Strategies for Success? Market entry strategies of new craft beer producers

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ABSTRACT:

Fewer than half of UK start-up businesses survive beyond five years (ONS, 2020). The Scottish Small Business Survey of 2019, found competition in the market and uncertainty as to how to face it were considered the most significant barrier to success by almost half of SMEs (Scottish Government 2020). This chapter considers how four Scottish breweries have formulated start up strategies to respond to competition in an ever increasingly crowded marketplace in order to maximise their likelihood of survival. The findings from each of these case studies are presented in an accessible format, and indicate a variety of approaches to the development of the businesses can be adopted, albeit planned approaches dominate. Drawing on real life experiences of four successful businesses the practical choices they took provide guidance and inspiration for other aspiring craft beer entrepreneurs in selecting an appropriate approach to and content of their founding strategy.

KEYWORDS:

1. Scottish craft breweries..
2. Start up strategies
3. Strategy formation
4. differentiation

After decades of declining numbers the past decade or so in the UK has seen a surge in the number of new breweries being formed with approximately 80% of these in Scotland classified as microbreweries (O'Connor, 2018). The craft beer sector is seen as having significant potential for further growth with associated benefits to the local and national economies in which they operate. However, the reasons for this spectacular disruption of what had been a stagnating beer market are not entirely clear nor is how new craft breweries have achieved successful entry to market. Gaining a better understanding of the start-up strategies of craft breweries will not only broaden our knowledge of the craft beer sector in general, but also open the possibility of more tailored support and guidance to be provided to other aspiring craft brewers. The newness of this market sector, combined with many new entrants often having limited knowledge of business, marketing and strategy (Miller and Munoz, 2016) provides an opportunity for impactful new research into the start up decisions made by these organisations. By the nature of the term 'craft' something is made using a particular set of manual skills but for that to become a viable business venture requires a different set of skills and an element of luck.

This chapter addresses one main research question: How do craft brewery owners form their start up strategy? It focusses upon four new entrants to the market, their current activities and the routes they took to market and explores the strategies employed to establish a new craft brewery, including funding, marketing, location, motivation, goals setting and growth plans. The chapter begins with a discussion of relevant strategic management literature in order to understand generic approaches to strategy formation and what is known about strategy adopted by craft breweries with guidance on what is considered 'best practice' discussed. Following this, a brief overview of the research design and execution is provided. The chapter then presents the research findings in the form of four case studies, before concluding with a discussion of their specific and wider significance.

Strategy and small businesses

A noticeable characteristic of much strategic management literature is its conceptualisation of the strategy formation process as a rational and planned one, with the inference being that such processes are, or should be, similar in different sized organisations who may have different aspirations, operating environments, products or resources. While there is no single definition of what strategic management is, many researchers agree that it is essentially a plan of action where an organisation's resources are utilised to achieve business goals (Fuertes et al 2020, Koseoglu and Parnell, 2020, Nag, 2007, Beckham, 2000). Often drawing on militaristic conceptions of strategy as a formal, detailed and planned process, the strategic process can seem daunting and cumbersome for new businesses. Uncertain of how best to approach crafting a business strategy there is a real danger that small businesses neglect to do so. If searching for 'strategy templates' on the internet to guide them, small business owners would be confronted with around 277 million results, most promising a route to success, despite advocating many different approaches. Such confusion over how to approach strategy formation is a potential impediment to small business development and understanding of how businesses have done so in practice is likely to prove more useful than abstract discussions of definition.

Turner and Endres (2007) found that small businesses typically operate in an innate way, driven largely by individuals' personalities, rather than by formal strategy. There is also an assumption that small businesses do not employ set strategies, rather they react to situations and the response is often intuitive (Rizzo and Fulford, 2012). This type of impulsive response to business challenges is often considered to be the result of a lack of knowledge about the market or having insufficient awareness of what their competitors are up to (Cronin-Gilmore 2012, Kotler, 2004, Day, 2000). It is argued that the key challenge for small business owners is how to craft innovative strategies to achieve market penetration that leads to long term growth, whilst operating within their existing resources (Turner and Endres, 2017). One recent study by Williams et al. (2020) found that a mixture of strategies was most likely to lead to such success for small businesses. In particular the setting of clear and achievable goals, a constant programme of quality control and improvement and control of the organisation's fiscal position are key. Similarly, Porter's (1980) generic strategy types of cost leadership, differentiation and market segmentation are argued to be the three key strategic areas which small businesses must pay most attention to. Indeed, several studies (Alstete, 2014, Barth, 2003, Pelham, 2000, D'Amboise, 1993) have found that broad differentiation from competitors is typically the most favoured strategy utilised by SMEs.

