

Hayek Global College

Management and Its Best Practices

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### **Stages of business growth (Craft beer Industry)**

Business development is a huge challenge in which the market demands active decision making from the entrepreneurs, pushing them to overcome the requirements at each stage of growth. Learning about the industry and using resources accordingly is a hard process. Such is the case for entrepreneurs in the Craft Beer Industry.

Since Craft beer is a “Niche Market” in which it is all about the product having remarkably distinct characteristics. It is necessary to find a recipe that differs from other beers, one that pleases the palettes of potential buyers. The elaborate industry demands a lot of knowledge acquisition and research to begin operations. Time and cash can be quickly spent in trying to achieve that, including the stage of trial and error in the brewing process such as trying new malts, yeasts, hops, researching recipes and methods or cooking techniques. Once the beer’s attributes are put together, the owner can either keep the basic equipment used for product development and testing or do an initial capital investment for higher grade and capacity machinery. It is also worth mentioning that business won’t have earnings during the time in which sanitary and alcohol production licenses are acquired.

The owner of a new brewery start up is probably the one who will handle every or most processes from buying the supplies, setting up the equipment, brewing, bottling, and selling the product. Equipment and processes can be handled by just one person or two, since volumes aren’t big yet. Family, friends, and acquaintances are probably most of the customers he or she will have at the beginning. This demand eventually decreases with just a small part of them continuing to buy. This moment is critical, the owner must gather more customers to match the production capacity so that fixed costs can be diluted, and raw material costs reduced. Craft beer ingredients are usually sold at bulk or high-priced smaller amounts, meaning sales need to be high enough so that cost reduction is achieved through the purchase of bulk priced supplies. Otherwise, the company must be sustained with stockholders’ cash while it manages to sell enough.

Direct to consumer sales are the first channel of growth for the new business. Word of mouth and minor digital marketing are the main source for bringing in new customers, it requires little to no capital. If business manages to get a good inventory rotation with a stable demand, given it has established its brand among the wide array of independent breweries, its required to hire additional staff to keep up with demand. A head of commercial activities, plant operator, delivery employee and manager are, at this stage, probably the only employees on the company.

Financial analysis is required to achieve stability and enough profitability. The specialization and complex crafting of the product raise the costs of production, subsequently raising the market price of a craft beer. However, bigger, and more established breweries offer similar products at lower prices. Even though the price-demand elasticity of craft beer is quite inelastic, the price gap tends to be significant and thus driving

the business to set competitive prices. The business is now operating on minor profits, equipment maintenance and fixed costs might catch up.

If they reach a financially healthy state, some breweries decide to outsource the beer production to other breweries and only keep the commercial functions of their brand, remaining in an idle state of growth. The Craft beer market is a fast growing one, but this does not mean that current market size is large. These brands continue an ongoing profitable business which grows proportionally to market. Other breweries set a production ceiling relative to the current maximum capacity of their assets.

In an attempt to expand business, breweries will start by growing their customer base on different channels such as the introduction of their beers in local pubs, restaurants, bars, liquor distributors and supermarkets. Steps like pushing online sales along with an outsourced delivery or attending events with a beer stand are the most common to increase revenue streams. Here it becomes important to consolidate a broader team for the managing of business, sales and distribution, financial and production experts are required. Plant capacity will need an upgrade for more efficient machinery that can handle bigger quantities and inventory storage, opening of the company's own sales point and exporting are considered, further demanding asset investment. Cash is needed for expansion and new hires salaries.

After the investment has been made for expansion, the owner of the business must assign key responsibilities to his staff. The business now has different streams of revenue, bigger array of products and processes, employees, and a more complex system of distribution. He or she can no longer oversee all operations and must delegate in all areas. The business's strategy and goals are set, trusting management to pursue them.

The brewery enters the stage where it defines and implements a solid structure and operating relations for both the processes involved and the staff responsible. Standardized activities are defined and implemented, on the plant and the administrative unit. The owner no longer controls the company's operations or decisions, it is done by the defined responsible manager and along the business's set strategy, limits, and structure. Just small interactions happen between owner and business, board decisions or in some cases only dividends are the founder's concern.