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Keeping up with family traditions: strategic decision-making in the declining beer market

Abstract

This teaching case describes the challenge that a successful family brewery has faced over time as its views, goals, strategies, and culture have become increasingly focused on the production of high-quality level beer at the expense of all other firm activities. The case explains how the protagonist encounters resistance in implementing changes and developing new strategic initiatives. It prompts students to understand the boundary conditions of strategizing in family firms, recognizing features of and developing coping mechanisms for declining and competitive markets.

Students understand what strategy is and how to develop it within a family firm.

KEYWORDS: Strategy – Decision-making – Family firm – Mature industries – Brewery

The use of case studies offers, especially in business studies, the possibility for students to deal independently with complex, economic questions and problems, so that networked thinking and problem solving are promoted.

The present case study can be assigned to the **Case Problem Method**[1], which in this case has the following characteristics:

- The problems are roughly mentioned and the necessary information is given.
- The students identify possible causes, further partial problems and interdependencies. They independently develop varied solutions and make a decision.

[1] inspired by Kaiser 1983, p. 23

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TEACHING NOTE

1. Intended audience

1.1. Student group

The teaching case is suitable for students of business-, management studies, and public administration with basic knowledge in the fields of management and/or organization sciences.

1.2. Required previous knowledge

Students should have a basic knowledge of business administration and be familiar with the basic concepts of management.

2. Case background

The case focuses on Privat-Brauerei Mathias Brockdorf, a family-owned and -managed brewery in Vlamingen, Germany that finds itself in a mature, declining industry. Brockdorf regards itself as the market leader in the Vlaminger (the typical, local beer type) market and relates this success to its uncompromising focus on quality, both in the brewing process and their final product (and there are only two final products: Brockdorf Vlaminger and the non-alcoholic variant). New, “fancy” product introductions or marketing are regarded as distracting nonsense, potentially diluting the flagship brand or confusing customers. The company’s current management is caught between the family tradition that has lifted the company to be market leader in its home region and the pressures that come from a declining market with regard to competitors’ struggle for survival, the entry of multinationals into a hitherto protected market, collapsing distribution partners, and retailer’s slowly getting the upper hand in the value chain. The case illustrates the characteristics and strategic implications of a declining industry. The case exemplifies the typical strategic dilemma of a family firm caught in extrapolating the apparent recipe of success of the past, the process of mentally imprinting this into the next generation of owner-managers, leading to cognitive and entrepreneurial simplification that can create strategic inertia in a changing environment.

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3. Didactic instructions

3.1. Learning goals

3.1.1. General learning goal

Challenged by inertia and competition in the context of a declining beer market students learn to understand what strategy is and how to develop it within a family firm.

3.1.2. Specific learning goals

Content competences:

In line with the EQF (level 6), the formal learning objectives of this case for the students are:

- Students understand the boundary conditions of strategizing in family firms.
- Students recognise features and develop coping mechanisms for declining and competitive market conditions.
- Students analyse managerial interests and decision alternatives in mature industries.

Social competences:

Social competencies are not the special focus of learning in this case study. The learning success is therefore not explicitly identified and measured. Nevertheless, cooperation in groups implicitly enhances team competence, including conflict resolution.

Self-competences:

Self-competences are not the special focus of learning in this case study. The learning success is therefore not explicitly identified and measured. Nevertheless, it can be assumed that, for example, time management, self-learning competence or the assessment of one's own performance are also implicitly promoted.

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4. Organisation

4.1. Procedure and time

The case study can be used with the following progress, but of course it can also be adapted structurally or temporally depending on your preferences.

Depending on the preparation and expectations this case can be taught in 90 minutes settings. Students should always be asked to read and prepare the case before class. We sketch the 90 minutes teaching situation here.

Time schedule for the use of the case study:

Minutes	*Classroom activity*
0-10	Ask why Brockdorf is successful, and write their “formula of success” at the board in the classroom.
10-30	Clearly map the Vlaminer market as a declining industry (see e.g. Grant 2018 who offers a useful table illustration of such characteristics across all phases of the industry life cycle).
30-50	Have students come up with and discuss strategic options for Brockdorf. Students will most likely come up with suggestions around marketing actions, new product introductions, geographical expansion incl. internationalization. Collect all these suggestions – maybe group them thematically on the board.
50-70	If all options are on the board and have been discussed, ask students if they think that these suggestions would have chances of being implemented by the current Brockdorf management, and why this is (not) the case. Move the discussion to have students understand the cognitive trap that the management is in – no matter in which direction they move, there will be concerns regarding diluting the brand, confusing the customer, other have tried but showed that it is not successful, etc. Make sure students understand the tight mental frame of management.
70-90	Ask students how Brockdorf management could find a way out of this impasse. Remind them of Harrigan and Porter’s (1983) strategies in declining industries – firms can (temporarily) thrive also in shrinking environment. After a while, suggest that maybe a way out for the company might not be the same as the way out for the family (for example, the company could intentionally go for a strategy of harvesting its leadership as long as possible, without any intent of stepping out of the industry or local market. The family, though, can diversify its investments without the limitations of the company tradition). Also think of incremental steps to ‘liberate’ the ingrained structures of the firm by e.g. substituting members of the advisory board.