Considering how small businesses form their start up strategies, Stonehouse and Pemberton (2002) identified two generic approaches, prescribed (or planned) and emergent. The former was defined as an organisation setting longer term goals, typically over a 3-5 year period and the latter using a shorter term timeline and being more reactive in nature. Others saw these two strands as being poles of a spectrum of strategic decisions, with in reality a combination of both approaches being more common. In other words, small businesses typically make general plans to move the organisation in a particular direction whilst responding to evolving circumstances by adjusting the plan during implementation (Leitner & Guldenberg, 2010).

Strategy and craft breweries

Traditional concepts of strategy have emphasised the inherently competitive nature of strategy, however, there is growing evidence that this is not always the case amongst craft breweries. For them, an alternative approach is to adopt a collaborative strategy, choosing to work with selective 'competitors' with the aim of achieving a more rapid entry to the market, refining products or respond quickly to competition from others. Miller and Munoz (2016) in their analysis of complex start-ups, found that new craft beer entrants often had mentors within their market who would advise them at the formation stage of their business. As these new entrepreneurs established their own breweries so they in turn would mentor new entrants to the market, often sharing their business plans which helped decision making and reduced risk. This behaviour is described in the theories of Knowledge Transfer where existing business pass on their expertise to aspiring entrepreneurs. It is seen as a less of a sharing and more a transfer of information from one party to another (Carlile and Rebentish, 2003).

Such a spirit of collaboration among microbrewers was also found by Danson et al. (2015) whose research concluded that competition was structured around craftmanship, identity and authenticity, rather than pricing: a key marker for competitive differentiation. This is where horizontal differentiation is to be seen and offers a partial explanation for the willingness of established breweries to support new businesses. As they are not competing on price there is perhaps a perception that there is less risk in supporting the development of a new product with its own identity into the market.

Taken together, these contributions do much to eschew notions that there is a 'one best way' to approach strategy formation and development. Instead, strategy is best understood as a general direction of travel whilst remaining sensitive to changing environmental circumstances. Craft breweries face choices over whether to adopt a formal or less structured approach to devising a strategy and whether competitive or co-operative strategies are sought. The variety of approaches available and diversity of guidance on what to focus on whilst perhaps initially daunting should be seen as providing space to craft a strategy that fits with what the owner(s) are trying to achieve and to do so in a way that is both comfortable and suitable for the specific conditions the brewery operates.

Methodology: Designing research to explore craft brewing business strategies

Data presented within this chapter was collected as part of a pilot study for a doctoral project examining strategy formation and evolution within Scottish craft breweries. Adopting purposive sampling (Emmel, 2013), four craft breweries were selected and invited to participate in the study. Based on the research team's pre-existing knowledge of Scottish microbreweries exemplar cases were selected with the aim of examining a range of different approaches to start up strategies. The four breweries selected were drawn from across Scotland (1 in west Scotland, 1 in the east, and two in central Scotland). Evident from material on brewery websites each selected brewery had chosen to follow a different start up strategy, in different locations at different times, although all within the last 15 years. As such each case provided a unique opportunity to examine strategy development, evolution and success in situ. No claims are made here that the selected cases were 'typical' or 'ideal types' in any way. Indeed, a core argument of the chapter is that approaches to strategy formation are, and should continue to be, heterogeneous.

Having selected the breweries contact was made with the owner(s) via an email containing a prospective participant information sheet explaining the focus and aims of the study and inviting the prospective participant to an interview to examine how the start up strategy was developed, why and how effective it has been. Interviews were conducted at the breweries between March and June 2019, were semi structured in nature, typically lasted between 45 and 65 minutes and examined prior professional experience, the origins of the brewery, route to market and strategic positioning. Participants were asked to sign a consent form confirming their willing participation in the study and releasing data to the authors for use in research outputs. As part of that discussion it was agreed that the breweries would not be identified during any subsequent use of material gained from the interviews. Interviews were recorded and verbatim transcripts produced. Utilising Braun and Clarke's (2006) six step approach to thematic analysis, transcripts were read and re-read to ensure data familiarisation, coded, themes generated, reviewed, named and defined and narratives produced.

Given the intention to present the findings as case studies further documentary evidence, such as press coverage of the brewery and material available on the breweries' websites was also collected to combine with interview testimonies. The choice of multiple case studies allows for contrasts and comparisons to be made, provides more convincing data and can permit the investigation of broader topics than single case studies (Yin, 2003).

