Inventor, Founder or Developer? An Enquiry into the Passion that Drives Craft Breweries in Victoria, Australia

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The brewing industry is undergoing dramatic changes in many countries, with increasing numbers of craft breweries appealing to niche markets and challenging the traditional volume based business model of major corporations. Yet, little research has addressed the craft beer industry let alone their owners. The study argues that some form of ‘entrepreneurial passion’ drives the development of business models by the craft beer entrepreneurs. Building upon the typology of role identities related to entrepreneurial passion, this paper investigates how different objects of passion influence the business models that craft brewers choose to operate.

INTRODUCTION

In recent years, the market for beer has become partitioned with a few large multinational companies controlling the majority of beer sales internationally and locally oriented small breweries operating in regional niche markets (Carroll & Swaminathan, 2000). The two largest global brewing companies (Anheuser-Busch-InBev and SABMiller) are controlling approximately 40% of the global market share (Datamonitor, 2010). Nevertheless, beer consumers in mature markets may to be turning away from mass-produced beers in preference of local alternatives. As such, two strategic groups can be said to occupy the seller’s side of the beer market: ‘mass breweries’, who sell nationwide and differentiate their products primarily by advertising on television (Choi & Stack, 2005); and ‘craft breweries’. In contrast to the mass breweries, craft breweries are small, independent and traditional, sell locally or regionally and differentiate their products primarily with raw materials (Adams, 2006).

Schnell & Reese (2003) argue that one of the main reasons for the expansion of craft breweries, at least in the United States, is because consumers perceive the mass breweries to be part of popular, national culture fuelled by a ‘smothering homogeneity’. In 2011 in the USA, the volume of craft beer consumed increased by 16% as compared with 2010, while the total volume of beer consumed declined by 2% (Esterl, 2011). In 2009 approximately 260 new US breweries were in the planning, and in 2011 there were over 700 planned for opening (Esterl, 2011). Craft breweries are also burgeoning in the UK, Australasia, and Northern Europe. This provide some indication that many beer consumers are turning to craft beer products that is locally produced, in preference to the mainstream, mass-produced product offered by the multi-nationals.
With regards to the beer industry, some research have focused on the overall market development and the underlying reasons for the current centralisation (Adams, 2006; Carroll & Swaminathan, 2000; Choi & Stack, 2005), while others have focused on the importance of craft breweries from a community or local identity point of view (Flack, 1997; Schnell & Reese, 2003). Although the growing popularity for craft beer in many markets has been noted, the overall market share for these businesses remains small (Choi & Stack, 2005). Yet, new entrants seem eager to enter into the industry, as many new breweries are currently in planning. Very little research has focused on the entrepreneurs that enter into this highly competitive and arguably saturated marketplace. This is one of the first studies that look into the people who start and run craft breweries.

The craft beer ‘movement’ seems to have started partly as a result of the industry centralisation, with large international beverage companies controlling the markets. The product the large companies produce are often described as homogenous and bland-tasting (Choi & Stack, 2005). The craft beer industry on the other hand, is focused on producing premium products differentiated by taste (Adams, 2006). As such, craft beer entrepreneurs may also be driven by a passion for rectifying a ‘sick’ industry, with an identity related to being a craft brewer (tradesperson) as well as an entrepreneur.

Situated in their operating environment, the brewing industry, we turn our attention to the people behind the craft brewery businesses. We propose that these people are driven by a unique entrepreneurial passion (Cardon, Wincent, Singh, & Drnovsek, 2009), in order to start a business in such a ‘hostile’ environment. Driven by passion, Cardon and colleagues (2009) discuss three distinct role identities that may be meaningful for entrepreneurs; inventor, founder, and developer identities. Exploring these different role identities, we investigate how craft breweries run and operate their businesses. The main research questions we seek to investigate in this paper are: Are there entrepreneurial identities as an inventor, founder or developer in the craft brewery industry? If so, are these identities related to different ways of running and operating a craft brewery?

To investigate this, we focus our investigation in a market where craft beer is relatively new, the state of Victoria in Australia. Compared to the US and UK, the concentration of craft breweries is low and changes in the industry are very recent. As such, the entrepreneurial activities are ‘fresh’, in a young and evolving industry.