5. Teaching tips

The case illustrates the typical characteristics of a declining industry and the strategic challenges that a firm faces in such an environment. It also illustrates a company and its management caught in the cognitive frames and structures of the past that hinder adaptation, even in a situation that will–without adequate intervention–lead to corporate failure. As such, the case can be used in basic and advanced strategy courses:

- Undergraduate curricula (Bachelor) in an introductory strategy course (focus on industry analysis; illustrate declining industries).
- Graduate curricula (Master) in general strategy courses (focus in more detail on declining industry characteristics and available generic strategies).
- Graduate course (Master) on Advanced Strategic Management with a session or section focusing on top management team cognition/cognitive maps/frames path dependency, strategic inertia and renewal; and/or typical problems of strategy formulation in family firms.

5.1. Use in the university context

- Recommended group size: Up to 4 students.
- Resources: Lecture or seminar room, in the best case with group tables and information or research facilities such as access to the internet.
- Accompanying material: As a lecturer, you decide which material you want to give, when you want to add it or to what extent you want to differentiate internally.
- Adaptation to learning group: This case study is designed for Europe-wide use. However, you can of course adapt or modify it to your learning group and their environment or professional orientation, previous knowledge and competences.

5.2. Role of the lecturer

As a lecturer, you merely take on the role of a learning advisor and moderator when working with the case study. The students should work on the case independently in groups, acquire the necessary knowledge, identify problems and find solutions by themselves. You do not give tasks, instructions or directions. Only if a group of students does not progress and the learning process is prevented, you can act as a learning guide and help through impulses or clarify difficulties in understanding.

5.3. References

This case study deliberately does not include any possible solutions or outcomes, as from a pedagogic point of view, openness to solutions is an important criterion for the learning process. As the lecturer, however, it may still be necessary to know the underlying concepts. Therefore, we would like to provide at least some literature tips:

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5.4. Questions for reflection

A case study is for students to discover problems themselves, control the learning process and develop their own solutions. Tasks or questions within the case study therefore are unnecessary. These reflective questions should only be asked, if the discussion stops or remains too superficial. They only serve to give new impetus in the final discussion at the end or to open up other perspectives. Ideally, students should consider and discuss these questions and interdependencies/considerations themselves.

- What explains the family firm’s success and how would you describe its success?
- How would you describe the market position of the brewery and what opportunities and threats do you identify?
- What is its underlying business model? And what strategy would you propose to improve and sustain the family firm’s success?
- What business case would you develop for introducing the new bottle of its flagship's beers?

Further case studies of this kind, a Manual for your own development of didactically high-quality case studies as well as an Online-Planning-Guide for the digital, cross-location use of case studies in cooperation with other universities and a partner-tool for contacting interested institutions can be found at: https://www.e3cases.uni-koeln.de/en/.

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CASE

Keeping up with family traditions: strategic decision-making in the declining beer market

Felix Schaumgartner is looking forward to meet up with his buddy Klaus Bertels. Felix is a consultant at McKinsey & Company's Berlin office. Klaus is an owner-manager of the Privat-Brauerei Matthias Brockdorf, Vlamingen, Germany. Friends since their time as management students in Vlamingen, they have remained in touch and organize annual catch-up meetings in New York during the summer. Brockdorf's Vlaminger beer is served in various restaurants and hotels in New York, and Felix has happily found an excuse to be present in New York for consulting every year. A tradition was born as whenever they both travelled to New York to meet up with customers and prospects, they also made sure that they could enjoy each other's company and occasionally drink some interesting American IPAs.

Last summer, Felix and Klaus had dinner at a recently opened restaurant in New York and Klaus shared his concerns about where his family's company and the German beer market have been heading. Specifically, he expressed his worries about the brewery's lack of strategic reaction to a continuously declining market. Felix confirmed that the prospects of the German beer market have been doubtful despite Klaus' company showing decent growth rates. The main driver of this lumbering prospect is that Germans, on average, are drinking less and less alcohol, and switch from beer towards other types of alcoholic and/or low-alcoholic beverages.

Over dinner the two men came up with a plan to bring Felix into the Brockdorf company as a senior consultant in the role of a change agent. They both came to the conclusion that Felix's appearance should not be perceived as a threat. Felix suggested that the brewery could act as a learning case for some of McKinsey's interns. He could supervise them and guide them to prepare and present a pitch to Brockdorf's owner-managers. After dinner they agreed on this plan and closed with an IPA at their traditional East Village pub.

Six months later, Felix is quite satisfied with the interns he has been supervising. A group of eight McKinsey interns have worked on Brockdorf's strategic assessment and have developed strategic recommendations for the company. Before they started, Klaus informed Felix that the new strategy should include, but not limit itself to, three initiatives: (1) a new bottle for its flagship brand (the interns have also taken into account how the characteristics of the bottle could relate to product quality); (2) introducing new beverages, such as a radler, IPA, or seasonal beers; and (3) geographical market expansion (supported by value chain integration).

Felix was proud of his interns – in his eyes, they had all prepared high-quality pitches that would certainly raise the eyebrows of Brockdorf's executive team.

