverage alcohol distillery since 1972, we celebrate the brash, enterprising, and fiercely independent spirit by crafting distinctive spirits that stand apart from the crowd, using organic and local ingredients to the extent possible. Our first product is *Sloop Betty Vodka*, which blends spirits from organic wheat and sugar cane for a dangerously smooth and complex vodka. Sloop Betty has won three Gold Medals, including *Best Vodka in Show* at the 2012 New York World Wine & Spirits Competition, and a *94-point rating* in The Tasting Panel Magazine. For Sloop Betty's counterpart, Sloop Betty Honey, we blend raw, unpasteurized honey from Maryland's Eastern Shore with Sloop Betty to create a sippable vodka that can be enjoyed on the rocks or used to sweeten cocktails. We're also nearing the release of Picaroon Maryland Rum, which we distill from pure sugar cane juice for a rum that stands apart from other, blackstrap molasses-based rums.



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