

New Human Engagement-First Governance Approach in Craft Startups

Yuriko Sawatani¹ and Nobuo Kanai²

¹NUCB Business School, Japan

²Design for All, Japan

ABSTRACT

The research finds a new relationship with customers through crowdfunding in the case of BrewDog, a craft startup. Originally, the concept of craft was regarded as a primitive form of manufacturing that was passing away. However, the Arts and Crafts Movement, started by Morris and others (1892) against the Industrial Revolution, was an attempt to rediscover the potential of human beings themselves. By rethinking the purpose of life as an anti-capitalist movement and analyzing craft startups, where symbolism, aesthetic qualities, and entrepreneurial identity are important elements, we found a customer profile as a future-creating partner that transcends the traditional relationship enabled by the crowdfunding mechanism.

Keywords: Craft startup, Effectuation, Entrepreneurship, Crowdfunding

INTRODUCTION

The concept of handwork or craft has generally been viewed as primitive manufacturing. However, craft is being reconceptualized in contemporary society as an alternative approach with new governance models that prioritize human involvement in work and organizational relationships. In fact, the value proposition of a typical craft beer does not simply refer to the old concept of craft as a form of operation of a small brewery, but seems to be strongly aware of its message as an alternative value based on the new craft concept.

In a time when mass production and mass consumption have become the norm, the emergence of craft beer has the potential to shake up this value system. By analyzing the case of BrewDog, this study finds one approach to the dilemma of craft startups, namely, whether entrepreneurs as craftsmen should adhere to artisanal values and resist growth or embrace growth. As a research query, how is market expansion possible without losing Identity? and aims to make up for this shortfall through discussion. We will analyze BrewDog's efforts in terms of its corporate culture, which is centered on PUNK, which represents a rebellious spirit, its external messages, which are also based on that corporate spirit, and its communication, which is social in nature. As a result, we find alternative values as a new governance model based on a new concept of craft.

In the following, following a literature review of related areas, the methodology of the study and the results of the analysis are presented. Finally, we provide a discussion and conclusions.

RELATED LITERATURE REVIEW

Peculiarities of Craft Startups

With growth opportunities in the craft business in sight, it has been suggested that craft startups face a difficult dilemma (Solomon & Mathias, 2020). That is, the conflict is whether the entrepreneur as a craftsman resists growth by adhering to craft values or embraces growth. Many artisanal entrepreneurs value handcrafting over mass production, maintaining independence over receiving outside funding or management support, connecting with the community over expanding the size of the business, and value creation over profit maximization. Entrepreneurs who adhere to craftsman values and resist growth see embracing growth as exclusion or deviation from the craftsman community, and they profess to not grow. On the other hand, while craft startups hold values that conflict with growth, as seen in the case of craft beer, not only is the market share of the craft category growing, but many of the craft startups that make up these categories are also achieving high growth.

Solomon & Mathias (2020) explain this contradictory situation by the two different sub-identities of artisanal entrepreneurs. Artisanal entrepreneurs view themselves through a “who we are not” identity, which is opposed to the existence of existing firms in the mass market. In this case, artisanal entrepreneurs view their decision to grow as a challenge to their artisanal characteristics. On the other hand, artisanal entrepreneurs may view “we” in a broader sense, including numerous stakeholders (customers, suppliers, employees, and even the local community) as “who we are” (relational identity). In this case, they may embrace growth decisions as an opportunity to further serve and support their stakeholders. Depending on whether a decision about growth involves confrontational or relational thinking, one may take action to resist growth or to embrace growth.

Crowdfunding

Crowdfunding is a digital financing activity, such as lending or fundraising, carried out online. It consists of various debt models such as loans, equity models such as stocks, and non-investment models such as donations that allow individuals, businesses, and other entities to raise funds through online digital marketplaces. These crowdfunding activities are also defined as alternative financing because they occur outside of the existing banking system and traditional capital markets such as stock and bond markets. Note that the U.S. was the largest domestic crowdfunding market by region in 2020 with \$73.62 billion, accounting for 65% of the global market. It was followed by the United Kingdom (\$12.64 billion) and Europe excluding the United Kingdom (\$10.12 billion). By scheme, the debt model accounts for

about 90%, while the equity model accounts for just over 1% (Zhang, et al., 2017; Ziegler, et al., 2021).