The paper proceeds in the following manner. First, we refer to the craft beer ‘movement’ in Australia by giving an overview of the brewing industry. Next, we discuss the concept of entrepreneurial passion and present a taxonomy of three entrepreneurial role identities (inventor, founder and developer). Based on this foundation, we examine the manifestations of entrepreneurial passion through these roles and reflect upon their influence on the business models chosen by five craft breweries in the state of Victoria, Australia. Building upon the in-depth interview data, we illustrate three different business models for viable entry into a saturated consumer market dominated by global companies. We then discuss the implications of our findings for theory and further research.

LITERATURE REVIEW

In Australia, the growth in the craft beer sector is noticeable. By 1990, the centralisation of the industry seemed complete; three companies controlled the whole market and the country only had 11 breweries. However, this seems to have been the turning point rather than the end state; twenty years later the craft beer sector had made its entrance in Australia and the industry consisted of over 130 breweries in 2010. Of those breweries, about 50 (35-40%) are located in the state of Victoria, which makes this state the craft beer capital of Australia in some sense. Figure 1 below illustrates the development of breweries in Australia from the country’s beginning.
In Australia, craft breweries are subject to taxes applied to small businesses; however, they are also subject to taxes in relation to the production of alcohol, known as excise tax. The excise tax has been said to cripple the industry, slow down the birth rate and hinder growth (Woodburn, 2011). However, given the explosion of new small breweries in the US in the 1980’s, excise tax concessions for craft breweries seem to only affect the variety of the smallest producers – it does not seem to have much impact on the overall structure of the industry (Carroll & Swaminathan, 2000). Thus, other factors than tax structures such as changes in consumer’s preferences are also likely to have an impact on the nature of the industry.

Australian beer drinkers are said to have a need to monitor other’s reactions to their choice of beer brand (Pettigrew, 2002). This seems to suggest a certain level of brand loyalty, but this may not be the case. Australian consumers are not necessarily loyal to one brand in particular but rather they buy a product some of the time and at other times they buy another product (Dawes, 2008). Dawes (2008) found that the double jeopardy pattern (Ehrenberg, Goodhardt, & Barwise, 1990) applies to the beer industry in Australia. This means that the small brands (i.e. the craft breweries) have fewer consumers that are also less brand-loyal. It may be the case that craft beer consumers want variety rather than sticking to the product they know. According to Flack (1997) the craft beer drinker may also be more involved in the category compared to other beer consumers. Thus, craft breweries may expect their consumers to be reasonably educated with regards to their products, but that consistent repeat purchase may be less likely to occur because of variety seeking.

Australian beer consumers are purchasing different beers for different occasions (Kingham, 2008). This is similar to what has been found in the wine market when purchase occasion is found to influence product choice (Hall & Lockshin, 2000). Thus, beer, like wine, is becoming less of a generic mass produced fast moving consumer good – differentiated by marketing – for many consumers. Both pub
managers and brewers in the craft beer sector suggest that rather than staying loyal towards one beer brand, consumers increasingly drink craft beer and choose their beers based on occasion rather than loyalty (Holden & Kingham, 2010). While beer consumption in Australia has decreased steadily every year since 1979, consumers prefer quality beers and the consumption of craft beers is increasing (Kingham, 2008).

The interest in craft beers may be connected with the increasing knowledge of wines; when once most Australians would not have been able to decipher the difference between a Chardonnay and a Sauvignon Blanc, today Australian consumers have increasingly sophisticated palates (Bruwer, Li, & Reid, 2002). Australian consumers are beginning to recognise the sensory value of beer and are responding to the supply of craft beers. Although changes in consumer preferences may explain some of the reasons for the current market trend in Australia, industry structure reasons may also be important.

It appears that when an industry becomes highly centralised (e.g. controlled by two multinational companies like beer in Australia), the large players can be regarded as ‘generalists’, opening up for small players enter the market as ‘specialists’ (Carroll, 1985). For craft breweries, mortality declines strongly with concentration because these breweries are specialists, and not generalists (Carroll & Swaminathan, 2000). They serve a section of the overall market that the generalists cannot serve, which means that being a specialist may be a highly viable and sustainable business strategy. Although the market share of a small number of firms (mass brewers) increase, small firms (craft brewers) may proliferate despite the concentration of specialists in a mature industry.