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When they presented the pitches to Brockdorf's board and its owner-managers, something interesting happened: the owner-managers (apart from Klaus), as well as the members of the "economic and managerial advisory board" (all tax consultants and lawyers), remained stony-faced. Every time a group finished their pitch, they looked into a gently smiling Klaus surrounded by emotionless faces, barely blinking their eyes even when the interns presented clear business opportunities and well-developed cases. Felix and Klaus often made eye contact during the pitches and Felix now started to understand what his friend was explaining during dinner in New York. The current experience and the risk the brewery is facing actually appeared far worse than he had initially suspected.

The German beer industry in decline

The German beer consumption is shrinking. In 2008 a German citizen drank 107.1 liters of beer annually, but 10 years later this number had dropped to 94.2 liters a year per capita (excluding alcohol-free and malted drinks). The declining consumption of beer per capita is due to a combination of social and market factors (see exhibits).

First, the German population is shrinking. With a population of 80 million people today, some analysts predict that the German population could shrink by 19 percent by 2060. The implications of this trend in terms of demographics mostly focus on its population becoming older, which will put pressure on the health and welfare system in Germany. For German beer breweries, the ageing population creates a sense of urgency of an upcoming crisis that slowly unfolds: fewer people means less consumption.

Second, consumer preferences are changing towards other beverages and healthier lifestyles. The famous German beer drinking culture is slowly changing. Drinking beer is increasingly perceived as unhealthy. This is a troublesome trend for breweries, especially in a country that, for centuries, used to treat beer as the equivalent of water for centuries. Before pilsner was even invented in the city of Plzen, Germany was already a producer of barley and hops. As soon as Germans figured out how to produce pilsner, the country developed a proud beer tradition. With the older generations fading and the youth preferring other beverages, these customs and folklore are under pressure.

Both the shrinking population and shifting preferences led to a phenomenon called "*Brauereisterben*", which is German for the death of breweries. Since 2000, many large and medium-sized breweries stopped operations, causing a loss both in production and governmental tax, despite the rise of microbreweries all over the country.

Finally, regulatory implications hit the beer market. The famous German beer purity law ("*Reinheitsgebot*") prescribed that the ingredients of beer must be composed out of three ingredients: water, hops, and malt barley. Originating in Bavaria in 1516, the law challenged German breweries to create high-quality products while being faithful to these three ingredients over centuries. The *Reinheitsgebot* became an asset for German beers, implying standards of high quality and great taste; it was used for marketing purposes promoting superior quality compared to the beer brands of international

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competitors. In 1987, however, the European Court of Justice overruled the purity law, stating that it obstructed the functioning of the Single European Market, opening up the closed German market for international competitors. Until then, beer that did not comply with the purity law was not allowed to be sold as "beer" within Germany. With the overturning of the law, the German market allowed for imports of beers that did not necessarily follow the three traditional ingredients, which increased domestic market competition.

The Vlaminger market

In the 19th century, Czech pilsner (pils) challenged the German dark lagers. This created a response by German brewers who developed distinctive regional variants of pils – blond/golden lagers. The result was the invention of "Helles" in Bavaria and "Export" in the north among others. To protect their local turf, brewers in Vlamingen, a city of 600,000 in Germany's south-west, invented Vlaminger. Vlaminger is a regional beer that is allowed to be brewed only in and around Vlamingen. The Vlaminger beer is protected by geographical indication (PGI) through the Vlaminger Convention, dictating that Vlaminger must be brewed within a 53 km zone around Vlamingen.

Accordingly, the Association of Vlaminger Breweries maintains that only breweries in Vlamingen or members of the association are permitted to label their beer as Vlaminger. Beyond this region, Vlaminger is only available at boutique-style retailers and selected bars and restaurants. While the strong regional focus limits the scale of the Vlaminger market, the deep regional roots and its rich tradition represent an advantage for Vlaminger breweries.

Vlaminger has a unique position in the German beer landscape due to its combination of regionally limited (closed) production area and its status as a cultural asset. In 2016 Vlaminger breweries accounted for 1.6 percent of total German beer sales. It is primarily sold through retail and beverage stores.

Three actor types can be identified on the Vlaminger market. The first are the family-owned leading local breweries Brockdorf, Frohlocke, and Gessler. Together, these three breweries account for approximately 60 percent of the total Vlaminger production. Second, there is the Ringstett Verbund with its Vlaminger brand assortment as part of the large German Ullner group, a(n) (also family-owned) conglomerate that is active in such diverse fields as instant pudding, deep-frozen pizza, and shipping. These two groups account for about 80 percent of the total Vlaminger market. Third, there are the smaller, family-owned breweries like Korndreher, Raffges, and Renner that each have annual sales volume of around 10,000 to 50,000 hectoliters.

