



## **Behind the Taps - A case study of Thornbridge brewery**

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### **1. Case summary**

This case is about recognising the rapid growth as well as challenges a fast-growing brewery in Britain faces and evaluating and setting strategies to sustain long-term success. The case can potentially be divided into three parts and delivered in three stages, one after another, to enable students to explore and understand various macro-environmental factors that need to be considered when running small businesses, to familiarize students with two key strategic planning tools and to ask students to develop strategies for the brewery to achieve and sustain success.

This case can be widely adapted for business undergraduate studies students, business master students and MBA students to practice macro business environment analysis such as PEST, and get a deep understanding of the brewery industries.

### **2. Aim**

- To draw wider attention to the role of industry and consumer bodies on the strategy of the businesses.
- To familiarise students with macro-environmental analysis (PEST) and strategic planning tools (5C model).
- To help students to get a real sense of small business strategy planning

### **3. Case delivery**

The case is written in a diary format and first-person tone to make the setting vivid and interesting as if the readers are taking a visual tour of the brewery themselves. Details and hints are embedded in the texts together with photos for illustration.

The case starts with the author taking a train journey to the brewery and thinking about beer making history and the real ale culture in Britain. In this part, the invention of beer and its importance in human history is emphasized. Various beer types are also introduced in Appendix 1 to give students some general knowledge of real ale. The purpose is to give students more contents about beer rather than a simple alcoholic beverage. In this part, the organization, CAMRA, its beer festivals and campaigns and are introduced. CAMRA is an important part when discussing about craft beer industry and regulations. "CAMRA, the Campaign for Real Ale, is an independent, voluntary organization campaigning for real ale, community pubs and consumer rights." Details can be found on its website: <http://www.camra.org.uk/home>. CAMRA branches exist nationwide; each branch

campaigns locally and hosts various local activities such as brewery tours, pub rambles, and most importantly, local annual beer festivals and so on. CAMRA has been successfully promoting real ale culture in Britain, helping and restoring community pubs, protecting pub owners, as well as beer consumers from excessive taxes and unfair competition. One of the most important campaign successes, as mentioned in the case, is the amendment to the Small Business, Enterprise and Employment Act, allowing “tied” pubs to purchase with a fair price so that the costs for pub owners are reduced and consumers can enjoy a wider range of selections and better prices. With the existence of CAMRA, breweries especially small breweries that are usually set up by beer-passionate individuals to produce different tastes of beers are greatly promoted. This part gives the big picture, mainly from the consumption side, of the small brewery industry in Britain.

The next part focuses on an individual brewery, Thornbridge, its history, operation, production, and so on. The author took the reader on a visual tour around Thornbridge, the brewing and bottling process, with an emphasis of Thornbridge’s uniqueness in ensuring beer taste and flavour. The author has known Thornbridge for a long time and it is its rapid growth and success in beer developing that makes it an outstanding example. Thornbridge was only established 10 years ago in the Peak District and its beers have won over 350 national and international awards since then. The innovative culture has proved a huge success in giving the old brewery industry a modern twist.

#### 4. Suggested answers to questions

The case questions can be divided into three parts and be discussed one after another. The suggested answers are provided here but they can be adjusted according to the tutor’s experience and be updated from time to time.

##### Question (1) and (2):

The first two tasks ask students to think on a macro level about the various factors that can affect a small business. These macro factors usually set up the big picture of the industry and by recognising and analysing them in detail, current and future business opportunities can be identified and business strategies can be evaluated as well. The main task is to ask students to conduct a PEST (Political, Economic, Social and Technological factors) analysis, identify factors that are favourable and unfavourable to brewery and critically evaluate these unfavourable factors. For executive education use, this part should be prepared by each student or student group as all the environmental factors are important in planning and evaluating a business strategy. For general classroom use, students can be assigned to tackle one aspect only and share the knowledge in classroom with others preparing for other aspects.

As the case content is limited, students may need to use Internet resources to conduct the analysis. Recommended websites:

<http://www.brewersofeurope.org/site/index.php>

<http://www.camra.org.uk/home>

<http://siba.co.uk/>

<http://www.hscic.gov.uk/catalogue/PUB14184>

Guided directions to consider:

Political factors

- Beer duty in UK <https://www.gov.uk/government/publications/excise-notice-226-beer-duty/excise-notice-226-beer-duty--2>, generally high and increasing but for small breweries, there is a reduced rate of duty.
- Restrictions on young people drinking and purchasing alcohol in UK <https://www.gov.uk/alcohol-young-people-law>
- Alcohol license regulations in UK <https://www.gov.uk/alcohol-licensing>
- Lift of tied pub laws in UK [http://www.camra.org.uk/campaign-news/-/asset\\_publisher/ylk4Dvk8vaYU/content/pubco-reforms-become-law? 101\\_INSTANCE\\_ylk4Dvk8vaYU\\_redirect=%2Fcampaign-news](http://www.camra.org.uk/campaign-news/-/asset_publisher/ylk4Dvk8vaYU/content/pubco-reforms-become-law?_101_INSTANCE_ylk4Dvk8vaYU_redirect=%2Fcampaign-news)
- Alcohol consumption and production laws vary across the world, i.e. in the US, public alcohol consumption is illegal in many states
- Environment protection laws: use of pesticides in hop production and waste water treatment in brewery process have environmental impact
- Excise duty on beers usually high in many countries such as Norway