Carroll (1985) suggests that the mass brewers are keeping their eye on the craft brewers, but that the markets that craft brewers are operating in are too esoteric for them to focus on. Mass marketers are focused on heterogeneous regional markets that are substantial in size. It remains the case, nonetheless, that major breweries do not want to venture too far into small esoteric markets and usually prefer to focus instead on the ‘emerging’ craft brew drinker whose tastes do not differ radically from those of their traditional customer bases (Carroll, 2011). Still, the large breweries tend to focus on regional or national markets while the craft breweries focus on the local market. Many craft breweries also see it as a vital success factor of their business to connect with the local community (Holden & Kingham, 2010). A well-connected craft brewery can offer a localised product that a large brewery would find it difficult to compete with. Thus, it seems that craft breweries should focus on business models the generalist mass brewers cannot compete with by either offering a highly diversified ‘specialist’ products or a locally connected product. In the following we will look at the various craft beer business models in more detail.

Business Models and Entrepreneurial Identities

Before advancing to discuss how entrepreneurial identities (our theoretical viewpoint), influences an entrepreneur’s selection of the business model, it is useful to define what we mean by a business model in this paper.

A business model may function as a unifying unit of analysis that captures value creation arising from multiple sources (Morris, Schindehutte, & Allen, 2005). While a business model may be seen simply as a logic of profit generation, selecting sources of revenue, cost, pricing and volumes (e.g. Stewart & Zhao, 2000), it may also be understood at operational and strategic levels. Operationally, a business model encompasses internal decision-making variables such as production and delivery methods, administrative processes, resource flows and logistics, or the design of the central interdependent systems that keep the business competitive (Mayo & Brown, 1999).

Strategically, as we approach business models in this paper, the notion of business model is focused on the overall direction for the firm, that is - the configuration of how the firm chooses its target markets, positions itself within those markets, differentiates products, and interacts with customers and other stakeholders (Morris et al., 2005; Slywotzky, 1996). As always with strategy, the concern is about long-term sustainability, viability and performance. The integrative framework characterising business models captures six dimensions: 1) how value is created, 2) for whom the firm creates value, 3) the firm’s internal source of advantage, 4) positioning in the marketplace, 5) the economic model and 6) the entrepreneur’s ambitions in terms of time, scope and size (Morris et al., 2005).
For examining the choice of a particular business model in the craft beer industry, our analysis applies the ‘entrepreneurial passion model’ developed by Cardon et al. (2009). Cardon and colleagues argue that experiencing passion unleashes energy, enhances commitment and facilitates entrepreneurs’ efforts to adapt and deal with environmental challenges by activating heuristic cognitive processing. However, the authors also point out that entrepreneurial passion may result in behaviour that is obsessive, blind or misdirected. For instance, an entrepreneur may persist with a business that they should have shut down long ago.

Cardon et al. (2009) emphasise importantly that passion is not inherent in some entrepreneurs, or entrepreneurs are not inherently disposed to such feelings, but ‘because they are engaged in something that relates to a meaningful and salient self-identity for them’ (p. 516). That is, passionate craft brewers, may not be passionate people per se, or even passionate about the beer, but relate this with things that are important for them such as art and craft, being a trendsetter and connoisseur or simply turning a hobby into a business.

Social psychologists have suggested that passion leads to an intense focus on activities at hand (Csikszentmihalyi, 1990), with focus on those activities that they find important (Vallerand et al., 2003). In the entrepreneurial context, passion relates to the way people approach and derives joy from their work and how people see themselves as entrepreneurs (Baum and Locke, 2004; De Clercq et al., 2012, Shane et al., 2003). Cardon et al. (2009, p. 517) define entrepreneurial passion ‘as consciously accessible, intense positive feelings experienced by engagement in entrepreneurial activities associated with roles that are meaningful and salient to the self-identity of the entrepreneur’. This definition implies that passion is a conscious, as opposed to un- or subconscious, emotion that an individual feels for objects or activities that are profoundly meaningful to their self-identity.

