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Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum, and this is *On Principle*. In north-central Kentucky, the cities of Louisville and Lexington—and the wee little community of Bardstown—form the three points of a triangle that encompasses the Bourbon Trail. It's a unique American destination and something of a mecca for aficionados of Kentucky bourbon. It's also where today's guest co-founded an upstart distillery among neighbors that trace their roots back 10 generations. See, my guest identified a new opportunity in the bourbon market, but exploiting that opportunity created a nearly insurmountable clash between the history and tradition of a centuries-old institution and 21st-century ideas about technology and customer service. The question is how do you distill these issues into a golden glass of whiskey?

David Mandell: I'm David Mandell. I am the co-founder of Bardstown Bourbon Company. I'm currently president of Kentucky Owl Real Estate Company, building the new distillery in Bardstown, Kentucky, for the Stoli Group. And I'm a resident of Bardstown, Kentucky, and father of three. Bardstown is a very interesting place. First of all, it's most well-known as the bourbon capital of the world. It also happens to sit right at the heart of the Bourbon Trail, which is essentially a tourist destination experience that runs from Louisville to Bardstown to Lexington and back. It's almost like a triangle where people can come in and are coming from all over the country and the world to tour the Kentucky distilleries and participate in bourbon tourism.

Kurt Greenbaum: And you graduated from WashU. What can you tell us when and what your degree was in?

David Mandell: I did. I graduated in 1996, was a history major and an English minor. But it didn't start out that way.

Kurt Greenbaum: No, it didn't start out that way. David started his college career as a pre-med student until, as he tells the story, Calculus 1 persuaded him to make other career plans. He spent a year in the UK at Oxford, finished school, and decided to get his law degree close to home at Temple University in Philadelphia. And among the highlights of his legal career? Well, remember the ballot recounts in Florida following the presidential election in 2000? David was there. Not long after that, he took a role as special counsel to Marion Blakey when she chaired the National Transportation Safety Board. By 2002, the president appointed Blakey to be the 15th administrator of the FAA and named David as her chief of staff. So how does a guy who is a senior official in a federal agency end up deciding to found a spirits company?

David Mandell: We were out meeting with Elon Musk, who had the Falcon 9 rocket at our hangar in West Hollywood, because, of course, FAA regulates suborbital flight. And we finished for the day and Dan and I met up that evening and we were drinking Red Bull and vodka at the Skybar at the Mondrian. And we said, you know, what are we doing? You know, we're mixing caffeine and alcohol. Why can't we just make caffeinated alcohol? And we kind of both look at each other and said it's a great idea. Went back, you know, worked on it nights and weekends, a little bit here, a little bit there. And after two years, we put it all together. I left FAA. We all moved into a two-bedroom apartment, the Lower East Side of New York. Dan, myself, a woman who was my right hand at the FAA at the time, Garnett Black, her and her husband, they moved to New York and we started the company out of a two-bedroom apartment on the Lower East Side.

Kurt Greenbaum: Which company is this now?

David Mandell: Pink Vodka. This is the first caffeinated spirit. It was an 80-proof Dutch vodka with a flavorless caffeine and guarana formula. It was an absolute remarkable experience. We did a lot right. We did a lot wrong. But we learned the branded spirits business, the startup experience, and what it takes and the challenges of it. And I'd love to tell you, Kurt, that it was you know, it was an overwhelming success. It was not. One of the big mistakes we made is we we went too big, too fast. You know, that's what a lot of people that get into the spirits business do. You think it's an easy business. It's an extremely challenging business. You know, on a more basic level, some of the things that I really took away from that not only applied to other areas was, you know, kind of one, the concept from that of doing fewer things really well, right? Like, make sure you're really focusing.

That's a principle that we'll talk about that we apply to Bardstown, that kind of focus. Also the concept of customer service. One of the things that I really enjoyed was being confronted with challenges. You know, you think, for example, like, you know, it's caffeinated alcohol. That's easy to understand. Well, you know, as it turns out, you know, when you're explaining things to bartenders or people and they have basically only a couple of minutes to focus on something, if that, you know, it raises all sorts of questions. Well, is it flavored? What's it taste like? The things that seem obvious. You know, we were distributed 45 states. You go in and I would love to go up to the bar and say, you know, I'd see the product of the bar and I'd ask the bartender about it, and they'd say something like, "Oh, that's terrible." Or, you know, "I hate the flavor of that." But I'd immediately know they actually hadn't tried it.