It is recognised that the small sample size necessarily limits any attempt to generalise findings from this study. However, as previously mentioned generalisation was never an intention. Instead, adopting an interpretivist perspective the research design sought to examine the meanings, motivations and specificity of the actions taken by brewery owners and to champion their diversity.

Heterogeneous strategies: Entering the Scottish craft beer market

The chapter now turns to the research findings and does so by presenting four case studies telling the story of how each brewery's start up strategies were formulated and what they contained. Each of the cases are allowed to speak for themselves with discussion of meaning, significance and implications covered in the next section.

Capercaillie Brewery.

Background

Two friends had been home brewing together and had built up a popular following amongst their friends as the 'go-to guys' for beer for a party or celebration. Neither had a background in brewing or chemistry or sales, nor had they any professional experience within the beer industry. Eventually after hearing many times from their friends and families that their beer was 'good enough to be sold', they decided to 'take the plunge' and test their beers in the commercial marketplace.

Initial start-up strategy

Their goals were simple at this point and were reflected in the business plan they presented to the bank. They would take their home-brew recipes to a commercial brewery, refine them and then sell the beer as a premium product. The expansion of the practice of 'cuckoo brewing', using the resources of a larger, physical brewery, was what made this proposal viable. There were no funds available to invest in expensive brewing equipment, but there were a number of breweries within travelling distance who were happy to allow them access to their equipment and to assist with recipe development. This was a key point in turning an idea into a business proposition, as one of the founders describes it:

> "…borrowing other people's breweries, being able to attain a bigger volume without plumbing the money into stainless steel. The bulk of our volume will not

> be tied to a geographical area as we're brewing on other people's systems so it's the brand (that) takes the key focus, it's the name and what we're about".

This venture was funded solely by their own (modest) cash reserves. A conscious decision was ultimately made not to seek support from external stakeholders and this gave them the freedom to make their own decisions and if the venture failed, no other parties would lose out. They had agreed that they would take no remuneration from the business and any and all profit would be reinvested to make the next batch of beer. The owners were fortunate to have partners who could support them financially through this initial trading period.

Route to market

They pooled their savings (about £2000) and did their first brew at a commercial brewery after some assistance from the brewers with test batches. As a result of a lack of access to the main route to market, pubs, they decided that their primary route would be to sell direct to the public: traipsing around farmers markets, foodie fares and selling via word of mouth through their friends and family. This last source of sales provided them with a cohort of informal brand ambassadors who promoted these new beers to their own networks, at no cost. Secondary routes were retail: specialist beer shops, delicatessens and grocers. As sales built they were eventually able to open their own small brewery with a taproom attached, selling direct to their customers.

Market Positioning

Although their approach could fairly be described as unstructured, they made one critical decision that greatly contributed to the survival of their business. This one apparently simple decision had multiple facets to it that worked across different levels: they decided to sell their beers in 750ml champagne-style bottles. Initially, some of these bottles were free: a friend worked in an hotel and would collect the empty Prosecco bottles for them. As well as being free there was kudos in the environmental/recycling/sustainability aspect of this- an important value among craft beer drinkers[1]. This big decision had more modest roots as the one of the owners explained:

> "I think that when we first started bottling our beer it was in champagne style bottles purely out of, not laziness, it was easier. So essentially one of those bottles instead of three smaller ones, less caps, less labels to do. But it played into our hands in that no-one else does it so we didn't have to compete on price. Restaurants- we'd supply all (of) them as it's considered a sort of social, communal thing, a table beer. On the whole beer drinkers like it because they'd drink a pint or two at a bar but there's quite a disconnect between what people will drink at a bar and what they'll drink at home. They might go home and have a tiny dinky

[1] https://www.dsm.com/food-specialties/en_US/insights/beverage/craft-beer-millennials-consumer-insights.html

> bottle and we kind of crossed that border essentially and it was a closer relationship to drinking habits."

The use of the champagne bottles was perceived to be a more sophisticated presentation that allowed their product to stand out among the generic 330ml or 500ml bottles that are more commonly seen in bars or supermarkets. These bottles gave them a competitive advantage when trying to access the restaurant market, particularly the more upmarket ones. That particular customer demographic was being exposed to their product in a way that would have been difficult for a small start-up to achieve through more traditional marketing strategies.

The champagne bottle allowed them to price their product at the higher end of the market on a cost per litre basis, approximately twice the price of a typical 500ml bottle of beer. The weight of the bottle, a simple but sophisticated label and a champagne cork all contributed to the sense that a high value proposition was on offer. At that time the only beers seen in the UK in champagne bottles were usually Belgian ones which carry a world class reputation in the beer world. That association with beer heritage and quality, in the eyes of the consumers, did them no harm even though the product was quite different.