The concept of self-identity is central to how Cardon et al. (2009) explain the effects of passion in entrepreneurial contexts. The authors conceptualise three entrepreneurial role identities, which are organised hierarchically such that the identity at a higher level is more salient and central to self-identity than the other identities. Thus, entrepreneurs may have multiple identities at different levels of salience, where some may or may not be more dominant than others and some may even conflict with the others. While the hierarchical status of the different role identities can change over time, the authors argue that the relative importance at any given time is stable.

The three entrepreneurial role identities in Cardon et al. (2009) are associated with different objects of passion: (1) an inventor identity directs entrepreneurial passion to identifying, inventing and exploring new business opportunities; (2) a founder identity implies that the entrepreneur is passionate about activities related to establishing a business for exploiting opportunities; and (3) a developer identity channels entrepreneurial passion to nurturing, growing and expanding the business once it has been set up.

Deriving from Cardon et al. (2009), passionate entrepreneurs with inventor identities would thus create business models that are characterised by creativity in products, market selection (niches) and operations. In addition, the ones with founder identities would be highly persistent and creative in finding resources to allow them to create ventures they love. The entrepreneurs with passion for growth and development would persist in finding distribution channels and immerse themselves in the critical tasks of sales and marketing their products and services. Figure 2 illustrates the different objects of entrepreneurial passion and the associated dominant characteristics of entrepreneurial action.
Our research question was related to investigating the three different entrepreneurial role identities, and how they translate into different ways of running and operating a craft brewery. As such, we examined the business models craft breweries apply in order to overcome their liabilities of smallness and newness in the state of Victoria, Australia, where about 90% of the market share belongs to two multinational corporations (UK based SABMiller and Japanese based Kirin Holdings). We focus on studying the craft beer industry in the state of Victoria since it is the most developed craft beer scene in Australia at present. Indeed, a preliminary review of websites in relation to craft brewing in Australia indicates that Victoria has the highest concentration of craft breweries in the country. Today, about 50 craft breweries operate in Victoria – in metropolitan Melbourne (e.g., 3 Ravens in Thornbury, Mountain Goat in Richmond, 2 Brothers in Moorabbin, True South in Black Rock) and in regional destinations (e.g., White Rabbit in Healesville, Bridge Road Brewers in Beechworth, Flying Horse in Warrnambool, Grand Ridge in Mirboo North).

We focused on this particular market since it is growing rapidly and characterised by what seems to be passionate new entrants. Since craft breweries are often established by people who turn a private passion or hobby into a business, we are interested in knowing how such lifestyle enterprises can develop into viable business ventures in a saturated fast moving consumer goods market, dominated by multinational corporations.

Due to the lack of prior research on the craft brewing industry in Victoria (or Australia for that matter), this study takes an explorative approach where we combine industry data from the state of Victoria and primary data from five case studies of craft breweries. The selection of the cases follows the logic of theoretical triangulation (Yin, 2003). Thus, based on information available on the companies’ websites and information collected from the media, we selected breweries that seemed to operate different business models. We have included breweries that sell their products in kegs and bottles to restaurants, bars and bottle shops but do not operate a bar/restaurant themselves; brewing companies that do not have
their own premises but operate via a contract brewery; and breweries/brewpubs that sell their products mainly via the venue but also to other bars, restaurants and bottle shops. In addition, we chose to look at central/urban as well as regional/rural locations. The interview data were collected in February 2012. Each of the five interviews lasted approximately 90 minutes and was content-analysed by all co-authors.

RESULTS

Our findings suggest that craft breweries overcome the challenges posed by the brewing industry environment in various ways, yet all of them share an entrepreneurial passion of some sort. As Cardon et al. (2009) propose, entrepreneurial passion leads to higher levels of creative problem solving and higher levels for persistence. In the following, we develop a typology of passion based business models at a strategic level and illustrate the types with craft brewery examples. Building further on our basic framework in figure 2; figure 3 features the same three dimensions: 1) passion for recognising opportunities, 2) passion for venture creation and 3) passion for development, growth and profitability.

