Flying Fish Brewing Company

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Abstract

This case is set in 2014 as the founder of a successful, regional craft brewing industry faces the opportunities and risks of different growth options. The company is real and the founder is named, but the setting and other characters are fictitious. All of the information concerning the case is drawn from public documents. The dilemma faced by the founder is based on discussions with the founder of a different craft brewer.

The case puts the students in the shoes of the founder and decision maker in an industry that is likely to be familiar to them. The students are asked to understand the industry, including the required freshness of the product, the positioning against competitors, and the basic growth options. Other options, such as expanding the product line, going upscale, or using digital marketing are left to the professor.

The Flying Fish case can be used in strategic management, marketing and digital marketing, or in strategic marketing courses.

Keywords: Marketing strategy, growth strategy, strategic analysis, strategic decision making

INTRODUCTION

It's the end of a long day at the brewery and Gene Muller is both exhausted and excited. And he is worried. You would think that founding and growing one of the leading craft brewers on the East Coast of the US would be a dream job. Tasting beer all day is a job? But Gene has seen the craft beer industry approach regional maturity at the same time as he has grown the Company, and he is all too aware of what happens as an industry matures. There is shakeout, and consolidation, and there are winners and losers. He did not work this hard to end up a loser when his local market matures.

Muller knows the market for craft beer has expanded dramatically over the past 10 years, and he wants his Company to remain relevant during the “Craft Beer Renaissance,” as some in the industry have started calling it. As the founder and manager of Flying Fish, Muller is responsible for maximizing profit and creating expansion and brand recognition for his beer.

Do I have to grow? Is this ultimately a big guy's game, or can I prosper as a small regional brewery? The economics and the nature of the beer itself dictate strategy, since the brewery needs to be within a few hundred miles of the customers in order to ensure quality and freshness. And growth comes in big financial lumps, making it risky. But there are also risks in staying small and regional, as new competitors pop up every year.

Muller is going to present these issues and choices to his management team and task them with developing a plan to expand his Company over the next four years. His management team will also need to create and prepare a marketing plan and present it to him by early next year.

CRAFT BEER INDUSTRY

The overall U.S. beer market saw sales of $101.5 billion in 2014. As seen in Figure 1 (Appendix) overall U.S. beer sales grew only .5% in 2014. However, within the last few years the craft beer industry has become a rapidly growing market segment of the beer market, regularly posting double-digit quarterly growth. Craft beer grew 17.6% in 2014 as compared to import beer, which grew 6.9% and export craft beer, which grew 36%. The craft beer market is now at $19.6 billion, representing a 22% dollar sales growth in one year. Over the past several years, craft beer has become increasingly popular amongst beer-drinking consumers and this market growth does not seem to be fading anytime soon.

The craft brewing industry is an industry on the rise, but expansion for companies within the industry has proven difficult. There are already 50 craft breweries in New Jersey, according to the Brewers Association, with new entrants every year. The Craft Brewers Association classifies craft brewers into six distinct industry market segments: microbreweries, brewpubs, taproom breweries, regional breweries, contract brewing companies, and alternating proprietors. Flying Fish is a regional brewer, and there are two others in the geographic area, River Horse and Yards. However, Muller knows that the smaller brewers s are a direct competitor, appealing to those looking for a distinct, local beer.

There are many issues facing regional brewers that wish to expand their business. First, it can be difficult to grow and still produce the fresh, high-quality craft beer that consumers have come to expect. Not only is the quality of the beer important, but in order to remain a craft brewery there are production limits that a brewery cannot exceed. Flying Fish Brewing Company already distributes to locations along the East coast of the U.S. This is somewhat unique in the craft brewing industry due to the risk of selling a lesser quality product at a higher cost to the consumer. This is an issue that all craft breweries will eventually have to contend with, especially because of the rising level of popularity in craft beers. In order to maintain sustainable growth in the market, breweries will have to decide when, where, and how they will choose to grow their company in order to remain relevant in a fast-moving industry.