Kurt Greenbaum: As David described it for me, this experience at Pink Vodka helped him and his partners learn to take a negative and turn it into a positive. He learned how important this principle was—this idea of cultivating distribution partners to create champions for their product. Every sales rep at Pink, for example, was empowered to have these same discussions with bartenders, to send bottles of their product with handwritten notes, hundreds of them, every month. In this case, the customers were the retail distributors of Pink Vodka, and in this context, customer service was paramount.

David Mandell: The second biggest takeaway was how do you develop that emotional connection between somebody and the brand that makes them come back to it and makes them remember you or creates a really positive experience? So as a startup, as a small brand, you know, if you think about it, you walk into a bar, there's multiple products everywhere. You walk in the liquor store, there's now an entire wall of bourbons, There are hundreds, you know, why are you going to stop there and choose one over another? Because fundamentally, you actually have to make a choice. I'm not going to drink this, and now I'm going to drink this. So how do you do that? And that really, to me is really about creating that emotional connection.

You have to create that reason for somebody to not only want that product to try it, to like it, then to go buy it, maybe buy it again, and then tell somebody about it. In those early years of Pink that we saw, that's really, really hard to do. It's hard to do when you're competing with everybody in a bar. You're competing with multibillion-dollar companies. You're all in the same space fighting over the attention of the bartender, the consumer, you know. So how do you do that? And the chances of success in this industry are very low. Everybody thinks it's sexy. It's a very, very tough business.

Kurt Greenbaum: So this idea, this notion of building that relationship and creating ways to build that relationship was an important lesson from the Pink Vodka experience, as well as the idea of being careful how you scale. So what ended up happening? Can I go out and buy it today?

David Mandell: Well, no, you can't. 2008 hit and all of the kind of fun money that was going in and people wanted to be part of something fun. That money dried up, and we were faced with a situation—do we continue to raise capital a smaller rate, you know, or do we sell a company? And we were already working with Houlihan Lokey at the time. We decided to sell it. We sold it to a private equity firm, small one out of Texas. Fast forward, we're in 2012, early 2013, and we made the decision together that we were going to build a whiskey distillery in Kentucky and started going out there. We formed the company. You know, I became, you know, the CEO, Dan joined the company. Garnett joined the company. We then hired our master distiller, Steve Nally, and we set out with this one idea to build kind of a small whiskey distillery. But like all great businesses, it evolved very rapidly and it changed. And we saw some, you know, very interesting opportunities in the market. When we started the company, we bought 100 acres of farmland right in downtown

Bardstown with the idea again of building a small whiskey distillery. But as we got into it, we really saw this opportunity to build, you know, a Napa Valley destination-style experience, a level of hospitality that didn't exist yet on the Bourbon Trail. You saw people coming, the numbers. But as we began getting into the business, we saw a real niche and going back and fast rewind back to Pink Vodka. The other challenges we saw in the industry is we knew it took so much capital and time to build the brand, and ultimately the brand is what becomes extremely valuable. And so how do you get around that? Because we didn't have endless amounts of money.

Kurt Greenbaum: Now, at this point in our story, I'd like to pause for a little bit of a recap. David first entered the distilled spirits industry with Pink Vodka. Learned a lot. Sold the assets and got out. But very quickly, he and his partners noticed the booming demand for Kentucky bourbon in the United States. This demand, he thought, might be channeled into that Napa Valley model for hospitality and distillery tours and tasting rooms that David talked about. But he also noticed that existing distilleries couldn't produce enough bourbon to meet the demand. And that's what led to the idea of building a brand new distillery to create custom-made bourbon their customers could sell under their own brand names. Remember, they didn't want to create a single private-label bourbon other companies would sell as their own. No, this was different. Under David's collaborative distilling program, they would work with spirits producers to create an individualized recipe, their unique combination of grains—their mash bill—for their customers' brand of bourbon. And by hitching their wagon to other established premium brands of alcohol, Bardstown Bourbon would build their own brand equity. And that was important because Bardstown Bourbon was the upstart. Of the 18 distilleries on the Bourbon Trail, nine have roots into the 1800s and earlier. Two even predate the existence of the United States. And while the idea was novel, as David explains, it wasn't easy.