The Vlaminger distribution chain can be described as a three-tier system in which brewers or importers provide beer to wholesalers, which distribute beer to retailers, which sell to customers. The wholesale of Vlaminger is concentrated; this means that a relatively small number of breweries accounts for a large percentage of total market production. As such, the competition is fierce and competitors run the risk that a single or a few breweries will dominate the production and sale of beer, especially since the

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Vlaminger customer base is geographically confined. Moreover, a high concentration suggests that the top breweries can easily influence the overall output of beer and a change in production can have a significant impact on distributors and retailers. As such, loss of market share can have a dramatic impact. Because of the high concentration in a rather compact geographical area and the collective growth of the industry after the Second World War, the social network among the brewers arose out of necessity. Over time, many friendships and personal connections among Vlaminger brewers, distributors, and suppliers have been established. The Vlaminger Convention in 1985 strengthened this network through an explicit and unanimous contract. Several industry-sector-specific institutions were created. For example, Vlaminger brewery owners meet quarterly at conferences of the Vlaminger Brauerei Verband (founded in 1919), which is a local chapter of the German Brewers' Association. The technicians – that is, the brewery engineers of the Vlaminger breweries – also meet regularly to discuss industry issues. But the ties among the breweries also extend beyond business: for example, the former managing director of Renner Vlaminger (at about 20,000 hectoliters, a middle-sized Vlaminger brewery), Sabine Renner-Müller, is the wife of one of the former Frohlocke owners, Ottokar Schiffer.

Over the last two decades, however, the general trends of the national beer market have been reflected in the Vlaminger beer segment as well. In this period, the market for Vlaminger beer and the national beer sales shrank by 20 percent from 1991 to 2008 (see exhibits). The changing customer preferences were reinforced by retailers' purchasing strategies and consolidation in the beverage distribution channels, materializing as increasing market power on the discounter and retailer side for the breweries. Discounters attracted customers with price or promotional campaigns, while retailers increasingly engaged in launching their own label brands. In addition to the loss of customer allegiance, it became very difficult for specialized beverage stores to survive (see exhibits). Once attracted by the vast assortment and convenient service, consumers now seem to favor low prices, one-stop shopping, various forms of package designs, and the ability to purchase their beverages along with their fresh vegetables, cheese, and milk at large retail outlets or discounters. This tendency affects regional beer brands negatively because they depend heavily on these specialized retailers as some of their primary outlets: specialized beverage stores alone account for one-third of the total beer sales in Germany. It is not only beverage stores that struggle through the increasing market power of discounters; beverage wholesalers have also been impaired by these new developments. However, some beverage wholesalers have attempted to solidify their market position. Market observers assume that alliances (franchise, partnership agreements, licensing) among wholesalers and beverage stores will spread as a promising solution offering opportunities to gain higher profits, cut costs, and enhance consumer service.

For example, Birnenbaum (a beverage wholesaler located in Vlamingen) offers partnership contracts to stand-alone beverage stores. The partnership includes supporting services in marketing, promotion, accounting, and IT to participating stores. By this measure, Birnenbaum hopes to help its partner stores achieve efficiency gains in order to survive on the retail market so that they can continue to act as important intermediaries representing Birnenbaum's connection to its customers.

In Vlamingen, many brewers aim to exert control over downstream activities in the beer value chain. For example, many brewers supply distributors, wholesalers, and retailers with commercial equipment and/or financial credit at below-market prices. In doing so, brewers create dependencies and can achieve deeper market knowledge. They can focus on their beers and understand what sells and what does not. By removing intermediaries, retailers and wholesalers buy Vlaminger almost exclusively from the brewer, creating a tied-house system of vertical integration. A tied-house system restrains others from intervening, tying retailers to breweries in Vlamingen, while removing distributors acting as a middle man between their beer and customers, creating larger "slices" of the proverbial pie.

Breweries differentiate the market into "bottled" and "draft" segments. The bottled segment comprises sales to private consumers in bottles, cans, or barrels via retail channels. The draft segment comprises bars, hotels, restaurants, and clubs as customers. However, while all breweries typically serve both segments, they lean towards either the bottled or the draft segment. Contribution margins for the draft segment are generally higher than those of the bottled segment. Breweries, at least those in the Vlaminger market, own many of their restaurant and bar outlets, which they lease to their tenants. This implies large capital requirements, especially since the financial situation of their tenants is often unsatisfactory. Additionally, breweries bear a high failure risk in the very cyclical and dynamic restaurant scene. The bottled beer segment mirrors these advantages and disadvantages: capital requirements are lower, but so are margins.

Thus, the overall market conditions for Vlaminger breweries can be described as increasingly unfavorable, and indeed many regional breweries like Germania, Scheffer, and Gilsing Vlaminger have exited the market. Today, only nine out of the 20 originally independent Vlaminger breweries have survived this consolidation process.

Brockdorf Privat-Brauerei

Matthias Brockdorf founded the Privat-Brauerei Matthias Brockdorf GmbH & Co KG in 1894. At the age of 50, Matthias Brockdorf started the brewery after his sons advised him to do so. Although he died seven years later, his wife and five sons continued the brewery. In 1923 it was decided to add bottom-fermenting beers to its palette of styles and in 1936 Brockdorf became the first brewery in Vlamingen to bottle Vlaminger. Located in the heart of Vlamingen, the brewery celebrated its 100th anniversary in 1994. The company achieves an annual output of about 650,000 hectoliters and currently employs 102 staff.

On March 2, 1945, during the Second World War, the brewery was completely destroyed. In addition to the destruction of the brewery, Carl Brockdorf, one of the operating owners of the brewery, was killed on the last day of the war. After the war, the brewing family reestablished the brewery and supported its neighborhood in rebuilding what was lost in Brockdorf's Gereonsviertel district. By 1948 the brewery was producing beer again and in the next couple of years the brewery not only produced Vlaminger, but also a pilsner, an export, and a dark beer. However, in the 1970s it refocused exclusively on producing Vlaminger.