Selling beers in units of 750mls also meant that for every batch of beer produced, fewer units had to be sold before it sold out. This not only reduced packaging costs and the storage of inventory, it freed up more time to make more beer, work on recipes and manage the finances. This last benefit was particularly important in maintaining the cash flow of a new business: less time is spent selling and more time is spent on developing the business.

The result of this particular strategy was that the selling price per litre was higher than if they had decided to use more traditional sized bottles, and their packaging costs were lower: making a material difference to their net profit. Their beer continues to be sold in this format unless they are one-off special productions with an ABV above 6.5%, when customers are happy to pay a premium for a higher ABV beer in a smaller bottle. Setting a benchmark higher price point for regular beers, albeit in a larger format, makes the differential step-up to a premium price more palatable.

All of this allowed them to effectively build up a cash fund of around £50,000 within 12-18 months of trading. This solid financial footing allowed the business to move to another level with the opening of a taproom, something which was never planned at the outset. The tap room resulted in significantly increasing their profile, selling more beer, faster, increasing turnover and establishing themselves as a local business rather than itinerant brewers.

Wildcat Brewery:

Background

Three friends, deeply entrenched in the licensed trade, decided to capitalise on their experience and exploit what they saw as a gap in the craft beer market by setting up their own beer company. Their backgrounds were all different but complimentary: one was a logistics professional, experienced in sourcing raw materials and transport, one was a sales and marketing manager within the field and third was experienced in the on-trade market.

Initial start-up strategy

They had a very clear strategy of how they would position their new business within the market by following a well-trodden path among new craft beer producers of creating a backstory for their beers based on locality, historical events or local figures,

> “ we knew exactly what we were going to do. We wanted a strong connection to Scotland for the brand and for that we needed a place or historic event that people would identify with, even (those based) outside of Scotland.”

Their chosen placename for the brewery is laden with historical context in Scotland with a strong connection to a Scottish monarch and also, they surmised, would do them no harm if and when they ultimately decided to enter the export market to America.

The use of this placename allowed them to structure the names of their beers around this location, strengthening the brand by association with the beers each time. They identified what they believed to be the core range of beers that would appeal to the widest demographic they viewed as their target market; A Golden Ale, a lager, a Scottish Ale and an IPA. These range in strength from 3.8% abv to 5.2% abv. In the craft beer world, where stronger beers are more prevalent than ever, restricting the strength and range of beers to this narrow band could be perceived as a risky strategy. On the other hand it may represent an acute understanding of what their customers want and locates their brand very firmly mid-point within the crowded craft beer market. This broad-focus approach targets the widest group within a specialist market: when people order one of their beers they know exactly what they will be getting.

Route to market

In common with similar craft beer start-ups they had no ready outlet in the form of licensed premises from which to sell their beer so they resorted to direct selling by attending farmers’ markets, food and drink festivals and having an online presence. When the brewery was being established they selected a building with sufficient space attached to it to provide them with a tap room. There are numerous benefits associated with having a tap room, but the most practical is probably its usefulness in providing cashflow. In an era when retail outlets can take months to settle an invoice, having the facility to generate immediate cash sales was deemed essential. For wet-led, licensed premises in rural areas that are heavily dependent on tourism, the loss of business out of season can be hard to sustain. By providing the small local population with a hospitality destination, they built brand loyalty by being seen as an integral part of the local community: they share the experience of being there with them at the quieter times of the year. It also provided an opportunity to showcase their beers in the best possible condition: what could be fresher than drinking beer only metres away from where it was made? This sense of authenticity, *drinking beer from the tap*, untainted by marketing hype, packaging, hard sells or third-party retailers, was a strong pull for the craft beer drinker. Getting a taproom open, right next to their brewery, was a key part of the strategy to attract local and tourist custom.

Market Positioning

Brand identity, their starting point was an historical place name which they would name their brewery after. Next up was the beers themselves and before the beers were brewed the three partners decided on the style, flavour profile and image for each beer. As one of the partners succinctly put it:

> "Once we had the place name (for the brand) the names for the beers took care of themselves and we knew exactly the kind of beers we were going to make that would appeal to the mass market".

Only when they were satisfied that they identified what the beers would look like, did they invite a brewer on board to develop original beers with those flavour and image characteristics. Fortunately for them, no doubt as a result of their extensive experience in the beer market and the skill of their chosen brewer, it was feasible to reproduce in the real world what they had created on paper. To both protect and enhance the brand they decided to name each of their four beers after a historical figure with a connection to the area. This initial range has not been expanded, a tactic that allows consistency and quality of the product to build, predictability for their customers, reduced production costs, the development of strong supply chains and a focus on developing and expanding into new markets.