Entrepreneurs as Relationship Creators

Effectuation theory has its roots in Sarasvathy's work on the decision making of skilled entrepreneurs (Sarasvathy, 2001, 2008). Sarasvathy (2001, 2008) proposes five decision-making principles that distinguish between "effectuation," the logic of entrepreneurs who can make decisions under uncertainty, and "causation," the logic of managers who operate in a predictable and less uncertain context.

First, the means-oriented principle relates to the means available to entrepreneurs, such as knowledge acquired through education and industry experience, one's identity, and personal relationships and networks. Decision makers who adopt effectual logic start from the questions "Who am I?", "What do I know?", and "Who do I know?" and create something new from these existing means. Second, the affordable loss principle addresses the tendency of skilled entrepreneurs to move forward affordably. In effectuation decisions, they consider the downside risk of failure and try to limit risk by making small, incremental bets. Third, the crazy quilt principle concerns establishing partnerships and obtaining commitment from stakeholders. Establishing alliances and negotiating stakeholder commitments adds new tools and shapes the goals of the venture. Fourth, leverage contingencies principle addresses unforeseen events and contingencies. An iterative process for effective decision-making can turn surprises into sources of opportunity. And finally, the principle of non-predictive control concerns the entrepreneur's attitude toward the future. Effectuation relates to emergent or non-predictive strategic planning and assumes that the uncertainty inherent in the business context requires entrepreneurial behavior to control and actively shape the future. This study is a research query: How is market expansion possible without losing Identity? and aims to make up for this shortfall.

RESEARCH METHOD

This study will employ a two-stage approach that complement each other. In the first phase, we will conduct a case study of BrewDog, a craft beer startup that has emerged in the North East craft beer industry, gained global recognition, and achieved sales that exceed those of other craft brewers. We will obtain information about BrewDog from a variety of sources, including the Web, books, news articles, reports, and papers, in an effort to understand BrewDog's decision-making process from their own perspective. We accomplish this through a case study of a constructed organization (Yin, 2014). Multiple streams of data are used in this case build to paint a picture of an outstanding company (Cunningham & Barclay, 2020). Secondary sources used in this case study include academic and business analysis, data from BrewDog's online publications, and other media commentary; excerpts from James Watt's autobiographical business guide are used to portray BrewDog's entrepreneurial intentions.

The second phase of this study analyzes the positioning of BrewDog and its actors from the theoretical framework of Effectuation, with a particular focus on Crazy Quilt. Relationship building with investors, customers, and others will be investigated to determine the impact that BrewDog's success has had on them.

Brewdog

BrewDog was founded in Scotland in 2007 as a craft beer startup by James Watt and Martin Dickie (and their dog Bracken). With a mission to “inspire more people to have the same passion for great craft beer as we do”, they have become a leading craft beer brand with their bold style and uncompromising quality. The company brews a wide variety of revolutionary beers, from its flagship Headliner series, including the Punk IPA, to the Amplified series, which is a beer with 11 times the alcohol content.

The Founding of the Company

BrewDog's founding and subsequent process of seizing growth opportunities is an example of a startup by an effectual entrepreneur. James Watt, the would-be founder, had given up on his own legal career and resigned his position as an in-house lawyer to return to his family home, where he worked in the fishing industry, even becoming the captain of a trawler in the North Atlantic. His longtime friend and co-founder, Martin Dickey, had followed his dream of becoming a beer brewer and had taken a job with a major brewing company. Watt said, “Our passion for beer had been with us for a long time, and in 2004, we jumped on the bandwagon and started brewing our own beer. (Watt, 2016)”

In 2007, the two founders and their dog started the business with a small capital (£10,000 of their own money and a £30,000 bank loan).