FIGURE 3
TYPOLOGY OF PASSION BASED BUSINESS MODELS BASED ON THE COMBINATION OF INVENTOR AND FOUNDER IDENTITIES. EACH OF THE FOUR BUSINESS MODELS COULD ALSO VARY ON THE DIMENSION OF PASSION FOR DEVELOPMENT, GROWTH AND PROFITABILITY, RELATING TO THE DEVELOPER ROLE IDENTITY.

No Passion – Or Passion for Development Only (Quadrant I)

Entrepreneurs lacking passion towards any aspect of the business beyond securing employment for themselves in lack of suitable labour market alternatives may sometimes be so-called involuntary entrepreneurs (Kautonen et al., 2010). Yet, in terms of the business model, the lack of passion towards various aspects of business venturing is likely to result in simply running a local small business with the aim of serving the local market and earning a living for the entrepreneur. Clearly, we would not expect to find such characters in the craft beer industry nor did such entrepreneurs emerge in our fieldwork.

Moving from the ‘impassionate’ local business up on the dimension of passion for development offers more interesting business model propositions. The strategic focus of such businesses is clearly on
exploitation (Gupta, Smith, & Shalley, 2006): making the most out of existing business opportunities. Examples of such business models may include the development of a ‘brewpub’ with the intention of jumping the bandwagon of the craft beer trend, and making the most out of it by franchising the concept or aiming to sell the brewery to a corporate brewer at a later date. Here, the focus is neither on venture creation nor on developing new ground breaking beers, but it is solely on making money with the business.

While franchising concepts are yet to emerge in the Australian beer scene, prominent examples of corporations buying out craft breweries do exist. For example, Fosters’ (now SABMiller) acquisition of Matilda Bay craft brewery and Lion Nathan’s (now Kirin Holding) bought out Little Creatures and White Rabbit. Thus, the business model of setting up a craft beer business with the aim of selling it is a viable one. However, we did not find that any of the independent breweries we interviewed had adopted this model as the main focus. Although some of them hinted that they may consider selling to the one of the ‘big guys’ when they retire, they seemed to have other passions more salient than the passion for growth in this sense. This also makes sense with regards to the partitioning of resources theory (Swaminathan, 1998); with an industry dominated by some large generalists and many small specialists. The large generalist breweries are more interested in the emerging craft beer drinker than having a passion for the craft itself. For the large generalist, buying up specialists may be a good way to ‘tap into’ this market. However, this is not a common strategy amongst the independent specialists entrepreneurs.

Passion for Recognising Opportunities and Creating Innovations, New Products and Services (Quadrant II)

The inventor identity and the associated ability for creative problem solving lead to effectiveness in opportunity recognition (Cardon et al., 2009). This passion for exploring new innovations, new products and services links naturally with the identification of new customer groups, niche product development and innovative service concepts. Therefore the business models pursued by entrepreneurs who are driven by this kind of passion are likely to feature a focus on a continuous development of new original products, creative packaging and identification of multiple small customer niches.

The niche-product business model builds on the search for an unusual taste. From the breweries we interviewed, one of them followed this strategy. This brewery focused on developing beers with rather unusual ingredients and taste profiles. They had positioned themselves away from conventional brewing. They told us that they did not aim to sell large quantities of their beers in one single market. Rather, their aim was to reach a particular niche of consumers in a larger variety of markets. They insisted that the craft beer market has reached a level where a growing number of consumers are mainly driven by purchasing beers that are something they have not tasted before. As such, they are seeking to capitalise on Australians growing sophistication when it comes to beer consumption. They justified their position by mentioning international success stories such as Nøgne Ø from Norway, which has followed this niche strategy of diversifying the flavour of their products. The focus here is on market skimming rather than penetration, which is also reflected in a higher price per unit.

On its own, such a constant exploration of new opportunities is likely to be very resource consuming, and may not create much of a business. Thus, economic realities may restrict the growth of this kind of breweries. However, combined with a passion for development, growth and profits, and the associated persistence in finding the distribution channels and absorption in sales and marketing may just create a brew leading to success at an international scale. The niche strategy may however, be a first mover approach and therefore most suitable in a market without too many craft brewers combined with a rapid growth in craft beer appreciation amongst the local consumers. For example, Nøgne Ø was the first craft brewery to open in Norway in 2003, which may partly explain their popularity.

