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# Can the Craft Beer Industry Tap into Collective Reputation?

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The recent expansion of the U.S. brewing industry has resulted in a multitude of breweries with a variety of beer styles. Consumers now have access to brews made from unique types of grain, hop varieties, and strains of yeast previously unavailable. The demand for craft beers hinges on consumers' expectations and perceptions because product quality is unobservable at the time of purchase. Initially, the Brewers Association (2017a) identified craft beer as "small, independent, and traditional" breweries and consumers interpreted it as synonymous with high-quality products (Adams, 2006). The positive aura of craft brewing piqued consumer interest, generating business opportunities for brewers and ensuring steady growth.

Maintaining the current rate of growth for craft beer may not be so simple, however, as signs of increasing competition and demand softening may already be showing (Swindell, 2017). The craft mystique that propelled industry growth in the past is not likely to persist with the same intensity in the future, for several reasons. For one, as the number of new breweries keeps growing, more inexperienced brewers are entering the market, increasing the potential for lower-quality beers bearing the craft moniker. Indeed, many industry actors have recognized lack of consistency as one of the main challenges for the craft industry (Gorski, 2014). Barring clear and enforceable industry standards, issues with product quality are unlikely to go away.

Another factor working against craft brewers is the concerted investments made in this sector by the largest players. Over the past decade, larger macrobreweries and alcohol companies have tapped into the craft beer market via acquisition. The two largest macrobreweries, Anheuser-Busch InBev and Molson Coors, have acquired multiple craft breweries, successfully gaining market share in the niche craft market. Examples include Chicago's Goose Island Beer Company, LA's Golden Road Brewing, and San Diego's Saint Archer Brewing. With greater access to capital and resources and more extensive distribution channels, macrobrewers can leverage a significant competitive advantage over traditional, "independent" craft brewers.

Macrobrewers are also extending their product lines with beers that embody characteristics similar to traditional craft beer ale styles and marketing them under a "pseudo" or "crafty" brand name. An example is Blue Moon, an American version of Belgian-style wheat ale created by Molson Coors in 1995. These brands often disguise their corporate heritage on their labels (Bennett, 2017). While multi-branding is perfectly legal and common to many industries, many see corporate ownership as incompatible with the independence and connection to community that consumers have come to expect from "true" craft beer (Koch, 2017). Going forward, how can craft breweries gain broader consumer recognition and compete in a market with larger macro and import beers? One possibility is for the craft beer industry to tap into the benefits of collective reputation.

## Collective Reputation as a Sign of Quality

Collective reputation is a common phenomenon in the food and beverage industry and arises whenever consumers interpret the distinctive name of a group of producers—most often associated with a geographical location—as a signal of high quality. In many cases, regional advantages in growing or processing play an important role (such as Napa Valley wine, Idaho potatoes, Vidalia onions from Georgia, or Wisconsin cheese). In other

instances, a group of producers may have advanced knowledge of a processing technique, often as a result of long-standing regional traditions (such as prosciutto di Parma or Parmigiano-Reggiano) or common, strictly enforced quality standards.

Collective reputation is extremely important in the global wine industry. In France, the Appellation d'Origine Contrôlée (AOC) certification identifies agricultural products, including wine, from distinct geographic regions. Champagne, for example, is a sparkling wine that in many countries can only be labeled such if it is produced in the Champagne region of France and adheres to AOC-designated production practices. Importantly, the AOC guarantees that products also adhere to specific quality standards. In the United States, the Alcohol and Tobacco Tax and Trade Bureau designates and certifies regional wine appellations through the American Viticultural Area (AVA) (<https://www.ttb.gov/wine/ava.shtml>) system.

Since breweries can rely on individual brand reputation rather than that of a collective group of brewers, why would an independent brewer worry about collective reputation? Collective names have a key comparative advantage in that a shared brand image drastically reduces search and learning costs for consumers. When there are many producers, as is the case for craft beer, it is impossible for consumers to evaluate and learn about the quality of each firm, so individual reputations may be ineffective. But grouping similar producers under a single umbrella simplifies the task (Costanigro, McCluskey, and Goemans, 2010). The benefits are similar to those provided by individual reputations—a collective reputation for high quality will lower consumers' resistance to trying new brands.

These benefits may help breweries stand out with beer distributors and retailers as well. Breweries face limits to self-distribution, so distributor support can be important for gaining market share. However, craft brewers have to compete for limited storage and marketing support offered by distributors. Further, retailers (e.g., bars, convenience, grocery, and liquor stores) have limited shelf-space. In both cases, a collective reputation may help them choose which beers to sell.