“In the early days of the start-up, we focused less on sales and more on making world-class beer that all mankind would reach for. The start-up period was actually tough. You will experience repeated rejection, pain, and frustration. (Watt, 2016)”

While they continued to struggle in sales despite their efforts, he maintained his confidence in his product and his belief that its value would be discovered. Through social media and other online channels, they aimed to clearly communicate their mission to potential customers and share their passion for brewing beer from the daily brewing process. They also steadily contacted influencers and others in the online craft beer enthusiast community and asked them to taste samples. Thus, for the first year or so after the company's founding, he moved into his parents' house to save money, slept in the brewery, and worked hard, but sales were far short of break-even, and he continued to cash out of his initial business capital.

An Opportunity to Leap Forward

“In early 2008, when I was barely surviving, I entered a Tesco beer competition. (Watt, 2016)” He was so busy with his daily work that he had forgotten

that he had entered the competition when he received a notice that he had won first to fourth place in the competition. He immediately went to Tesco's headquarters, where he was told that BrewDog's beer would be sold throughout the UK through Tesco stores, and that 2,000 cases per week would be ordered. However, at the time, there were only two employees and they were bottling by hand, so they had to prepare for an order of 2,000 cases per week in four months.

He put together a plan, went to the bank that had lent him the start-up capital, and applied for an additional loan of 150,000 pounds to add bottling equipment and tanks. Negotiations with the bank were difficult, as the company had not yet repaid the initial business loan, and all financial institutions were becoming more cautious due to the looming global financial crisis. In the end, however, the necessary financing was obtained, the brewery equipment managed to take shape, and deliveries to Tesco began. Tesco decided to take on the new challenge of selling craft beer in supermarkets.

Building a Venture Identity

In this way, BrewDog saw tremendous growth opportunities in its early years. However, the key factors that have enabled BrewDog to become one of the leading global craft beer companies are that it has successfully built a strong brand and a loyal customer community by establishing its own venture identity, along with its brewing technology. BrewDog's success in building a strong brand and loyal customer community was a key factor in the company's success.

BrewDog is built on a foundation of PUNK spirit. Our mission is to break old customs and stereotypes and create a new beer culture of our own volition. BrewDog's mission is to create a new beer culture by our own will, breaking down old customs and stereotypes. The company was founded in 2007 with the aim of creating a craft beer category in the UK market, which at the time was limited to "mass-produced factory lagers" or "stale and fundamentally uninteresting ales (James Watt, co-founder of BrewDog). (Watt, 2016)"

If one word were to describe BrewDog's corporate culture, the word "PUNK" would be the best way to describe it. The word "PUNK" is still strongly associated with the punk rock style and culture that became a social phenomenon in the 1970s. However, the essence of PUNK that BrewDog seeks to embody is its rebellious spirit.

PUNK: a culture popular among young people, especially in the late 1970s, involving opposition to authority expressed through shocking behavior, clothes, and hair, and fast, loud music (Cambridge Dictionary)

BrewDog's rebellious spirit lies in the fact that it has reversed such a radical image of PUNK to make a strong impression on consumers and establish its own brand. BrewDog's anti-establishment stance highlighted the existence of craft beer as a competitor to mass-produced beer and clarified its position as a small brewer standing up to the big operators.

While BrewDog's anti-establishment stance and provocative marketing has led to many conflicts, BrewDog has rapidly gained recognition through these radical and provocative marketing efforts. They have also been able to clearly communicate their mission to potential customers through social media and other online outlets, and share their passion for making beer from the daily brewing process. As a result, BrewDog has developed a loyal customer community that shares its "revolution."

The Challenge of Scaling Up

In 2008, in only its second year of operation, BrewDog became the largest independent brewery in Scotland. The next stage of growth required financing. At the time, the company was already close to its maximum credit limit with several banks and needed to raise capital in the form of equity. In the case of a typical start-up, when a company moves from the initial start-up phase to a new growth phase, it is considered to receive investment from VC firms. In such cases, shares are allocated to the VC based on the corporate value evaluation and the amount of investment, and the VC has a certain amount of influence over the management. VCs as shareholders tend to seek profit-oriented management decisions and strategies for rapid expansion of management scale that will lead to an increase in corporate value. This is because VCs as investors seek exit opportunities, such as going public or selling the company to another company (a major operator), in order to recover their invested capital. This can be an identity crisis for BrewDog.