David Mandell: There's also a lot of things that can go wrong. And so we were setting up a program in which you're running multiple customers. You're switching out recipes. You know the point where you're doing a couple a day. We got to the point we're doing 44 different mash bills a year. And so that was unheard of. And when we started doing it, we very quickly realized we didn't have anybody on a team that had any experience doing this. And we had a very large customer in the early years that made up for, I'd say, almost roughly 50% of the business. So this was critical. And it was not only critical from a financial standpoint, but it was also critical, you know, from a credibility standpoint as well too. You know, one of the things we did early on was we made the decision that we were going to hire the most experienced people.

We got very lucky. We recruited—at the time Jim Beam went on strike—we were able to hire some of their best people and we brought them over. And even even with that experience, it was still, you know, this concept was new to them, too, you know, of being able to do this kind of shifting. And so as we got started, it became very clear that no one on that original team had the expertise to do this and to be able to run the distillery in an efficient way to do that. We got started and we had these early conversations with our big customer at the time, and they didn't like the product. When our head of production at the time would say, "Don't tell me how to make bourbon, I've been making bourbon, you know, for 28 years." And we'd have a whole team there. And I'd pull him aside and I said, "Look, we're not doing that again. The customer in this situation is always right." This is what we have promised with this program. They don't like it. We have to fix it, and we've got to figure out a way to fix it. And we have to work with them to get there. It was getting to the point where we actually had a problem, like a real problem, because if we lose this contract, I mean, there are lots of things that can happen. It's early business. We're not proven at this point. There are lots of things that you could see spiral and go wrong. It was one of those moments where if we weren't able to do this, the business was in real, real jeopardy.

Raphael Thomadsen: David kind of had the fortune of an industry that was growing at a time past the capacity of the incumbents. So he was able to enter successfully that way. But he didn't just rely on expanding capacity. He then tried to leverage that opportunity to something more by focusing on customer service and using kind of the customer service as a way to continue to build the brand so that when and if this company gets to a point where capacity is not so constrained in the industry anymore, his company will still thrive.

Kurt Greenbaum: That's the voice of my colleague at WashU Olin Raphael Thomadsen. He's a professor of marketing at the school, but that doesn't really capture the breadth of his research interests. His work cuts across areas such as industrial organization, marketing strategy, how products are priced—and he's even published work that predicted how COVID-19 might spread depending on what strategy firms use to reopen. As we talked about David's story, Raphael and I discussed the importance of customer engagement, the challenges of breaking into established markets, and something he called the "risk of customization." Oh, and as it turns out, Raphael doesn't drink. But as you'll hear, that doesn't affect the principles at play in this story.

Raphael Thomadsen: As a manufacturer, you really have to think about what your brand stands for. And that's not just about the fundamental physical product that you have, but it's going to be the way that your product's going to be exhibited. And sometimes that's through which channels you're going to offer your product, as do you want it in high-end stores? Do you want your product to be kind of promoted as a premium brand or just another one of the common me-too brands? And I think in our story, we see that the companies that we partner with, they all had to be existing companies that had good reputations. We want to make sure that our brand as a manufactured product is associated with premium products that can enhance our manufactured product, even though it's going to be branded with someone else's brand.

One thing academics really focus on, and I try to emphasize in teaching, is that the amount that's common between industries and different categories is way more vast than the things that are different. I'm not saying that to work in, say, telecom you don't have to understand the institutional details. You do. But once you get those institutional details down, the common frameworks really can still guide you through almost any product or situation that you're going to face. And I think those commonalities are really important and vast.

Kurt Greenbaum: Here's this upstart, Bardstown Bourbon Company, kind of injecting itself into an industry that has generations of history and tradition behind it. I guess I wonder what you make of that in the context of his story and the needs that he was sort of realizing that he had to provide.

