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Crafting Growth: Exploring Emerging Potential & Challenges of Extended Collaboration for Scotland's Craft Beer Sector

Programme team

Dr Juliette Wilson, Dr Maria Karampela, Prof Sarah Dodd (University of Strathclyde)

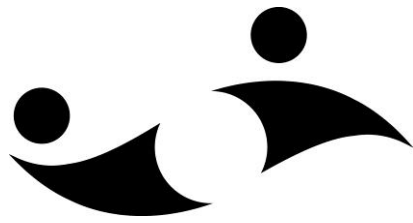
Prof Mike Danson (Heriot-Watt University)

Overarching Objectives

The overall aim of the Crafting Growth project was to provide a platform for Scottish brewers and relevant industry bodies to work alongside their counterparts from across Europe to:

- identify and scope key growth areas of concern in the craft beer sector where creative future developments are required;
- apply international academic expertise in small business growth that has been successfully used to address issues in other countries and industries;
- facilitate sharing of knowledge and practice, to inform and influence SME and sectoral policy and support;
- co-create collaborative action plans as launch-pads for future sector growth.

The focus on this particular context, the craft beer industry, was decided for many reasons. The sector has exhibited impressive growth levels in recent years, and has been highlighted as a critical sector in the Scottish economy. Specifically, it features prominently in Scotland's Food & Drink most recent export plan as a high-potential product. Much of this growth has been attributed to the strong levels of collaboration in the sector, as evidenced by co-brewing and joint distribution practices. However, insight from research undertaken by the core programme team as well as discussions with industry representatives has highlighted key areas where the sector faces barriers and difficulties that limit further growth potential. The project attempted to uncover those areas and facilitate the development of co-created solutions.



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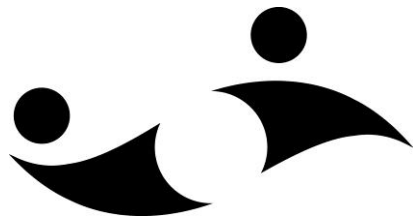
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Workshop I - Growing Strong: Growth Challenges, Opportunities and Potential Collaboration Models

Workshop Outcomes Synopsis

The aim of this first workshop was to identify challenges and opportunities in the craft beer sector. Brewers worked alongside academics and support professionals at individual and then sectoral level groupings to analyse their own business and sectoral level issues around growth opportunities and challenges. They did this using the Business Model Canvas tool and presented it to each other in a round robin session.

The event began with a brewers' roundtable where opportunities and challenges were highlighted. Following the sectoral level mapping of issues there was a final plenary session, bringing together the findings of the day's activities, highlighting shared themes across growth challenges and laying the groundwork for the action planning of the second event.



Summary of Challenges and Opportunities

Challenges

There is an overarching challenge of limited resources. This takes a variety of forms such as time, capital for investment, skilled workforce, etc.



I. Funds

This is key. Available economic funds for expansion but also for the challenge of day-to-day cash flow and managing a business with variations in demand - particularly an issue when strongly aligned with tourism - is seen as a strong limit on growth and necessitates balancing of funding priorities.

There are lots of sunk costs in craft brewing. It is seen as particularly difficult to expand from a micro-brewery level as this necessitates a jump in equipment, facilities, etc.

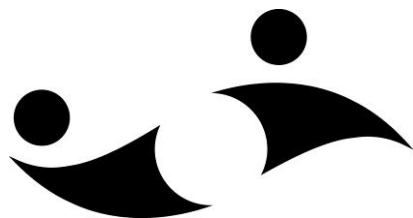
Key players are banks and private investors but also funding agencies, support agencies, and the government.

This challenge is seen as a sectoral-level issue.

II. Marketing

This has to be understood in a very broad sense. There is a real need to educate the consumers about craft beer through marketing and brand building. A lot of consumers don't understand the product and are used to more mass-market beers. They need to understand notions such as authenticity and craft.