"We believe the best way to further the growth of BrewDog is to ask you, the people who enjoy our beers, to be involved in BrewDog's future. (Watt, 2016)"

In 2009, BrewDog began crowdfunding using an equity model rather than a rewards-based model to raise funds for its rapid growth. This required the company to comply with detailed disclosure requirements as a PLC. The company named its crowdfunded equity offering "Equity for Punks" and offered a variety of benefits to shareholders, including discounts, invitations to the annual meeting and exclusive pre-sales of new products and access to a shareholders-only website where they could voice their opinions about the company's operations (BrewDog, 2010; 2022). Although BrewDog's shares are not listed and cannot be traded on the stock market, there have been four opportunities to buy and sell shares through auctions held by a company that specializes in trading private company shares.

BrewDog formed new partnerships with its customers and built a stronger community through this crowdfunding. Through equity ownership, a new relationship was established that transcended inherent conflicts and shared interests, including management, employees, customers, and suppliers. In August 2020, BrewDog announced that it had become the world's first "carbon negative brewery" (i.e., absorbing more CO₂ than it emits and double offsetting what it cannot reduce, i.e., removing twice as much carbon from the atmosphere as it emits).

Analysis Through the Theoretical Effectuation Model

We will analyze how the entrepreneur’s commitment, identity, and scale-up dilemma unique to craft startups are addressed by comparing the startups at inception to those at scale-up. We will then discuss the compatibility found in BrewDog and why it is possible. The results will be discussed.

The decision making at the time of founding was based on the identity of wanting to make good beer by Birds in hand of the effectuation theory and what they could do. From that activity, they received an order from Tesco, obtained a loan from the bank, and expanded Crazy Kilt. It also expanded from on-license business in English-style pubs, which are considered the target of the craft beer business, to the canned beer market in supermarkets where Tesco committed themselves as the self-selected involved party. This depicts the growth process usually seen in startups: obtaining funding, increasing production, and expanding channels.

On the other hand, the scale-up phase is characterized by the inclusion of customers, rather than specialized financial organizations, as actors for obtaining funds. As a means of achieving this, equity-based crowdfunding was utilized. The crowdfunding scheme recruited participants through its own website targeting their royal customers to be funders. We note here that the choice of crowdfunding scheme and platform was not dependent on the choice of the crowdfunder, but rather on the “customer community” as the funding provider, in practical terms. Furthermore, recent equity offerings have included sustainability activities as “Punk for Future” as a target, expanding beyond just the food and beverage industry. Below are the results of the analysis based on the theoretical framework of effectuation during the start-up phase (Figure 1) and the scale-up phase (Figure 2).



Figure 1: Analysis of BrewDog’s founding period.

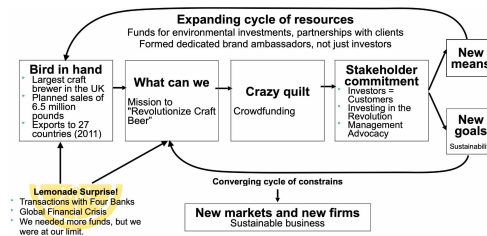


Figure 2: BrewDog’s scale-up period.

DISCUSSIONS

Effectual entrepreneurs build relationships with other actors based on their entrepreneurial identity from “Who I am,” “What I know,” and “Whom I know. The craft startup BrewDog, the subject of this study, was not just a business as a way to make money, but the embodiment of an identity that overlaps with their very lives. They avoided a crisis by actively inviting enthusiastic customers to become shareholders in a craft startup dilemma: whether to pursue growth or to retain independence as an identity. In other words, one key to market expansion without losing Identity was to build new relationships with customers.