FLYING FISH

Flying Fish established itself – and excelled -- in one of the prime geographic markets in the US. The Company opened its first brewery in 1995 in Cherry Hill, New Jersey, in close proximity to several major craft beer markets. Flying Fish quickly grew and gained brand recognition by being the first craft beer company to offer a website, created when the product launched in 1995. The site lets beer lovers help select and name beers, design t-shirts and labels, volunteer to be taste-testers and even apply for a job as a brewer. Consumers quickly fell in love with the brand and the site now has more than 12,000 subscribers.

Flying Fish quickly became the largest craft beer brewery in New Jersey. The Company currently brews 24 different craft beers and is keeping a part of its culture and brand close to home by naming brands after New Jersey Turnpike exits. The Company had recently outgrown its first brewery in Cherry Hill. Flying Fish Brewing Co. in Cherry Hill paid $750,000 in deposits on equipment for a planned move to Somerdale that will triple its maximum capacity from the current 14,000 barrels a year.

Market Position

Gene reviewed the market segmentation of the craft beer industry. He observed that there is a higher demand for craft beers in the groups known as "revisionists" and "extremists." These two groups are the people who are interested in independent craft brands that have unique and/or seasonal flavored beers.

Flying Fish currently relies heavily on traditional marketing for their brand. The Company sponsors beer-tasting events at different retail locations and bars. They also do a lot of traditional bulletin board advertising, and they do most of their own digital marketing through their website. There are limitations to the form that these digital advertisements can take because of both regulations and the risk of gaining a bad reputation through indirectly advertising to minors on the web. Ultimately, the most effective form of advertising for Flying Fish has been word of mouth.

Although it is a well-established Company, Flying Fish still has some way to go to compete with well-known national brews such as Dogfish Head and Rogue Ales. Dogfish Head is seen as Delaware's number one craft beer company while Rogue is number one in Oregon in terms of sales. Both Dogfish Head and Rogue Ales produce 94 different brands, Flying Dog produces 72, and Flying Fish produces 24. Gene and his team completed a competitive mapping, as shown in Figure 2 (appendix).

Issue At Hand

Flying Fish wants to grow in this industry without losing their "craft beer" allure. In order to maintain the title of a "microbrewery," production in a location cannot exceed more than 15 thousand barrels annually. Building a brewery in a new location will solve this issue and will help to distribute a fresher product a farther distance. This may seem like an easy alternative for expansion. However, given the high cost of building a facility to house the expensive vats, as well as the labor-related costs of constant changes in formulas, brewing techniques, and research and development, this becomes an expensive alternative. Creating a facility that is capable of manufacturing the quality craft beer that Flying Fish produces would cost tens of millions of dollars.

GROWTH OPTIONS

The management team has already begun initial stages of gathering information and ideas for growth alternatives for Flying Fish Brewing Company. Each of the proposed alternatives comes with benefits and drawbacks for the Company and the product. As Muller is faced with these options he must consider the effects they will have on his staff, product, brand, and profits.

New Location

The first proposed growth plan for expanding the production and distribution of Flying Fish products is to build another brewery location in a new growth area somewhere in the United States. This option would allow Flying Fish to expand their distribution network without losing quality due to the length of time it takes to ship from New Jersey to, for example, the West Coast. This option would also reduce current shipping costs for Flying Fish. The major drawback of this option is the high up-front cost associated with building a new brewery. The price tag for a new brewery location is at least ten million dollars. With large amounts of growth in the industry and new breweries popping up all over the country, there is no guarantee that a new location would generate enough revenue to make it worth the investment.

Acquisition

Another alternative that was proposed by the management team for expansion is to position Flying Fish Brewing Company for acquisition. The idea is to appeal to larger companies such as Anheuser Busch or Miller-Coors. These huge beer organizations have the ability to take Flying Fish Brewing Company all over the country because of their existing distribution network.

Acquisition of craft breweries is seen as a way to grow and maintain market share for larger companies. Anheuser Busch recently acquired Redhook, Goose Island, Blue Moon, Shock Top and Kona. All of these brands have seen continued success under Anheuser Busch, and these larger companies already have the production and distribution infrastructure to grow a brand.

This option would allow Flying Fish to continue with the success of the Company, and it is a cheaper, less risky, and possibly moneymaking alternative to building a new facility. The disadvantage to this option is that Muller would have to give up some control of his company, and be willing to part with some equity. Giving up control of the company means that there is no guarantee that existing brewery locations would stay open, which might result in the loss of jobs and brand image for Flying Fish.