#### Economic

- Main purchasing costs fluctuate: raw material such as malt, hops and yeasts yield more and more difficult to predict due to global warming and may decline due to an increase in biofuel plants
- Distribution costs increase with the rising fuel costs
- Production costs rise with energy costs rising
- Global financial crisis and slow growth economy in Europe affect life style: people are spending less time in restaurants and pubs and on leisure
- Large brewery mergers, licensing and strategic alliances in recent years reduce production costs but potentially cause overcapacity in the market and unfair competition
- Exchange rate fluctuates and will affect export

#### Social

- Attitudes towards drinking have been changed, people are more aware of the drinking-related health problems and social behaviors
- Difference in social norms towards beer, wine and other alcoholic beverages
- In the UK, with the efforts of CAMRA, a growing interest towards real ale (cask conditioned ale) and a rising demand for premium and different flavoured beers
- In UK, the pub is still the community center where locals tend to visit regularly

#### Technological

- Research and development much more focused due to change in consumer tastes for different flavors
- University degrees in brewing technology
- Efficient harvesting and production technologies for raw material
- Generic engineering enriches hop flavor and quality

Overall, it can be seen that the beer industry is shifting cards with consumption changing from large scale to a more diversified median/small scale of consumption. The variety and tastes aspects are gaining more importance. Consumers begin to focus more on better quality and tastes and are willing to pay a premium. Although the government is placing heavier duties on beers and the market is highly competitive, diversification and innovation seem to be a valid strategy for small breweries, especially in UK when the real ale culture is encouraged with the help of CAMRA.

#### Question (3) and (4).

The third and fourth question is focused on describing and analyzing Thornbridge's business model and strategies under the 5C analytical frameworks. The 5C analysis

summarises the business model and is a good starting point to get an overview of the company. Material for the 5C analysis can be easily found in the case and gathered online.

The guided answers to question (3) are provided as below:

#### Company

Thornbridge was established in 2005 and the main brewery site is located in Bakewell. The old site, Thornbridge Hall is mainly used for experimenting new beer type and hosting promotion events. Thornbridge brewery specializes in brewing craft beer and has won many national and international awards. Its main market is in UK but still 25% sales come from abroad. The goal of Thornbridge is to produce interesting and tasty craft beer with a modern twist of the old tradition and lead customer to better beers. It differentiates itself as product and innovation focused brewery with modern marketing approaches such as event hosting, online sale and so on.

#### Collaborators

Thornbridge secures raw material such as malt, hops and yeast with mainly international provider via long-term contract. It has its own distribution facility in UK. In recent years, it actively seeks sales channel through supermarket such as Waitrose and Marks and Spencer. International sales are mainly through local dealers who are more familiar with their own alcohol regulations, tax systems and so on. It also has a lot of distribution channels to both retailers and wholesalers. Brewers in Thornbridge have different specialties and are very much encouraged to experiment and design new beer types.

#### Customers

There is no fixed customer group Thornbridge is targeting. Instead, as their reputation is established as innovators: they are more into guiding and nurturing customer needs. With the help of social media, feedback can be quickly received. It builds its reputation by making sure the consistency of its products and quality. It also attracts new customers and builds customer loyalty by celebrating and hosting various outdoor events in the peak district and beer related activities throughout the year such as brewing competitions, beer festivals and so on.

#### Competitors

Thornbridge identifies itself as competitors of large breweries rather than small breweries. It matches standard of large breweries yet target specific the craft beer sector. A potential competitor is BrewDog which has a more aggressive approach by public funding and aims more at marketing its beers and pubs but Thornbridge focuses more on brewing.

The purpose of this exercise is to make students aware of the important aspects in running a business and thus start thinking about strategies from these angles as well. After identifying all environmental factors and business models in the previous questions, it is natural to ask students to summarise and evaluate one of the key strategies Thornbridge takes. Answers can be flexible in this part but a consideration of the macro factors is essential.

The guided answers to question (4) are provided as below:

Thornbridge's success can be attributed to its innovation culture, as is highlighted in its slogan on the website. The innovation culture gives it great varieties of beer tastes and helped it to win various beer awards. Once the culture and its identity as an innovator in the industry is established, new beer production will be expected and appealing to its existing customers. As is shown in the PEST analysis, consumers of beers are more and more interested in unique and different tastes of beers. Their needs can be seen when the general trend of beer consuming is declining but that for craft beer is actually climbing, Thornbridge, through different modern promotion channels, such as website sale, social media updates and local and global beer festival participation creates and cultivates consumer's needs for new beer tastes. Also taking advantage of their unique location, it hosts a variety of activities such as beer camping. The promotion channel itself is innovative. British has a strong outdoors culture and by combining the beer and outdoors culture together, it proved to be a huge success among young consumers, establishing the brand of Thornbridge.

#### Question (5)

Question (5) encourages students to think creatively and there is no fixed answer to this question. A slogan should be short, easy to remember and pithy.

#### Question (6)

Question (6) is for executive education only. It raises a very realistic situation facing many successful start-up companies: what to do after being the target of a large competitor. For existing large companies in the same sector, it is also worth discussing what actions to be taken when an unexploited business opportunity is successfully targeted by small start-ups. Real business world is complicated and there is no right or wrong answer for this question. The purpose is to encourage students to think in real scenarios and share their thinking in class. The impression that author had from the two partners of Thornbridge is that they have no intention to be taken over or go public but they are aware that large beer producers are now taking more and more interest and actions in the craft beer sector.