Passion for Venture Creation, or Passion for an Entrepreneurial Lifestyle (Quadrant III)

The founder identity and the associated passion for running one’s own business relates to entrepreneurial effectiveness in the assembly of human, social and financial capital (Cardon et al., 2009). Setting up one’s own firm around one’s business idea is emotionally important and leads the entrepreneur
to search for a way to realise this dream. Affective processes drive this ‘entrepreneurial process’; such as passion, that exert significant influence on the behaviour (e.g., Cohen, 2005; Zajonc, 1980). The capability and persistence in assembling the financial, human and social capital required for running a successful business differentiates these firms from ‘normal’ businesses. This positive emotional zeal leads to novel and creative ways to solve entrepreneurial problems (Hayton and Cholakova, 2011), which may challenge the conventions of the industry in terms of ownership structures, result in partnerships and alliances as well as innovative marketing efforts. Entrepreneurs might put their personality into play in finding customers and immerse themselves in sales and marketing activity, yet this effect is argued to be somewhat weaker than the role of creative problem solving and persistence (Cardon et al. 2009). As passion aids in the creation of richer, more complex schemata concerning the industry (Hayton and Cholakova, 2011), the entrepreneurial lifestyle may also be sought through collaborative arrangements in distribution, branding or production.

In terms of the business model, this type of passion as the dominant driver should create businesses that build on the locality as well as the personality of the entrepreneur, but that may be fairly mainstream in their choice of target customers or the nature of their product/service offering. As Vallerand et al. (2003) argue, a passion leads to a focus on activity that is emotionally important to the entrepreneur. Applied to the craft beer industry, having your own business venture irrespective of the form, would override the desire to have, for example, your own brand or own production facilities. In essence, networked business models result in a situation where many brewers passionate for running their own brewery, may make a living by contract brewing beers for other brands, while others, who have a passion for setting up an own brand, conduct their business without the need for own production facilities. However, in both cases, the networked model of operation is related to the strong personal passion for an autonomous, entrepreneurial lifestyle.

Small breweries dedicated solely to contract brewing are less common in Victoria. The more interesting variant of the networked business model in the craft beer industry is the one where the business operates without its own production facilities, using the excess capacity in the production line of another craft brewery to produce their beers. This strategy can be found internationally (e.g. the ‘Gipsy brewer’ Mikkeller in Denmark), but we could not identify such a business in Victoria (perhaps because all our interviewees told us they were running at maximum capacity). Instead, the Victorian contract brewers brew their beers in various specialist breweries that focus on all levels of contracting; from simply creating your own label while giving the brewery full control over the production, to brew your own recipes and supervising the brewery staff throughout the brewing process.

This approach requires a more aggressive push-strategy than a business models that involve running a venue in addition to a brewery. Instead of focusing on pulling the customer into the venue or creating hype around an unusual product, a contract brewer are operating a networked business model and needs to convince bottle shops, bars and restaurants to carry their stock. On the other hand, the financial risk is lower for this strategy since it requires the lowest level of capital investment.

We interviewed one contract brewer, with passion for having their own business and operating with the networked business model. While making good, high quality beer also features high on the agenda, the passion for innovating with niche products had to give space for having a broader customer base with more mainstream products befitting to consumer palate. The contract brewer we interviewed was educated in wine making and had worked in wine making in the US, as well as a brewer at various other, larger craft breweries. When we asked why one would quit a well-paying job as a brewer at a successful craft brewery, we were told that there were a hundred good reasons to stay at a stable and secure job as head brewer, but only one desire to have your own business.

While the AUD $500,000 investment in own brewing equipment has so far been too high a barrier, our interviewee has contracted out the brewing of their beer to a specialist contract brewery. However, our interviewee does not represent a traditional ‘contract brewer’, one that functions as a marketing company and brand holder only. The contract brewer we spoke with brewed their own recipes and was actively involved in and controlled the brewing process. This arrangement has provided the opportunity to
focus on running the business and setting up initial distribution arrangements rather than looking for investors and/or running a hospitality business.