Raphael Thomadsen: So breaking into new markets is ... is really hard. What David did is there was an opportunity, which is that there was a constraint on capacity that allowed him to come in and he didn't come in in sort of a tepid manner. He came in bringing in the best experts to help him really set up a high-quality shop. But I think the combination of, hey, there was limited capacity, this gives us a very slow window to enter and then building up a reputation himself to get something that's going to last. That's the key. And if he had just kind of entered and relied on the capacity, then over time probably other people would build that capacity. He'd fall away. But by using that as an opportunity to then build the brand, I think that that is really a key.

Kurt Greenbaum: Can you think of another example where another industry where you observed that sort of thing happen?

Raphael Thomadsen: I think you see this in hard disk drives where actually generations of hard disk drives had different companies and the incumbent products were always a little bit slow to enter into the next generation of disk drive. So you've got very different producers in each generations. And I even think, you know, if I get away from kind of high technology, if you will, another example I think of a lot, Harley-Davidson really didn't take Honda's entry into the motorcycle industry very seriously. And so they kind of just thought, if Honda wants to sell some motorcycles, OK. But what Honda was really doing is building a retailer network. And, you know, next thing they knew, they kind of turned around and Honda was outselling Harley-Davidson. And so I think there's a lot of tendency to get focused on what your strengths on today are and not look ahead at where things can evolve towards.

Kurt Greenbaum: The idea that in his industry it's not just about creating a liquid and putting it on the shelves and, you know, saying buy this. So it's not really just about the end customer, but he was also about the bartenders, you know, going in and getting them to be advocates for the product. And I just wonder what you can tell us about how firms think about the idea of engaging with their customers.

Raphael Thomadsen: You know, in some sense this is managing distribution channels, but getting your distribution channels to be an advocate for you. And that is something that a lot of companies really focus on. How do we make sure that our channel partners aren't just kind of passing the product through, but are actually kind of promoting or selling our product? And people have approached those in different ways. Some firms really limit their distribution in order to make sure that the firms that they have are strongly advocating for them. Sometimes we choose to have wider distribution channels, but still, if we feel that a particular channel is undermining us, we kind of punish them. I think for a new product, really getting those advocates out there is especially important. Jim Beam probably doesn't have to go bar to bar advocating for themselves, but young companies often do.

I remember hearing the story of from the founder of Spanx when Spanx was young. She actually went to the Macy's and actually moved the Spanx from one shelf to another shelf in order to give it better shelf space. And she said all the employees at the store just assumed she was authorized to do this. They didn't actually question her on it. But, you know, this is something I think a very young company that really needs to kind of show their potential and get, you know, word out there.

Kurt Greenbaum: When we spoke earlier, you also used a phrase about the risks of customization. Customization is a big component of David's story, this idea of partnering with customers to create the blend or the recipe of bourbon that suits that customer, that they feel like they can turn around and market on their own. What did you mean by the risks of customization?

Raphael Thomadsen: One which a lot of people think about is kind of the more technological problem is customization can get in the way of economies of scale. But I think there's a second factor, too, which is that customization often requires that customers really know exactly what they want, and it moves the area of expertise from the firm, which has a lot of expertise, to the customer. I think in the story that David told about his head of production, who had 28 years of experience and initially really resisted changing the recipe for a client who somehow did not like a blend, but that their own people said has scored very high on taste, really is an example of kind of some of the risks that go in there. Maybe the ... what the customer wants isn't always the product that's kind of the best product to deliver. Now, in this case, it sounds like they were able to work out a way to make everyone happy.

But if this customization is happening customer-by-customer, product-by-product, bringing in an expert just to try to interact with each of these customers can be very expensive to do. And I think what you want to think about is how much do the customers really know what they want and how much don't they? Sometimes it can be a happy medium. So Nike, for example, allows you to create customized shoes. I think some people are very artistic and they may really appreciate that. But does this mean every company should be having customized shoes? You know, I'm not very artistic myself. I probably prefer the designs that the expert designers come up with rather than my own personal design. So I think this customer focus is not a "You totally do it. You totally don't do it." But it's a continuum that has to depend on your company's specific situation.

David Mandell: When you go into distilling industry in Kentucky, there aren't many, it's not a huge universe of people that have run these facilities or are running them. You know, you have, you know, the ... the master distiller, but in all reality, the master distiller does not run the distillery. They are you know, they have a different role.