This is seen in their additional offering of gins and whisky, again utilising the strong historical imagery for the names of these products. By identifying with a historical place or events, the brewery can be perceived to have been established for longer than is actually the case. People recognise the place name before they recognise the beer brand and that positive familiarity brings trust: an aspiration for every business.

Red Deer Brewery:

Background

Two friends with no experience in the beer industry, had a chance encounter in the street, after one of them had recently been diagnosed with Coeliac disease, a condition also experienced by the partner of the other. As they were discussing their experiences one said, not entirely seriously:

> “oh my god, life’s not worth living, I’ve just been diagnosed coeliac and I can’t drink beer any longer….I’m thinking of starting a brewery” and (the other) said “I’ll do it with you as I’ve always had a little fantasy about starting a food and drink business…and before we knew it we were writing a business plan and before I knew it we were employing people and here we are”.

An ‘off the cuff’ remark about having to start a brewery to provide gluten-free beer for himself led to the friend immediately offering to be a business partner in such a venture. The perception of the first partner was that gluten-free beers were a poor relation of regular beers and that they could improve on the current offering available in the marketplace. While this was not, in the moment, a serious comment it nonetheless took root and they started to consider what they could do. Theirs was a classic case of an idea building and taking shape until it reached a point where its own momentum took it forward.

Initially they intended just using their savings but realised within a few months that to really get the business growing in line with their ambition they would need a large injection of cash.

Initial start-up strategy

From the outset this organisation was focussed on rapid growth and exports by exploiting what they saw as a gap in the market for gluten-free beers. At the time, around 2015, there was an increased awareness of and interest in all things gluten-free and vegan. Many new and existing producers of food and drink were identifying a growing market for these types of products.

Having accepted that their own funds would be insufficient to meet the ambitions they had for the business the partners turned to crowd-funding and angel investors. Within the first two years they had raised in excess of £500,000, an extraordinary amount of investment given their lack of experience in the industry and lack of fixed assets. For the application to the angel investors they were required to provide a highly detailed plan of how this capital sum would be utilised, rationale for each spend, timeframes, reporting mechanisms and income targets. This process helped them to think through in detail each aspect of the business within the context of their goals for it: a valuable tool to guide through their expansion plans.

Route to market

As neither had any previous experience in brewing they had to find a brewer to develop recipes and brew the beer. Through their own social networks they were introduced to a brewer in their home town who was able to help them understand the manufacturing side of the business: particularly important given the gluten-free nature of their product. This brewer also helped with recipe development and identified partner breweries who could brew different products. As their business grew and volumes increased they moved to progressively larger breweries. They now have three breweries brewing beer: One brewery focussed on producing beers and bottling them, one on can production and then their own new brewery producing cask and keg beers. In an industry where quality and consistency are essential, having three different manufacturers of the same product for distribution in different formats demands good quality control and supply chain management. An obvious advantage to this practice is that it reduces risk: should one area fail there are already two other resources who could assist with replacement stock. Although there is a premium to be paid for others to brew beer, the financial advantages of not investing in capital infrastructure such as canning and bottling lines more than offset these costs.

There was a focus on building distribution routes domestically and internationally, even before the first beer was available. As one of the founders described it:

> "… for two and a half years we only had two beers and we have focussed entirely, all our efforts on, building distribution rather than doing lots and lots of different types of beers. So now we're listed with all the major UK wholesalers and distributors . ..And now we're going to start building our portfolio of beers".

There was a recognition that with the relatively niche product they had, high density markets around the word would have to be targeted to get the production volumes up to where they needed to be.

The decision to outsource the production in the first instance allowed the two partners to concentrate on their strengths: marketing and building supply and distribution networks. They turned their attention to large national and international wholesalers and distributors and had agreements in place with only two beers in their portfolio for distribution. Domestically, they had London and the South East in their sights:

> "we're a business in Scotland with global ambitions so Scotland is not big enough. …there's a lot more awareness (in the South East)…about coeliac disease, gluten avoiding people, veganism, vegetarianism. Internationally because of volume…if you get a deal in Sweden or Canada you're laughing".

With the success of the crowdfunding and angel investors they were able to establish their own city centre brewery and taproom which was built with the potential to hold both corporate and social events, to further embellish the brand and broaden its appeal. As the owner said :

> "this isn't a locals pub, it's a place to showcase our beers".