"Organic" Growth

The final proposed alternative method to expansion is to simply stimulate growth through different marketing strategies. Having a diverse marketing mix allows Flying Fish to increase the awareness of the brand.

The different marketing strategies could include: promotions, advertisements, beer competitions and increased capacity. Flying Fish Brewing Company could host festivals, charity events, and introduce new flavors of beer to add to their variety. A lot of Flying Fish's competition run promotions that include craft beer pairings, which would introduce new craft beer drinkers to match a craft beer with some of their favorite meals.

For example, one promotion opportunity could be American Craft Beer Week, a celebration of all things craft beer. There are currently no New Jersey listings for craft beer week, offering the Company be a perfect opportunity to invite people to the brewery and experience all they have to offer. By choosing this option there is the chance for growth simply by recognition and getting local retailers involved with the event.

By participating in this event, Flying Fish gets added to the American Craft Beer Week calendar of events and at some point during this week the brewery will be showcased. This provides an opportunity to bring in new customers as well as to host giveaways.

This marketing strategy is the safest in terms of capital risk. Flying Fish simply would continue to market through the means available and work toward a goal of increasing capacity in order to fit customer needs. This ensures that the Company stays under Muller's control, meaning there is no risk of the brand image being changed or altered. It also ensures that the current brewery would stay open. This strategy, however, will mean it will take longer for Flying Fish to grow. At the rate that the industry is growing and new competition is popping up, a longer growth cycle could be the difference between life and death for the Company.

THE DECISION

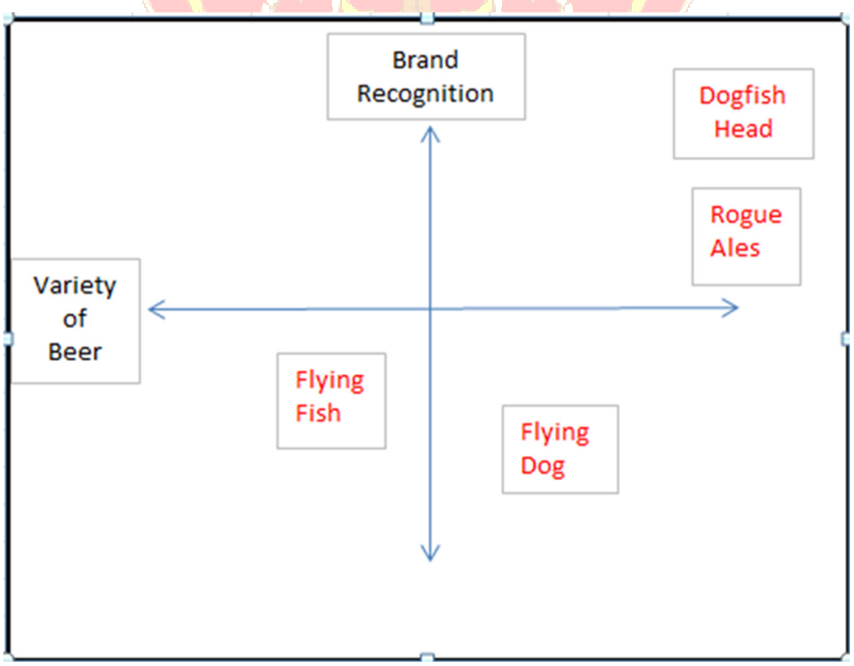
As Muller sits in his office with the early proposals in front of him, he cannot help but think that there must be more alternatives available. He does not want to give up equity, or risk his employees' jobs. He is leery about a large investment that might destroy them. But he fears that a missed opportunity could sink the Company. He called in his team and tasked them with the following questions:

1. Of the provided alternatives, which do you think is the best one for Flying Fish Brewing Company? Why?
2. What other options does the Company have available to them? How could they implement them and what are the potential benefits and drawbacks?
3. Should they just be a smaller player and defend their niche? Which option is more suitable to the skills of the management team?
4. How can Flying Fish appeal to the "revisionist" and "extremist" market?
5. What marketing plan would support a national expansion? What marketing plan would support remaining a strong niche player?

APPENDIX

Figure 1

Figure 2



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