Getting to know the market and getting the market to understand the brewery is seen as a key challenge.



Craft brewers face the challenge of low budgets, lack of time and staff for this aspect of the business. Most businesses are seen to prioritise the production-end of the business.

This is seen as mainly an individual brewer-level issue, but could benefit from support at an industry level.

III. Developing New Markets

Businesses often know that demand is there and where their key target markets might be, but they need the tools to access these. They also need help in understanding how their brands will translate in new international markets.

Challenges are again seen around lack of time, cash flow, lack of production, control over route to market and also lack of knowledge of potential partners and the markets themselves.

Key players are distributors, support agencies and Government.

This is seen as an individual-level issue, but also one that could really be supported by funding bodies, support agencies and government.

IV. Skills

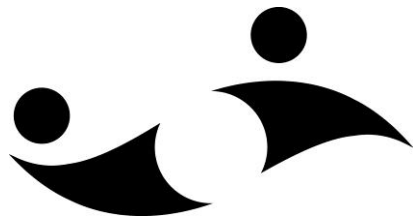
This is a very broad area. Production is seen by the brewers to be the key focus of their business and is what animates them. They have skills around brewing, but there are a lot of other neglected skills in the industry especially those related to markets and consumers.

Lack of available skilled labour is a common issue. This is seen as something with external and internal drivers. Brewers need support in terms of both how to develop skills and how to access skills that are already there, particularly in terms of people who do the things they don't do such as promote their business and create brand presence and create brand story-telling.

Availability of technically skilled staff and apprentices could be supported by Government and support agencies, but time is also an issue.

V. Legislation

This issue was raised in discussion with all the breweries throughout the day. Legislation and regulations are seen as a real challenge in the industry that affects how brewers sell, what they are allowed and what they are not allowed to do.



The reality of the regulatory environment means that brewers are often spending a lot of time on things that they don't see as core to their business.

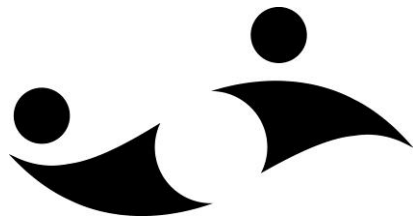
There are large opportunities of scope in trying to deal with this at a sectoral level. This is an area where operating collaboratively and presenting a unified voice might help brewers enormously.

VI. Control of Supply Chain

This is a really important area. A key part of this is how brewers access their markets. Quite often the retail side of the market is highly controlled. It can be very difficult to get beer to the end consumer with issues such as tied public houses. This means that individual brewers can have fantastic product but little control over route to market.

There are also issues at the other end of the supply chain related to accessing ingredients and glitches in supply and demand that mean that things can happen outwith brewers' control.

This is seen at an individual level, but there are key sectoral factors too that impact on this such as unwillingness of banks to fund and lack of other funding support.



Opportunities



I. Education

All brewers voiced opinions around the need to educate consumers and get them to understand craft products. This is seen to be the most important factor. If brewers can get consumers to love their products and get buy-in they will then tell others and word of mouth does their marketing for them.

There are real opportunities in educating potential consumers. There is a key role for social media in this in terms of helping to promote the brand story, brand personality, driving brand recognition and developing relationships with consumers. Selling emotional cues about the brewer's brand at the same time will help drive the market. There is a need for brewers to recognise that they have to resource this and need a marketing budget to support marketing actions. Engagement and exposure are seen as key.

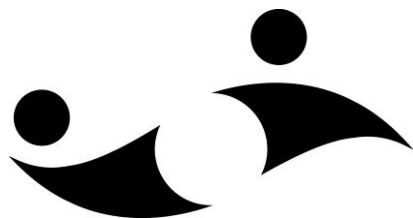
There was consensus that if you can drive market demand everything else will follow and then all your other activities to furnish this market demand. For example, it will lead to increased sales, alleviate cash flow and enable ability to focus on other aspects of the business.