Market Positioning

Having started the business as a result of a medical condition they decided that that would form their identity and so marketing and branding was focussed on this being the first completely gluten-free and vegan-friendly brewery in the UK, gaining formal recognition from certification bodies that was then incorporated into their marketing material. As the business has matured and become more established, there is less emphasis on this as a focussed differential and the marketing strapline has been changed to "beers for the free". The gluten-free and vegan properties of the beers, while still mentioned, have less prominence now than in the early days: they are now adopting a broad differential strategy to appeal to wider section of the market, not just those who would be attracted to the product for health reasons.

There was a clear goal at the beginning that this business was being built to grow and be sold: it was never going to be a lifestyle business. While there was clear passion for the product and the initial driver for starting the business was for very personal reasons, emotion was never going to get in the way of returning the investment for the shareholders.

Pine Marten Brewery:

Background

The owner was a non-active partner in the first iteration of this Glasgow brewery which eventually ran into financial difficulties and was close to collapse. The partner who was running it left the business and the non-active partner assumed legal and financial control. The remaining partner had no experience of running a brewery and had to learn the business and at the same time use family money to keep the business afloat.

(Re)start-up strategy

The start up strategy at this second stage of the brewery's life was simply to survive, repay the creditors and hold on to the staff and equipment. While those objectives were being managed in the background, the brand was being repositioned in the marketplace. Its German owner skilfully exploited their home country's brewing heritage to form the brewery's identity with its adopted home in Glasgow

This is where the unique proposition of the brand is positioned: it is German beer but infused with love from Glasgow. The marketing strapline for their beer being "Glaswegian Heart, German Head". They claim to be the only UK brewer brewing every beer to the *Reinheitsgebot* standard, the German purity law of 1516 ensuring only 4 ingredients, water, malt, hops and yeast, are used to make the beer. This German beer culture is so strongly embedded it extends to how their product is packaged and made available to retailers. The owner was very clear on this aspect:

> "No cask at all. About 90% is kegged and 10% bottle and can….we are a German style brewery and cask beer doesn't exist in Germany…no, never been tempted: won't happen"

The owner's father, Franz, visited Glasgow and confessed to being unimpressed with the city's beer offering at that time. In part, this drove the owner to establish a brewery to make beers Franz would enjoy when he visited Scotland. This story is now woven into the fabric of the brewery's identity and in the words of the owner:

> “I wasn’t a lager drinker but my father is a massive beer fan…we basically set the business up to give him a beer to drink when he came to visit Glasgow. That’s the reason we exist…we have the Franz seal of approval for all of our beers….he comes every six months to try our new beers; he’s our quality control guy”

This dynamic also plays into the notion of the beer community as an extended, supportive family which in turn appeals to the Glaswegian sense of themselves as warm-hearted hosts. This cross-cultural identity of the brewery has been extended to include the names of the beers: their first one was named after the patron saint of Glasgow, and subsequent beers reference either Glasgow or Germany.

Route to market

It was perhaps inevitable that a brewery with such an familial identity would establish itself in a park in central Glasgow in an A-grade-listed building of particular architectural merit: two locations that Glaswegians hold dear to their hearts. Not only is the park a major attraction in its own right, drawing in some 2 million visitors each year, the building in which the brewery is located is also home to 150 apartments and other businesses. This strong location provides a steady stream of custom from locals, tourists, and members of the nearby business community. Having a bar and restaurant within the same space as the brewery provided many advantages for the management of the business in terms of product quality, cost management, sales, staff support and brand management. This latter point is particularly relevant in the context of their food menu where many of the dishes are German in origin but with Scottish produce, reinforcing the synergy of the two countries that creates the brand.

Pine Marten was not immune to the attraction of having another outlet and in 2015 opened a new pub in Glasgow’s West End. However it closed within three years as rising fixed costs, beyond their control, meant it was no longer financially viable. The brewery wanted their own second premises to ensure a guaranteed distribution point for their beers which would also give them greater control over the quality of their products. This direct line to consumers, allowed for stronger brand management and opportunities for direct market research for new offerings, was an integral part of an overall marketing strategy but it came at a heavy cost to the business. The challenges of moving into a new area and going into direct competition with other well-established business for customers and staff was always going to introduce a new element of risk to the business. Far easier and cheaper to extend into an adjoining space, where the cost of sales can be largely contained within one part of the existing operation, than to establish a new business some distance from the ‘mothership.’

Market Positioning

The positioning of this brand is very firmly at the upper end of the market and an ever-increasing space in the iconic building has been given over to food and events, as well as a larger brewery. They have achieved this positioning and growth by their food and drink pricing policy, the targeting (but not exclusively) of the corporate market for use of their events space, the quality and style of the furniture and fittings, installing expensive copper clad brewing vessels to put on display, and the use of aspirational, consumer imagery in their marketing material. There are several clear advantages to such a strategy, not least of which is the ability to have multiple revenue streams attracting different demographic groups that can be inter-connected or stand alone. This forms the basis of this brewery's value proposition: it is a hospitality one-stop shop for drinks, food and events.