**Hybrids of Passion for Venture Creation and Exploration – Passion for Creating Experiences (Quadrant IV)**

The passion for having one’s own venture combined with the passion for the exploration of new opportunities could also be described as a passion for creating experiences. These businesses seek competitive advantage in product uniqueness and/or in creating something unique in their business process that results in a uniquely valuable service for the customers. As it is well known, services cannot be possessed (Shostack, 1977) or removed from the customer interface, and in order to create value, they need to be consumed. In service-dominant settings consumption and production processes are simultaneous, and the value is created jointly by the manufacturer and the customer (Grönroos, 2008; Vargo & Lusch, 2008), necessitating that the supplier becomes increasingly involved with the customer’s processes.

Thus, creating service experiences usually requires some sort of a venue, or at least effective communication in which the brewer and customer co-create the valuable experience. Customer value is created through the application of organisational capabilities, routines, and interaction with the customer. However, a service offering, when combined with the capabilities of the organisation, becomes a valuable resource and difficult for competitors to replicate or substitute (Amit & Schoemaker, 1993). Essentially, adopting the experience-based business model requires that the entrepreneur has internalised the service logic for creating value in interaction with their customers. Here, the brewer and the physical product, beer, only facilitate the customer’s own value creation.

Most often the experience business models build on the brewery experience as the creator of the bottle sales through retail channels. The challenge is to appeal to a large consumer group and to make the first experience visiting the brewery so strong that the customers actually remember the experience once making their purchasing choices among other alternatives in retail outlets. Three of the breweries we interviewed were more or less implementing this strategy, and told us very similar stories in terms of this type of value creation.

An experience-based business model may work well locally, as three of our case companies exemplify all located in regional Victoria. Among the Victorian brewers, most breweries seem to operate this type of a model, and they are most often located in regional areas outside of the city (Melbourne). However, central as well as regional experiences do exist. For example, some brewery experiences found in Victoria include romanticising blue-collar working class life style by seeking to create a ‘modern industrial feel’. This strategy is common if the brewery is located in an industrial estate by providing its customers good beer, live entertainment, and good food in a simple, relaxed manner. This ‘working-class’ experience can be found in suburban Melbourne as well as regional Victoria. What matters it seems, is that there is a natural connection with the created experience and the surroundings of the brewery. The brewery seeks to make the environment ‘come alive’ through the brewery; whether that is the farming country, historical country towns, industrial areas or wine regions just to name a few.

Another example of the experience model can be found in Victoria as an addition to a winery. The boutique wine industry is quite well developed in Victoria and an important part of regional tourism. Some wineries have thus added a brewery to expand their experience, appeal to a larger market and make it more unique. This strategy can also be found in other wine producing regions in Australia such as Margaret River in Western Australia or Barossa Valley in South Australia. At one such brewery we visited regular live music events were arranged, as well as weddings, birthdays and other parties. Some breweries are additions to already existing wineries, while others are breweries simply situated in prominent wine regions. As opposed to many boutique wineries, the breweries in these regions tend to focus in ‘bums on seats’ for an extended period of time. They often target families with kids, with ample space for children to run around as well as good food and sometimes live entertainment. The idea is often to make the brewery the ideal place to stop for lunch or dinner while visiting the wine region. In many of
these breweries, there appears not to be any major passion in terms of developing the size of the business, albeit, the passion for improving and stabilising the product quality was a challenge at the start-up phase.

If the entrepreneur’s salient passions include those associated with the developer identity, the business model becomes a whole degree more challenging. In order to grow beyond the local area and the income-generation model focusing on the venue, the entrepreneur needs to secure distribution channels, which is a particular challenge in Australia where the major corporations often control these. Having a product that is entirely unique, and not in direct competition with the major brands, could ease the entry into distribution channels. Thus, national or international growth with the experience business model might require quite hefty investments in property and other resources, or truly unique innovations in the product. While our investigations to the Victorian craft brewers did not reveal any such breweries to date, this is ought to be feasible, albeit rare.