Brewers recognised that they are operating in an industry that is getting increasingly competitive. They need to think about how to make themselves stand out whilst supporting and growing the sector as a whole.

This is a really big issue and a really big opportunity.

Key players identified are brewers, distributors, retail outlets, front of house.

Cross-sector co-operation would also help increase customer awareness and knowledge. This could be enabled by support agencies, government, sectoral organisations.



II. Developing New Distribution Channels

A lot of the brewers feel very powerless in the distribution channels they are in and there was much discussion of possible new distribution channels and new outlets that might help in terms of re-balancing power and accessing new markets.

Two of the brewers do almost all of their distribution through music festivals and this was seen as a fantastic way of being instantly global – going to festivals that are global in scope gives reach to international markets.

Brewers discussed ways that they could think innovatively about possible new distribution channels rather than just doing things in the same way that everybody else was.

Linked to the first opportunity this is seen as ways of building demand to build production. Brewers discussed the necessity of building relationships with importers, online, distributors. Key issue is seen to be wider distribution in the right places.

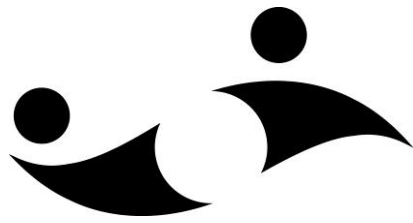
III. NPD and Innovation

This was seen to be another key area for opportunities. Key to craft beer is constant innovation. Brewers are driven by a fascination with what they are doing, playing with flavours, playing with brews. They have new products coming on all the time and this helps them stand out against the more traditional beer markets. This constant innovation can seem counter-intuitive to those outside the industry, but it is a key point of difference.

Innovation is not just around beer and flavours, but there are opportunities in merchandising such as canning and other new formats which have improved shelf life and transferability and thus increase export opportunities; diversification and other added-value.

IV. Collaboration

This was an interesting theme as before the workshops we thought this would be a key issue, but this was not talked about as explicitly as we would have expected. However, collaboration underpins almost everything people were talking about. Collaborative ways of working are seen almost as a given and so were not particularly flagged up. Collaborative activities include co-brewing, marketing and distribution. There are also examples of innovation being trickled down to other brewers through collaborative mentoring.



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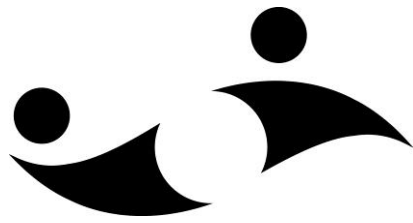
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Collaboration is really important when talking about resources and the ways in which brewers can share and the types of resources that can be shared.

V. Sectoral Positioning

There was a unified call from brewers for increased sectoral positioning, a sectoral voice and discussion of the opportunities this could bring. Craft beer needs to be thought of at UK- and EU-levels as well as at individual and regional levels.

There needs to be more of a message on why this sector is important and how it is important. Craft breweries are often embedded in rural or peripheral communities or in very urban places that have undergone regeneration. Breweries are important to local, regional and national economies and this fact is not voiced loudly enough.



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SUII Workshop 2 – Building Growth: Deploying Entrepreneurial Capitals

Workshop Outcomes Synopsis

This event aimed to bring stakeholders together to focus on developing detailed collaborative action plans, addressing the challenges identified in the first event (March 2017). “Entrepreneurial capitals” were analysed, so that each brewer could focus on their economic resources (cash, equipment); their social capital (network, friends, connections); their cultural capital (knowledge, way of viewing the work) and their symbolic capital (reputation, awards).