Towards lessons learnt from start-up strategies of small craft breweries

This chapter sought to answer the question how do craft brewery owners form their start up strategy? The chapter has illuminated the strategic decisions made by four new beer producers in Scotland that ensured successful launch and survival within the sector. This section considers factors which shaped these decisions and how they were implemented. Findings suggest that there are as many different start up strategies, and approaches to formulating them, as there are breweries. From raising hundreds of thousands of pounds from crowdfunding platforms, to solely self-funded or traditional sources of finance, participants approaches varied. These different choices reflect differing attitudes to risk, available resources as well as short and long-term goals and ambitions for each of the brewery owners.

Table 1 provides a summary of the approaches taken to founding the brewery, forming their start up strategy, planning the route to market and their market positioning. As can be seen the breweries represent a range of different strategies, albeit with two out of four displaying more characteristics of a planned approach. The purest example of the planned approach to strategy formation was Wildcat Brewery with their rational, analytical and purposeful strategy based upon incremental and organic growth. The approach taken can in part be explained by the significant and complimentary business backgrounds of the founders. Having acquired competence in strategic planning and having significant trade experience within the team the founders were both able, and attracted, to adopting a more prescriptive approach, with clear, researched objectives. However, this is not a complete explanation of the approach adopted. Instead, attention must be paid to the age of the founders and the opportunistic motives for starting the brewery. Having identified a commercial opportunity to provide a source of locally inspired, and ultimately locally made beer, of a traditional Scottish style to a predominantly tourist clientele there is a clear logic in developing a well thought out plan of how to best exploit it. From the start, this was a brewery which defined itself first and foremost as a commercial entity.

Table 1 here

In contrast, Capercaille's approach to strategy formation is an example an emergent approach. Inspired by a love of home brewing and positive feedback from friends on the quality of their beer, but without any professional brewing experience or formal business acumen the approach was much more an example of relying on intuition, rather than formal planning. The brewery was initially founded on a 'good idea', which gradually led to other 'good ideas' being followed. The strategy, therefore, was very loosely formed at start up and subsequently evolved over time as market intelligence was gathered, and time was expended on forming a clearer vision as opportunities presented themselves. As such the strategy evolution was more reactive, than pro-active in nature. In line with the image of a stereotypical entrepreneur, the founders responded to opportunities to diversify such as the chance to open their own taproom, something that was never planned. However, it is important to note that even in an emergent strategy such as Capercaille's there were planned elements. Necessitated by the need to access business banking facilities, such as credit cards and overdraft facility, the founders created a business plan establishing their idea for the brewery and how it would be started. To be clear though, the plan lacked the depth and time horizon of Wildcat's. Capercaille's founders were 'keen amateurs' whereas Wildcat's were 'experienced professionals' from relevant fields. It is unsurprising therefore, that the approach to strategy formation differed in these two contexts.

The final two case breweries moved closer towards a more planned approach to start up strategy formation but not to the same extent as Wildcat. In the case of Pine Marten, faced with an urgent need to relaunch a failing business and having significant family resources tied up within the brewery, but relevant managerial and professional experience a rational and considered approach to business survival, or 'restart' could be expected. The initial salvage operation to save the business meant responding to immediate threats to the ability to trade such as demands from creditors or losing key staff. Keeping creditors happy while finding both a product and an identity that would provide a continuation of the business required both a reactive and a planned response. As the future of the business became more secure the opportunity to implement a planned strategy emerged. For these reasons Pine Marten is most closely associated with a hybrid model of strategy. There is a logic in falling back on professional training in a time of crisis. Again though, this planned approach evolved and incorporated emergent elements, such as the move into hospitality. Similarly Red Deer exhibited both planned and emergent strategic elements. Although initially inspired by a chance conversation and desire to access beer that the founder could drink, it soon became apparent that the founders had identified a significant, and potentially very lucrative gap in the beer market. Similar to Wildcat, the brewery was always defined as a commercial entity and the objective was to maximise business value in order that it could be sold.

What is notable from the case breweries is the extent to which where brewers produce specific types of beers largely for their own personal reasons, they rely less on planned strategies. Both Capercaillie and Red Deer founders were motivated to make the type of beers that they would like to drink themselves. The Pine Marten owner wanted to make a beer her father would enjoy and the Wildcat owners made beers that they thought would appeal to most people. While the beers in all four cases are tied into the identity of the brand, the one with the strongest planned strategy had included the profile and name of each beer before any beer had even been produced. In the craft beer world, where notions of authenticity are related to consumer satisfaction with the product, an inference can be drawn that the historical place name chosen by Wildcat produces sufficient authenticity. As mentioned previously the beer names chosen provide a strengthening link back to the brand by their association with the location.