CONCLUDING REMARKS

This paper discussed the factors underlying the current burgeoning of craft beer in Australia and examined the people behind this surge, focusing particularly on the business models that these passionate entrepreneurs pursue. Many of the investigated brewers share several elements of differing types of entrepreneurial passion. A common feature for all strategies is a passion for the craft – making a superior product. Although we noted in our initial conceptualisation that a ‘local business strategy’ was feasible, none of the Victorian breweries we interviewed were pursuing such a model. This finding is consistent with the partitioning of resources theory from the US where the large brewers are generalists and the small market entrants are specialists.

Passion for venture growth is not a common feature in craft brewers. When asked where the interviewees see themselves in ten years, we more frequently received answers about the amazing beer they would brew than how big their business had grown. Instead of business growth as such, the development focus of the interviewed brewers was geared towards stabilising the current operations. Of course, some of the older brewers (typically running the experience business model), had developed and renewed their businesses substantially from the early days – but essentially, we did not identify any passion for aggressive growth into new locations or internationally. Rather, the focus was on a local business that would be best experienced and enjoyed in its specific location.

Nevertheless, although not openly admitting it, some of the independent breweries in our sample clearly held an aspiration for achieving growth via distribution arrangements with the major breweries or even selling the business on to one of the ‘big guys’. At the same time, these individuals vehemently emphasised a passion for the artisanal aspects of their business. It may also be said that amongst homebrewers or craft beer lovers alike, some hold the position that this is when the business ceases to be craft and that the brewery have ‘sold their soul to the devil’. However, the craft beer enthusiast does not represent the only consumer sector that is interested in the origins of their beer. Craft beer also represents a fairly easily and approachable ‘life’s little luxury’. The art and craft of its making, in addition to taste of course, may be the deciding factor for many consumers that are less bothered about the ownership structure behind the brewer.

The need to be authentic and credible is paramount for craft brewers. The experience business model, which turned out to be the most common in our admittedly small selection of cases, is often built upon the idea of the customer experiencing the actual location of the brewery. This may hinder the prospects of growth, but at the same time makes the business difficult to replicate. Creating unique, valuable experiences for consumers also calls for more than just good products. Prior literature has argued that even industrial firms should move towards a service logic (e.g. Grönroos, 2008; Vargo and Lusch, 2008) in which value is co-created with the supplier and products and producers only act as facilitators of customers’ own value creation. Implementing this business logic in product-based businesses is challenging, and requires in-depth understanding of the customer’s processes, valuations and the social context.
An important challenge for all business models is securing distribution channels, as the major breweries often control these. Some craft breweries compete directly with the major breweries in pubs and retail sales. Regardless of location, the breweries we spoke with also sought to develop a distribution channel through other pubs and restaurants. Although this may be feasible at present due to increasing consumer demand, it may be more difficult in the future: A brewery or brewpub that focuses on creating experiences could be in direct competition to craft beer focused pubs and restaurants and thus find it difficult to sell their products there. As it stands, the breweries we interviewed clearly found it harder to sell kegs off-premise due to exclusive agreements between pubs and big breweries but this may also be due to perceived competition. Nevertheless, Victorian consumers seem to demand more diversity and more craft beer available in pubs and restaurants as well as bottle shops. The breweries we spoke with were currently running at maximum capacity to meet the increasing demands of the consumers.

The ideas and tentative results reported in this paper are but point out towards some further research directions. For example, very little is known about the craft beer consumer. To investigate the consumer more closely, in particular the factors beyond the beer itself affecting the value creation of the craft beer consumer would be very important in this industry since changing the consumer’s behaviour and values, rather than the taste of the beer, may actually be driving the industry. Most of the breweries we interviewed told us they were struggling to meet the market demand. One brewer was even installing new fermentation tanks during our interview while another was in the process of buying the property next to the current location.

Craft brewing and the consumption of craft beers are clearly a part of the trend of caring more about what and how we consume products, but it also appears to be part of an anti-consumption movement; moving away from mass-produced generic products. Further research needs to investigate whether consumers of craft beer is part of a movement that is turning its back on the ‘giants’ and seeking to consume goods and services produced by smaller companies whose values more closely align with excellence, local production and sustainability. This line of enquiry would examine both the supply and demand side of the industry with a view to understanding the motivations for production and consumption.

REFERENCES