After the Second World War, it took Brockdorf until the 1960s to regain significant economic momentum. At that time, the demand for Vlaminger was rapidly growing. However, the brewery was located in the center of Vlamingen, surrounded by a dense residential area featuring an array of historically protected buildings. Expansion in this part of the city was difficult. In the late 1980s, the company site in the Gereonsviertel was no longer capable of meeting the increasing demand and it was decided to relocate the company to less confined premises. Michael Bertels explained the rationale behind the company's rather aggressive growth strategy in 1995:

"I believe that the Vlaminger market is in the early stage of a concentration process that will put many Vlaminger breweries out of business. We want to remain autonomous by enlarging our business and attracting more customers. To strengthen our position in the market we need sustained growth. Therefore, it is necessary to find a new home for our production plant."

In 1996, Brockdorf decided to move its headquarters as well as its production site further north to Vlamingen's Kreuzviertel. The relocation was also used to modernize the production technology and the supporting infrastructure. Between 1993 and 2007, Brockdorf was able to increase its annual output against the market trend, attaining market leadership in 2004 from Ullner's "Ringstett Verbund" subsidiary with a market share of approximately 30 percent of the overall (draft and bottled beer) Vlaminger market.

Today, the Brockdorf and Bertels families jointly own the company. Whereas the Brockdorf family is not actively involved in the company's management, Michael Bertels leads the enterprise as managing director and joint owner in the fourth generation. He occupies the central role in Brockdorf's organization.

Brockdorf's organization is structured by function into three areas: sales and marketing, accounting, and production. Brockdorf's top management team has a solidly technical background; historically, the owner-managers are graduated brewing engineers. This situation changed recently with the fifth Brockdorf generation: Klaus Bertels. Klaus is Michael Bertels's son who is both a graduate in management *and* brewing engineering.

Brockdorf is well established as a premium Vlaminger brand and traditionally follows a mono-product strategy. In fact, Brockdorf has been its sole product for the last 40 years.[2]

[2] The only exception was Vlaminger Light, a light beer that was produced in the early 1990s for a short period of time.

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Brockdorf is positioned in the premium segment and emphasizes its quality and unique taste. Brockdorf's management perceives that many customers purchase Brockdorf because of its taste, quality, brand image, tradition, and especially the local authenticity. The company owners believe that the concentration on the core product (the Vlaminger) is the basis for Brockdorf's success and the most suitable strategy in a maturing market. There is a strong emphasis on maintaining modern, automated, and technologically advanced production processes and facilities, both for reasons of quality and of cost.

Brockdorf has not expanded in brands and products despite the temptation to create trendy beer-mixed drinks or combining beer taste with sports and fitness in the last ten years. The only new introduction in the family of brands was its first non-alcoholic brand launched in February 2010. "Brockdorf Alkoholfrei" is positioned as an isotonic and low-calorie sports drink rather than a beer, with the aim of attracting new customer groups and simultaneously keeping the core customers attuned to the real and pure Vlaminger as its flagship brand.

In addition to beer quality, Brockdorf considers the long-lasting, loyal partnerships with its beverage wholesalers and suppliers as a major reason for its success. This loyalty can be illustrated by Brockdorf's 1994 acquisition of Roller Getränke. Brockdorf acquired Roller as one of its long-time wholesalers when Roller's owner and CEO retired. However, even though it is part of the Brockdorf company, Roller is treated as an autonomous, self-contained business unit that also delivers products of other breweries. Brockdorf benefits from Roller's integration not only because of its competence in draft and bottled beer distribution, but also because it can serve as their extended antenna to retailers and restaurants.

Brockdorf's Competitors

Privatbrauerei Gessler Meier & Co. oHG: Founded as a classical guild house by the Meier brothers, the history of Gessler started in 1908, despite earlier mention of a Gessler-Haus in 1302.

Like Brockdorf, Gessler is a premium Vlaminger brand. With a market share of roughly 30 percent, Gessler is currently the market leader for Vlaminger in the draft beer segment, while it captures 15 percent of the bottled beer market. Overall, the brewery produced approximately 400,000 hl of its Vlaminger brands in the mid-2010s, including a light Vlaminger and an alcohol-free Vlaminger.

Gessler is particularly committed to sports promotion and marketing around Vlamingen. Apart from sponsoring FC Vlamingen, the largest local football club and member of Germany's premier league, Gessler is the official beer supplier of the Vlaminger Eagles (American football), the ASV Vlamingen (athletics), Fortuna Vlamingen (football), as well as of the local rival Borussia Vlamingen (soccer).

Gessler has successfully diversified its output with the introduction of its non-alcoholic "Fassbrause" lemonade variant in 2010. Pushing it through its distribution channels and outlets, Fassbrause has quickly penetrated the market and reached an output of more than 80,000 hl per year. It has also set a trend in the market with Frohlocke and Ringstett, but also national rivals, quickly introducing their own Fassbrause variants.