Individual Brewery Level – Resourcing Growth through Entrepreneurial Capitals

Brewers worked one-on-one with academic partners to identify the growth-driving resources which their brewery currently possesses, as well as those which they believe to be needed, if they are to build the growth of their venture. This workshop therefore provided each brewer with a summary of their current resource base, as well as those assets required to fuel their growth, thus providing a firm foundational and strategic understanding of the resource implications of their growth plans. Several over-arching themes emerged, of relevance to many of the workshop's brewers, and these are presented below, to highlight the resources needed for craft brewery growth. Like the workshop itself, resources are expressed in terms of:

- Economic Capital: Financial Assets, IPR, Tangible and Intangible Business Assets
- Human Capital: Personal Dispositions, Knowledge, Know-How, Skills and Capabilities
- Symbolic Capital: Reputation, Qualifications, Honours, Distinctions and Associations
- Social Capital: Connections, Networks, Alliances and Relationships

I. Economic Capital

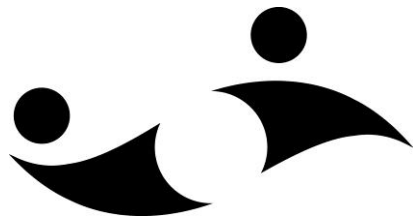
Very specific numbers were expressed as growth targets – but in terms of volume of beer brewed, rather than as a sales figure in pounds. The main “currency” of the craft beer sector is, paradoxically, beer itself!

Both the most valued economic capital (for the larger brewers), and the aspirations of the newer, smaller breweries, centre around two linked phenomena. Firstly, targets are articulated in terms of hectolitres of beer produced per year. Secondly, excellence and scale in the in-house production, packaging and sales/tasting facilities are a key priority, with many brewers focusing on expansion – planned or recent - of their manufacturing and packaging plant.

There is also a recognition of the importance of intangible economic capitals, including the brewers' intellectual property, often codified and manifested through specific recipes and brands.

II. Human Capital

A unanimous concern for all brewers is the imperative to access and develop skilled staff, not only in brewing per se, but also in commercial skills, including marketing, logistics, accounting and sales (management). Note was made of the dangers of



skilling up millennials who then move on rapidly to other forms of employment – how can brewers create “sticky” employees?

III. Symbolic Capital

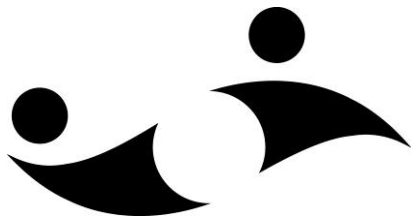
Brewers differentiated between the nature and focus of symbolic capital, with a strong recognition that awards for their beers articulate value to their peer group within the brewing community – their fellow brewers. Symbolic capital with consumers, on the other hand, is mainly perceived to be achieved through the development and communication of clear narratives and consistent, authentic stories, often rooted within the heritage and legacy of locality, as well as the environmental sustenance which their breweries also bring to these localities. Social media are acknowledged to be an important vehicle for building and communicating symbolic capital with the beer-drinking world.

IV. Social Capital

Both horizontal and vertical value chain relationships are identified as being of importance within the sector, with different strategic uses of these various forms of social capital. For example, horizontal links with other brewers were indeed mentioned, through the vehicle of co-lab brews. However, these are perhaps not perceived to be as crucial or promising as horizontal relationships with other craft producers, including artisanal food producers. Vertical relationships with distribution partners are essential for reaching the markets, and form a vital social capital resource comprising pubs, bars, the local tourist industry, exporters, and distributors.

Pre-embeddedness in other industries is brought into the brewery by some entrepreneurs, to help build the new brewery's networks, building on previous connections and reputation. Also of note are links with formal business networks, and public sector associations. It is also important to recognise that it is often weaker relational ties which give brewers' access to new markets – going outwith the closer network in a way which is sometimes seen as serendipitous.

Connections with the market are often mediated through social media – which is also found (see above) to be a key route for building reputation and legitimacy (symbolic capital) into these market relationships. Both message and medium are crucial for building customer social capital, with brewers noting it is “not just what you want to say but the best way to say it”. The breweries work to build beer loving communities, then, especially through festivals, which have emerged as a key way of doing this, cited by numerous organisations.