Kurt Greenbaum: And as David explained earlier, his master distiller at Bardstown Bourbon represented the crux of the problem. On one hand, David had a major client representing half his business who came to him to produce a bespoke style of bourbon under his collaborative distilling program. On the other, he had a master distiller with years of industry experience and no appetite to be told how to do his job. To solve the problem, David spent the next six months recruiting one guy. His name was John Hargrove, a guy David described as an up-and-coming superstar with experience at adult beverage firms such as Sazerac and Barton Brands, as well as Pepsi-Cola and Frito-Lay. This is the guy you need to kind of pull together the customer service end of this business with the technical requirements, with the tradition that goes behind producing bourbon. He's the sort of linchpin for all that.

David Mandell: Yeah. I mean, the first the most important thing he did is he came in to fix a problem we were having with this customer. It was the most critical decision I made. It was also one of those moments where that was what changed the future of the business. You know, under his leadership in the distillery, we then expanded the distillery two more times, put us on a path for ASM certification, ISO certification, expanded the distillery, upgrade the technology. But once that was under control, that gave then me and the rest of the team the ability to now go—we then built the restaurant, we built the bar, we built the visitor's experience. I was spending the majority of my time trying to fix the distillery, you know, frankly, in an area that I knew very little about. So he did all that. And that freed us up to now go focus on all these other things. And by the way, the collaborative distilling program gave us cash in the bank upfront and allowed us to then fund and develop every other aspect of the business. That cash stream basically allowed us to do everything we wanted to do. It funded the rest of the development of the business.

Kurt Greenbaum: At the crux of that story about the major client, did that seem like a kind of clash of modern-day industry concepts versus tradition?

David Mandell: 100%. You know, first of all, we were the first new distillery in 100 years in Bardstown, but we were the first distillery that came in and said, "We're not going to be a craft distillery. We're actually going to build a distillery that's going to be at the same level as the top 10." That was like unheard of. You know, to do something like that, you would never build that size because you wouldn't have a brand that would need that capacity for ages. There was a real clash there because again, you were looking for people that were we were asking to provide certain things that nobody was trained to do. It almost took finding somebody that took a different path, was there and able to join our team at the right point. And it's also one of those things where, you know, if you produce, you know, you have a history, you produce bourbon for this distillery for X number of years, and somebody's coming in and telling you they don't like what you're doing. They don't react well to that. And we saw that. And I've seen that in many other instances, too, in the industry. When you do approach those businesses, you know, do it carefully, do it slowly, do it in a measured way, do it in a way that, you know, kind of protects you as much as you can. Don't be afraid to fail because it is the way you ultimately, in many cases, end up ultimately succeeding. When it gets really challenging, that's when you have to be most creative and it's going to be that. And the last thing that I would also mention is that entrepreneurship and starting a business is not for everybody, and that's OK.

Kurt Greenbaum: Can you sort of characterize the trajectory of Bardstown Bourbon since you left?

David Mandell: You know, the thing I'm most proud of as I look back on it was the team that we put in place and the fact that I was and we were the founding members were able to step aside. And the business, you know, for all intents and purposes, didn't miss a beat. And I think that that is one of the most important things that you can do in business. And I you know, I tell people this all the time, and younger people I talk with or people starting businesses. So you have to make yourself removable because if you don't, it's not a healthy business.

Kurt Greenbaum: And with that, we've drained the glass on another episode of *On Principle*. It was a pleasure to share a few sips of wisdom with you. And I'm grateful to David Mandell and Raphael Thomadsen for pouring out a few thoughts for us to enjoy. And now that I have completely tortured that poor metaphor, let me invite you to our website, where you can find more information about David and what he's up to right now. Turns out he's building another distillery for the Stoli Group. Plus, we'll point you to more about the Bourbon Trail and Raphael's research. You can find all that, along with past episodes of this podcast, at onprincipalpodcast.com. Meanwhile, don't forget to subscribe to *On Principle* in your favorite podcasting app so you can get updates when new episodes drop. I also welcome comments, questions or episode ideas by email at Olin podcast at W-U-S-T-L dot E-D-U. That's olinpodcast@wustl.edu.

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