Frohlocke Vlaminger: Like Vlaminger, Frohlocke was founded in 1904 by Gerd Peter Frohlocke. Today, the company operates the traditional brewery plus a restaurant and a hotel next to Vlamingen's major tourist attraction, the historical guild hall. With production of 400,000 hectoliters, Frohlocke is among Brockdorf´s biggest competitors. Frohlocke Vlaminger is a premium brand; the product portfolio comprises the traditional Vlaminger and a non-alcoholic variant. Traditionally, Frohlocke also relies more on the bottled market segment, but has recently redoubled its efforts to gain a stronghold in the draft beer segment. In contrast to Brockdorf, Frohlocke also puts more efforts into advertising, merchandising, and promotion.

Ringstett Verbund GmbH: Unlike the traditional privately owned breweries, Ringstett is an umbrella organization of a variety of Vlaminger brands within the nationally active Ullner group. Ringstett's Vlaminger portfolio encompasses four brands with a cumulated annual sales volume of 500,000 hectoliters (2015). Its premium brand is Wilhelm-Vlaminger, which is sold predominantly (80 percent) in the draft beer segment, whereas Heisler, positioned in the consumer segment, is mostly distributed through the retail channel. Ringstett Vlaminger runs a lot of draft beer besides its bottled beer and is positioned in the upper price segment. It is partner of the local ice hockey club Vlaminger Haie, supports one of Vlamingen's famous music groups, "Swinging Möhlers", and is involved in many large and small folk festivals around Vlamingen. Thunnes Vlaminger is positioned in the low-price segment. With the massive financial background of the Ullner Group, the HQ in Vlamingen is in a convenient position to run sales promotion, special price offers, and other sales campaigns for its various Vlaminger brands. Unlike the other Vlaminger brewery companies, Ringstett Verbund is led by employed and non-local managers. Sales for the group have been declining substantially, however – it has lost roughly a quarter of its output over the last decade. As a consequence, the *Verbund*, as it is called, announced it would close its production plant in Vlamingen by 2021. Production of the Vlaminger brands will be moved to Frohlocke's facilities, but marketing and sales will remain in-house.

Letting go of long-held brewing traditions

After the fourth and final pitch of the interns, the audience finally broke their silence. The owner-managers as well as the advisory board adjourned the meeting and retreated to the conference room next to where the presentations were held.

Felix asked Klaus to look at the text that Felix had just sent. He was expecting a tough meeting and wanted to protect his interns for possible unfounded criticism or negative experiences. The two men locked eyes and nodded. Both understood that the meaning of today was to be found in people's behavior and less in the words and messages interchanged. While the owner-managers and advisory board

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discussed the implications of the pitches in the next room, Felix prepared his interns for possible scenarios.

After 45 minutes the owners-managers and advisory board returned to the meeting room where Felix and his interns have been waiting. The chairman of the advisory board took a stance and addressed them:

“Ladies and gentlemen, we applaud each of you for your efforts and very interesting ideas,” said the chairman. Felix could tell by the chairman’s body language that he was unimpressed. “We have evaluated and discussed the four pitches and we have come to the conclusion that we – overall – like the ideas suggested for the new bottle. Especially, the concepts proposed to improve quality were very much appreciated and will be taken into account.”

Felix gazed at Klaus and he could tell that they both were thinking the same thing. The suggestions made for the bottle were miniscule and the least risky endeavor. They were also fully aligned with the company’s current focus on process and product quality. The chairman continued:

“But, with regard to your proposal to introduce new beverages we did not like your ideas so much. The main reason for this is that we believe we should not change our traditions and customs. Brockdorf is a well-known brand and over the decades has become a well-established player through its flagship beer: Brockdorf Vlaminger. Some of us feel that already by having introduced Brockdorf Alkoholfrei, we have run the risk that we confuse our customer base as well as cannibalize our market share of our Vlaminger. The last thing what we should do is to deviate from our long-held brewing traditions, which have clearly led to the success of our company over the last decades. The fact that multiple beverages divide attention and require a distribution of resources and possibly multiple brands poses a risk to quality. Multiple brands mean it is more difficult to specialize. We feel that our traditional base of consumers will be confused if we would enter new brands of beverages to the market. The main lesson that we learned in the ’70s is to simplify and focus. This clearly appealed to our customers. We had exceptional growth rates in the ’80s and ’90s.”

The chairman paused here for a brief moment and looked at his fellow advisors and board members for confirmation.

“Finally, we want to express that we were a bit surprised with your ideas on geographical expansion into neighboring beer markets. The surprise centers on the fact that we are a beer brewery and the one job that needs to get done is brewing the best quality of beer. The suggestions of expanding outside of the Vlaminger area and even into other national markets are too risky. First, the people of Vlamingen understand that drinking a Vlaminger is more than just drinking a beer; it’s like drinking an entire culture. People in Stuttgart, Hamburg, or for that matter the Dutch and Belgians do not understand this distinct culture. See what happened to the other local brews like the Alt-beer from Dusseldorf. They had national-scale growth ambitions for Germany, but failed bitterly. None of the Alt breweries has survived; and if they did, they survived only as part of multinationals. This is something we definitely want to avoid. The past has shown that our route to success has always been to be exclusive and unconditionally focused on Vlamingen."