Craft Brewing Sectoral Level - Resourcing Growth through Entrepreneurial Capitals

Brewers and their academic partners then joined larger groups, bringing together their findings and insights to consider the resources both currently held, and those still lacking but needed, at the level of the European craft brewing sector. Moving up to this sectoral level similar patterns were observed across the four forms of capital, as for individual brewers (unsurprisingly!), although some interesting additional insights emerged.

I. Economic Capital

For economic capital, again participants focused upon the physical assets of production, either as their core economic asset, or as an aspiration – “bigger and shinier kit” (group 2, and groups 1, 3, 5). Some mention was also made of recipes as a key intangible asset (group 2), although this is considered more under human capital, as a craft brewing skillset.

II. Human Capital

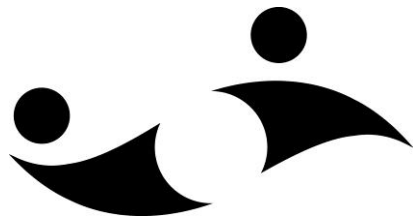
The importance of cultural capital is very evident indeed within the sector as a whole, with all groups highlighting the need for skills development across many and diverse levels, as well as issues around recruiting and retaining skilled employees.

III. Social Capital

With regard to social capital, there is an interesting distinction between local embeddedness, and expansion networks. In local terms, rich relationships and engagement with the craft beer community are especially valued, as well as links with incoming tourists (groups, 1, 4, and 5). Interestingly, links and co-operation with other local players in the food and drink industry are highlighted as of significance, including restaurants (groups 4 and 5), food and drink festivals (1, 3), and tourism (5).

For some participants, rich personal ties to export contacts are also perceived as a key social capital endowment, and a wish for more of these collaborations, often with other international brewers in target countries, was expressed, focused particularly on supply chain partnerships (group 1). Personal connections and serendipity play a role, too, in driving export through social capital.

By contrast, some expansion networks, particularly export connections, are seen to be weaker ties (in social terms), but of great benefit in supporting internationalisation. Such connections include existing brewery and export associations, although the number of these is questioned: “too many associations – not enough time” (group 2).



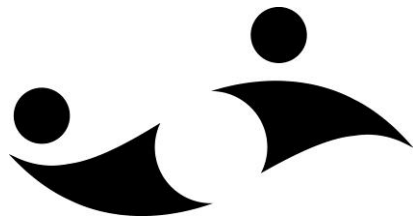
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Nevertheless, desire for a pan-European craft brewery association was expressed by several groups (2, 3, and 5).

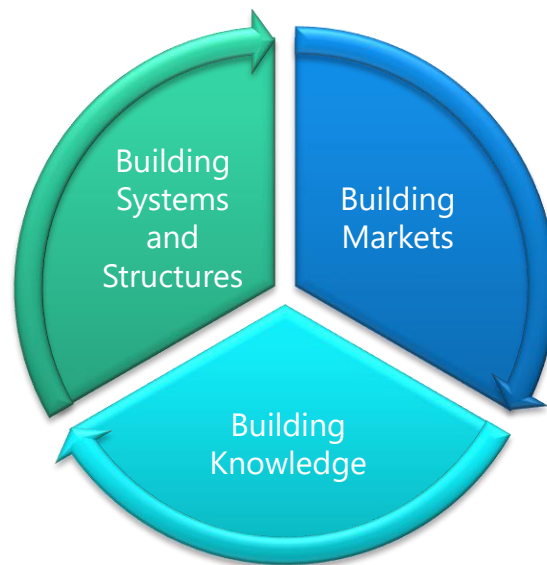
IV. Symbolic Capital

Symbolic capital is largely seen to be driven through authenticity, and can be embodied in awards, particularly at national and international level (2, 3, and 5). All groups proposed sectoral mechanisms to ensure and accredit the quality of craft beer, articulating and underwriting the meaning of craft in the brewing context (1, 2, 3, 4, and 5).