If we organize the relationships with actors in terms of business and identity specific to craft startups, the traditional business partners, such as equity investments, loans, and endowments, have limited interest in the identity of craft startups. Loans are key to building a relationship, whether or not they have value as a business transaction, whereas equity investments expect a better future return in exchange for some business advice. On the other hand, for Punk Equity holders who are passionate customers, sympathy for the founder’s identity can be a factor for investment, rather than business involvement. Involvement in the management of the company through its shares suggests a greater interest in the development of future products (Table 1).

In the following, we will look at the relationship between BrewDog and its customers as funders, managers, and also as co-creators of the future (Figure 3).

BrewDog’s share capital consists of A, B, and C shares with equal voting and profit appropriation rights. As BrewDog’s current shareholders, 59% of the A share of common stock held by the founder and others, 19% of the B share of common stock, which is the “Equity for Punks” held by the punk shareholders, and 22% of the C share of preferred stock (BrewDog,

Table 1. Role of actors and their involvement in the market and management.

Role of Actors		Customer			Business Partners	
	Actors	Customer	PunkEquity Customers	Equity Investors	Dead Lender	Non-investment Donors
market	Products	Purchase	Product enthusiast, Ourchase	Not interested	Not interested	Not interested
	Financial returns	No relationship	Co-creation for product improvement	Advice for future returns	Financial transactions	Not interested
management	Identity	Empathy	Commitment to the founder, Great relevance to own life	Interest as an investor	Not interested	Not interested
	Controllability	No relationship	Co-creation with the founder	Advice, Risk mitigation	Risk mitigation	Not interested

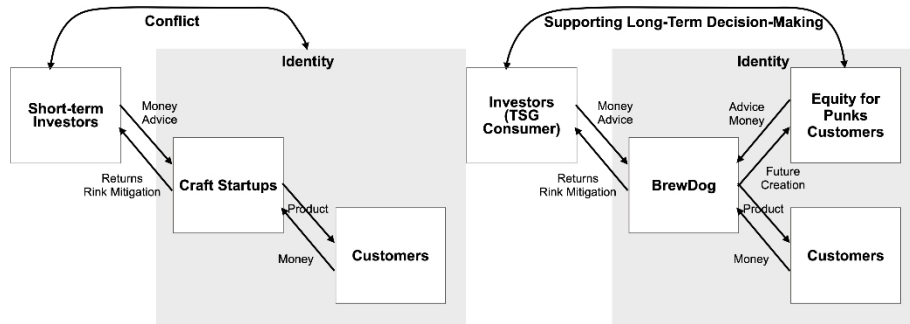


Figure 3: Craft startups' business and identity dilemma and its solution at BrewDog.

2021). The C shares have a liquidation preference under certain conditions and are owned by TSG Consumer, which supports BrewDog's independence, global expansion, and management (TSG Consumer, 2007). While the founders have full control over management decisions, the founders are committed to using the intentions of the punk shareholders to guide management. In particular, they have strengthened their commitment to sustainable management following Equity for Punks Tomorrow, a crowdfunding campaign that raised funds by pledging to invest in sustainable management sustainability initiatives. The breakthrough in BrewDog's governance was converting customers into business partners through crowdfunding, allowing a community of customers to become business partners and create the future together. This model shows that maintaining entrepreneurial identity and expanding business are not necessarily insoluble dilemmas, and the future of customer communities as business partners, who create the future together by sharing an identity, should not be overlooked.

CONCLUSION AND FUTURE RESEARCH

This study found new customer relationships through crowdfunding in the case of BrewDog, a craft startup. Originally, the concept of craft was regarded as a primitive form of manufacturing that was passing away. However, the Arts and Crafts Movement, started by Morris and others (1892) against the Industrial Revolution, was an attempt to rediscover the potential of human beings themselves. As an anti-capitalist movement, it rethought the purpose of life, and by analyzing craft startups, where symbolism, aesthetic qualities, and entrepreneurial identity are important elements, it found a customer profile as a future-creating partner that transcended traditional relationships.

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