After finishing this last sentence, the chairman asked if Klaus could accompany Felix and the interns for lunch and a beer tasting in their Brauhaus. As Felix and Klaus walked towards the exit of the building, they quickly evaluated what just has happened. Klaus said:

"What should have been a soft landing and introduction of you as a change agent turned out quite the opposite, didn't it? In fact, most suggestions were discredited as either too progressive or too risky. Did you see how they almost all seemed like they feared change and clung on to the breweries traditions as a barrier to resist change?" Felix agreed with Klaus' analysis here. "Felix, I am really worried that we cannot change the strategy of the brewery. I don't see a feasible way out. And soon, it will be too late. What can I do?"

Felix smiled. "Actually, Klaus, today the situation became very clear to me and especially the board unintentionally shared a lot of information. But, first things first: let's enjoy a Vlaminger to see and understand whether your beer is as superior as you guys claim it to be."

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MATERIAL

The Beer Market

The beer industry is a global business and is considered one of the most widely consumed alcoholic beverages in the world. In the beer industry, the making and creating of beer (brewing) has traditionally been crucial for many countries' economies around the world.

Beer is generally prepared using four basic ingredients: malted cereal grains, hops, water, and yeast. These ingredients undergo the process of fermentation over a certain period of time, sometimes adding additional flavoring ingredients such as herbs and fruits to produce a type of beer. Various types of beers are available in the market, among which ale and lager are the two most commercially consumed types. The primary difference between a lager and an ale is the temperature level at which the ingredients are fermented.

The global beer market can be segmented according to type of beer markets, categories of beer, packaging, production, and region. In general, the beer industry is divided into lagers, ales, stouts and porters, malts, and other types of beers. Among these types, three categories can typically be noted: popular-priced, premium, and super premium. Beer comes in various packaging forms, ranging from glass to PET bottles and metal cans. In addition to the product, it is also common to divide the global beer market according to production and geography. Generally, a distinction is made in beer production between macro-breweries, microbreweries, and craft breweries. By region, the market can be analyzed across North America, Europe, Asia-Pacific, and Latin America, the Middle East, and Africa (LAMEA).

Globally, beer consumption has increased over the years due to a rise in disposable income and an increase in consumer preferences for beer over other alcoholic (such as wine) or non-alcoholic beverages. The surge in female drinkers and the rise in youth population have mainly fueled the growth of the global beer market. According to United Nations (2013) World Population Prospect, the global youth population is anticipated to reach 1.3 billion by 2030. Moreover, consolidation of on-premises distribution channels further supplements the market growth. Cultural changes and adoption of Western culture has been key in influencing the perception of consumers toward alcoholic beverages, especially the consumption of beer. However, taxation and higher excise duties on imported and local beer, and the growth in health awareness among consumers, have stalled the growth of the beer market in recent years. Nevertheless, the global beer industry is still believed to offer numerous growth opportunities in the near future, especially with regard to the introduction of naturally sweetened and non-alcoholic beer.

The European beer industry (2016)

Breweries of Europe (2017) reported that Germany was Europe's largest beer producer in 2016. In 2016, Germany reported production of 94,957,000 hectoliters (hl). The European beer industry (total EU-28) gradually increased its production from 2010 until 2016. In 2010 the total of EU-28 accounted for 387,164,000 hl, while in 2016 a total production of 400,168,000 hl was reported. As the region's largest producer, Germany has shown itself to be a stable European player in the 2010–2016 period, averaging around 95,000,000 hl a year.

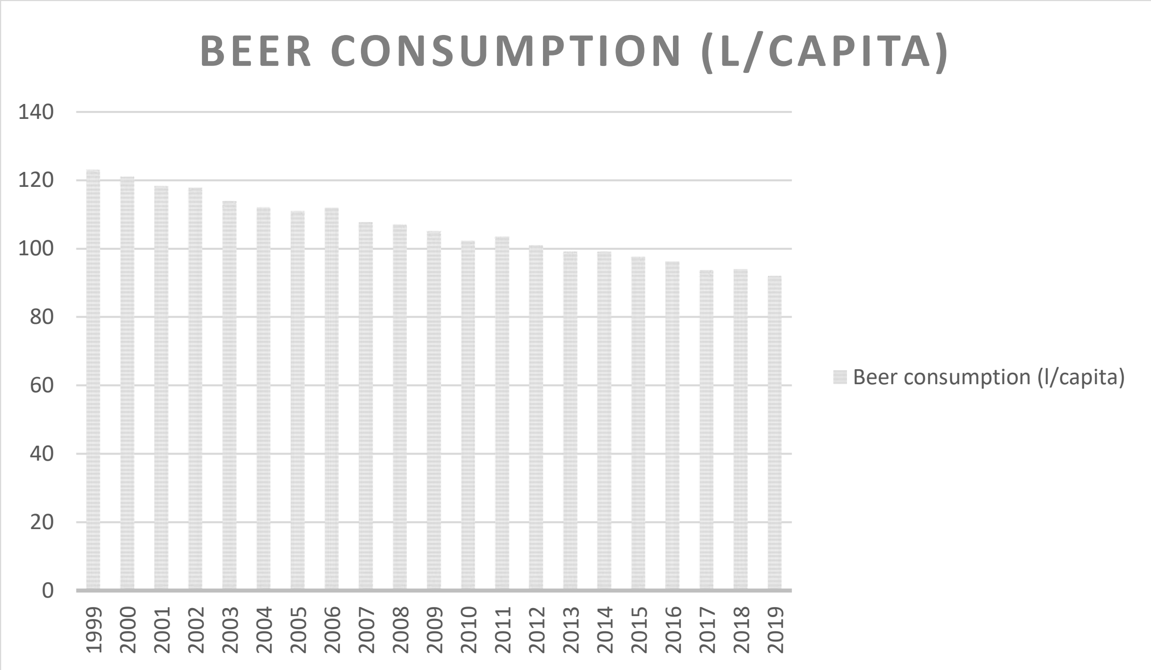
Germany was also Europe's largest *consumer* of beer in 2016, reporting a 85,532,000 hl beer consumption. In the 2010–2016 period, beer consumption was fairly stable, with only a relatively small decrease of 2,300,000 hl, using 2010 as baseline. With regard to beer consumption per capita, Czech Republic is number one in Europe with 143 liters per habitant, while Germany (104), Austria