It is apparent that there is no strategic masterplan that will work for all new business: there is no 'one size fits all' approach that can be replicated in its entirety. That is not to say that having no strategy is an option or that new business owners should not look to what others in their field are doing. Instead, it can be shown that by having a destination in mind upon founding the business, decisions that are subsequently taken can be considered within the context of reaching it. As discussed in the introduction, the appetite for risk plays a part not only in the decision to start a business but also influences other decisions. It may be significant that that the two breweries that were at, or close to a fully planned strategy were the older, seasoned professionals who may have wanted the security of a plan to reduce their exposure to risk. Financially, they felt they had personally more to lose so the way to reduce that risk would be to plan carefully to achieve their goal. The youngest brewers, in their mid 20s, started their business with no clear end point in sight and adopted a more relaxed view of their strategy, content for their decisions to be more reactive in nature. This approach supports Turner and Endres' (2007) findings that strategic decisions in small businesses were more likely to be intuitive and driven by the owner's personality. The founding group with the most members, Wildcat, reduced the opportunity for this type of individual decision-making processes by having an almost fully formed product and a route to market firmly established prior to launching their product. The four case breweries were founded by the owners believing that they could produce either something better than was currently available or something new and that aspiration was essential in guiding their decision making.

Conclusions: Lessons learnt and wider implications

This chapter has presented four case studies detailing how founders of craft breweries went about forming their initial 'strategies'. It has been shown that a variety of strategies can be adopted and that there are different paths to achieving success, however that is defined. Furthermore, the chapter has suggested that despite ever increasing levels of competition within the market there remains space for breweries to adopt idiosyncratic strategies which largely reflect the personalities and experiences of the founders. In other words, notions of a 'one best way' to approach strategy formation are rejected. New breweries should have a sense of what they are trying to achieve upon founding and have the confidence to select a strategic approach that is consistent with these aims. The chapter has shown with these four examples that the ability to achieve grand differentiation can play a key part in establishing market share and thus enhance the prospects of survival.

Given the small sample size it is not possible though to offer definitive conclusions on the nature of strategy formation within craft breweries and so the chapter concludes by highlighting the need for further research in this area. A larger sample size would deepen understanding of the variety of strategies that have been adopted by craft breweries and how they were created. Emerging patterns and themes arising from such research would provide a platform from which to track the longer-term impacts of any given approach to strategic formation. Longitudinal research would also be invaluable in assessing the extent to which the nature and content of strategies change over time, why and what effect they have on the sustainability of the brewery. In particular, the extent to which founding strategies remain unaltered in breweries that grow sufficiently to separate ownership and control would be an interesting question to address. Finally, given the emergence of craft beer industries around the world, comparative research examining the issues considered within this chapter would also be worthwhile.

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	Background	Initial start-up strategy	Route to Market	Market Positioning
Capercaillie	Two friends with no beer industry experience. Limited funds. Strong family and friends support.	Use cuckoo brewing. Re-invest all profits.	Direct selling to public via markets and food fayres. Targeting specialist retail outlets. Eventually achieving their own tap room.	Top end position achieved by using champagne style bottles which gave a higher price point per litre sold.
Wildcat	Three friends with substantial industry experience.	Develop a clear brand identity which could be grown as the business developed.	Traditional routes via pubs, and major retail. Opened a tap room next to their brewery, targeting locals and tourists.	Firmly mid-market. Have stuck to a core range of four beers that will appeal to a wide range of established and new craft beer drinkers
Red Deer	Two friends with no beer industry experience but with substantial business experience. United by a common health condition.	Use crowdfunding to build a substantial capital pot to establish a unique brand. Aim for rapid growth in both domestic and export markets.	Getting listed early with major domestic and international distribution companies allowed wide exposure to the market as soon as the product was available. Used angel investors to raise funds for a brewery and taproom once the brand was established.	Initially held a niche position but have since moved to a more mid-market position to appeal to a wider demographic.
Pine Marten	Non-active, non-industry partner took control when the business started to fail. Borrowed from family members to keep the business going.	Restructured financially while establishing a clear brand identity based on family heritage and location.	Sales to pubs and retail. Brewery and taproom opened, then a restaurant and events space, all within one building.	Top end of the market achieved through pricing, sophisticated marketing, food and events offerings.

Table 1 A summary of findings