Co-Created Action Plans – Building Growth Together

The final workshop and pitching session in this event asked participants – brewers and academics – to work in teams to develop plans for the way ahead, and to consider all interested and involved parties. The focus was on which shared needs could be addressed at a wider level than that of the individual brewery, or the craft beer sector alone, and each of the five teams developed and pitched some very promising proposals. These can be broadly grouped into three main themes, discussed in full below:

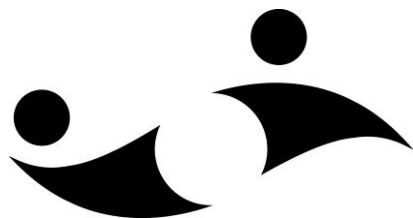


I. Building Markets

The education of customers was highlighted as a priority, in order to increase the market share of craft beer in general (groups 1, 3). Related to this is a recognised need to encourage switching behaviour from substitute type products, such as wine drinking, which necessitates education around the concepts of sharing bottles of beer, drinking beer in restaurants (3, 4 and 5), and pairing it with food (2). This requires guiding consumers through a different journey with this product, beer, than that which they are accustomed to. Inter-generational differences amongst consumers were discussed in terms of this need for education to build markets– middle aged drinkers are seen to have well entrenched drinking habits, whereas younger drinkers offer different opportunities. Craft beer for the young and trendy is better positioned as having fun, in contrast with irresponsible binge drinking, or to:

“Collectively build consumers mind-set to drink less and drink better”

Although education of the market, then, as an essential precursor to sales, is seen as a collective responsibility of the craft beer sector, nevertheless the actual selling of craft



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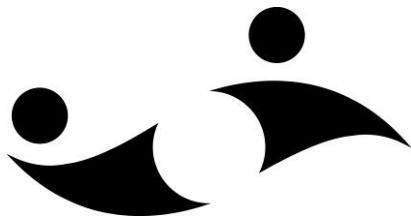
beer into new markets is perceived to be better handled by individual breweries, marketing around their own specific point of difference.

Exporting is also highlighted as a market building priority (1, 2). Different strategies are identified for exporting – some welcome and encourage joint exporting of mixed pallets from several craft breweries, whereas others feel this is a dangerous route to market that would jeopardise their own plans and unique brand awareness.

The organization of events and festivals is identified as an effective collective level technique for building markets, but, again, some brewers express the view that this may, strategically, be better if co-organised with other local craft producers (including other craft food and drink firms), rather than with other beer producers, where their product might become “lost”. Linking beer to food, and to the experience of eating and drinking, is also expressed in another route to building markets – collaborations with local restaurants. Premium beer, in particular, is argued to offer a sophisticated opportunity for food and drink pairing events and tastings. Such approaches are seen to require that brewers leverage their local social capital, building markets through relationships with related artisanal entrepreneurs. Distributors are also perceived as potential brokers who could instigate collaborations with the restaurant trade. Some brewers, however, prefer to maintain control and ownership of this type of vertical integration, through (local) market growth plans based around opening their own restaurant, and / or tasting room. Brewery visits, and the building of an exhibition, are also identified as vertical integration approaches to building markets, and here – as in related projects – local tourist agencies are seen as promising collaborators.

As well as local relationship ties providing a strong resource for growing markets, locality is also seen as a vehicle for demonstrating and grounding the provenance of place. Although - perhaps paradoxically - most craft brewers rely largely on raw ingredients from outwith their locale - a sense of provenance, or terroir, is developed through the re-invention of traditional recipes, the use of some local flavours, and via the unique selling point of their local place. This is seen to offer a point of differentiation in a crowded market. Similarly, by offering different beers to reflect seasonality, brewers can build market through these local routes, as well as alternatives, such as monthly beer subscriptions.