(103), and Poland (98) compete for second place (2016). Beer consumption per capita dropped by 3 liters from 2010–2016.

The five largest importers of beer in Europe (including both intra- and extra EU) are the United Kingdom (10,585,000 hl), France (7,640,000 hl), Germany (7,287,000 hl), Italy (6,939,000 hl), and Spain (4,537,000 hl). The largest exporter of beer in Europe is Germany (16,527,000 hl) followed by the Netherlands (14,477,000 hl) and Belgium (14,085,000 hl).

In Europe (EU-28), 8,490 active breweries were active in 2016 – double the number from 2010. Most active breweries are found in the United Kingdom (2,250) followed by Germany (1,408). Microbreweries only account for half this number in Germany (738 in 2016). Altogether, the beer industry in Europe (EU-28) produced 122,094 jobs in 2016; Germany was again the leading country, with 27,200 direct employments.

Development of Beer Consumption in Germany (l/capita) (1,2)



(1) Consumption of non-alcoholic and malt beer not included

(2) Note that a change in reporting/calculation of population numbers has occurred in 2011 impacting the comparability between pre 2011 and 2011 onwards

Source: Brauwirtschaft 2019. Data retrieved from: https://www.destatis.de/DE/Themen/Staat/Steuern/Verbrauchsteuern/_inhalt.html;jsessionid=31A9338075FFC0E186720FAC6A662A46.internet8732

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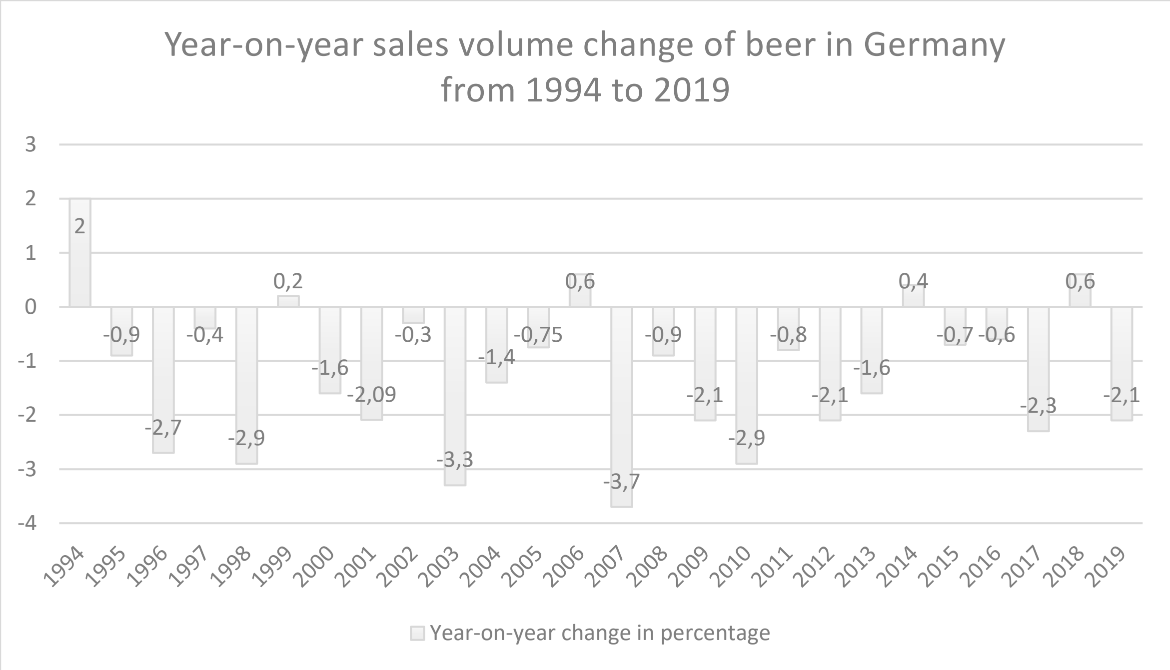
Year-on-year percentage change in the numbers of beverages stores in Germany



Source: Statista 2020. Data retrieved from: https://www.statista.com/statistics/508172/beer-y-o-y-sales-volume-change-germany/