In addition to writing local place into their stories, brewers emphasize the need to build markets through communicating their reputation and legitimacy (symbolic capital) around the taste and quality of their beer. This is facilitated by the supporting narrative of the smaller artisanal brewer as a Robin Hood, or David versus Goliath figure, enhanced further by their personal connection with their customers and the local community.



II. Building Knowledge

As already discussed extensively within the summaries of findings about human capital, building knowledge is seen as an essential precursor to building markets effectively. Recruitment, and the building and developing of human capital, are highlighted throughout the workshop, including this final session. Equally, the craft brewing sector must find ways to educate the market, partners, and policy makers.

Strong brewing skills are required of all in the sector, to ensure the premium quality of craft beer, so that the sector's collective reputation is also built and protected. Beer sommelier education is also sought, to educate both consumers and brewery staff about beer and food pairings. However, beer and brewing skills per se are not the main focus of the knowledge sought, however, with needs being perceived far more in the areas of marketing, organisational management, and the digital world. Training and retaining millennials are once again mentioned as an issue.

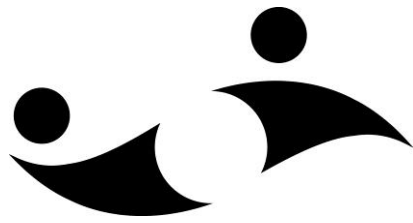
Links are sought with universities to enhance the sharing and transfer of academic knowledge, in management, strategy and policy areas, and – particularly - in terms of research and development into hops.

III. Building Systems and Structures

The most prevalent and unanimous vision for building supportive infrastructure systems centre around a desire for what was variously expressed as standards of quality, accreditation of craft beer, measurement marks for quality, or an official craft mark. Proposals vary as to who should be responsible for such an initiative, including a proposed NGO to regulate quality standards and to provide incentives for breweries to be part of it. Other potential quality accreditation bodies comprise a European level craft brewing association, and public sector involvement. Beer rankings through the beer association or institute could provide an additional mechanism for ensuring and rewarding quality. A pilot scheme is recommended as a sensible first step in this direction. Building support for an EU craft beer institute is proposed – although participants variously feel this should be public sector led, or by contrast formed by the brewing community. In general, though, certification on national and EU level, and quality accreditation, are widely sought.

Access to support, including financial support, would also be welcomed to facilitate (international) market visits, and professional recruitment. Tax incentives could be used to support the sector, as is the experience of some of the European brewers.

Brewers also inform us that they would welcome information from established support bodies focused on policy and regulation in their sector. There is considerable divergence across Europe – and sometimes within countries - in terms of the support



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for, licensing, regulation and taxation of artisanal brewing, and it is felt that the time is right for a review of this European regulatory environment.

Brewers would also welcome support around the development of indigenous raw ingredients, most particularly of hops. There is a growing shortage of hops, and considerable difficulties are experienced around their sourcing, especially for specialist hops (usually imported) as the sector continues to grow, and larger competitors from mainstream brewing attempt to mimic craft recipes. Two systems level solutions are proposed to tackle this problem. The first is university-driven research around the development of indigenous hops suitable for specific local environments. The second is the establishment of a hop-buying co-operative of craft breweries, which would additionally have the benefit of allowing members to develop further expertise on ingredient quality, as well as nurturing collaboration between breweries.

Another proposed form of peer support is proposed through the establishment of a project developing networks of local craft food and drink suppliers, widening perspectives, and building collaborations. Models and examples of successful diversification would also be welcomed.

In addition to research and knowledge transfer around hops, it is also felt that systemic support could be provided through studies and greater communication into the (positive) socio-economic impact of craft beer consumption and production. Examples of such additionalities generated by the sector include the employment impact on local communities, and the comparative positive effects of craft beer on health and well-being (compared to other modes of drinking, and less pure alcoholic alternatives). Similarly, the potential impact of craft beer and the craft beer sector on rural development, in particular, could be better recognised and integrated more widely into Rural Development Policy.