## Collective Reputation in the Beer Industry

Collective reputation is relatively uncommon or new in the U.S. beer industry, but German and Trappist beers offer two prominent and instructive examples. The worldwide recognition and success enjoyed by German beers can be traced back to the German Beer purity law (Reinheitsgebot), a 500-year-old regulation limiting the ingredients allowed for brewing beer to malted grains, hops, water, and yeast. Even though the original intent of the law was protectionist in nature (beers not meeting the quality standards could not be sold in the German market, see Adams, 2006), the Reinheitsgebot continues to be a popular marketing tool for German brewers and, to this day, acts as a signal of quality to consumers.

Trappist beers provide another example. To be designated Trappist, a beer has to be directly prepared by monks (or be brewed under their supervision) in one of eleven abbeys recognized by the International Trappist Association (see <http://www.trappist.be>), which also outlines specific production criteria. Most Trappist beers are bottled-conditioned Belgian-style ales adopting the beer style guidelines of Enkel, Dubbel, and Triple (single, double, and triple malting (see <http://www.trappist.be/en/pages/trappist-beers>). A consumer who enjoys one Trappist beer may be inclined to try an unfamiliar brewery or beer that carries the Trappist label.

Craft brewers in the United States have also worked to build a collective reputation based on geographic identification. Currently, all 50 states, the District of Columbia, and nine cities have established brewers' guilds. In general, the goal of these guilds is to promote and support brewery members using collective social media postings, state/regional beer maps, and sponsored events. In addition, they are often involved with political advocacy for the brewers. In many cases, the guilds provide a "state brewed" label, which appeals to consumers' preferences for "local." However, to our knowledge these guilds do not have any production quality standards and tend to require nominal fees for joining.

Recently, the Brewers Association (2017c) released a label identifying small, independently owned craft breweries as a way to distinguish themselves from breweries owned by larger macrobreweries. While the label promotes

brewers with a common ownership structure, it does not verify that their beer meets any specific quality standards.

## Limiting Factors and Challenges to Collective Reputation

Even when conditions are favorable, developing and sustaining collective reputations for high quality is far from easy. In the German and Trappist examples, the key to developing and maintaining collective reputation is monitoring and enforcing quality standards. When firms can't be identified or firms are not traceable, the incentive for the individual producer is to cut on costs, produce low-quality products, and extract the rents from the collective name. Moreover, as the number of firms sharing a common reputation grows larger, so does the incentive to free-ride on the efforts of others, driving quality down (Winfrey and McCluskey, 2005).

The problem here is that collective reputations are much like common property, and the economic incentive for individual members is to cut down the forest and cash in. Even though breweries can be identified, a large number of uninformed consumers—or the ability to shut down a failing business to open a new one under another label—is sufficient to create an incentive to skimp on quality and free-ride (Fishman and Simhon, 2000). Maintaining collective reputations therefore requires a level of social cohesion among the members of a group or legal enforcement of set quality standards. Menapace and Moschini (2011) show that the concurrent use of trademarks (firm names) and geographical indications sustained by minimum standards and certification can operate as a mechanism to assure high quality in the long term. Of course, the devil is in the details. Finding agreement on standards is far from easy, and it is also important make sure that standardizing practices will not squash creativity and innovation.

Even with quality standards, there is a more fundamental challenge to developing collective reputation among breweries. For beer, quality is not necessarily tied to where the product is brewed, at least not as much as for other food products. That is, regions or localities may not inherently have some comparative advantage over others. In winemaking, *terroir*—the local soil, topography, and climate—is seen as essential to producing high-quality grapes, a necessary condition for making fine wines. But beer ingredients—malted grains, yeast, and hops—can be easily shipped across the globe in their dried forms. As a result, any cachet associated with a particular state or region may diminish over time if the product does not offer something truly unique or special.

As an example, access to a steady supply of clean, pure water can provide brewers with a regional advantage: Coors touts that its products are brewed with 100% Rocky Mountain water. But relatively inexpensive chemical treatment and filtration can level the playing field, especially for larger-scale producers. A Budweiser brewed in their Fort Collins plant will taste exactly the same as one brewed in Houston.

Certain production practices associated with beer styles can also enhance or detract from the perception of the product as well. As an example, Imperial (or Double) IPAs have a reputation for strong yet sweet hops, a robust malty flavor, and higher alcohol content. They are also considered to be some of the best beers in the world. Consequently, the style conveys a sense of quality to craft beer drinkers. Alternatively, American light lagers have traditionally had a reputation among the craft beer community for lower quality. As a result, the collective reputation of U.S. lagers might suffer, regardless of perceived brand reputation. Interestingly, the reputation of craft lagers seems to be improving (Carpenter, 2017).

## Building Collective Reputation in the Craft Beer Industry

Of course, no single approach will work for all local realities, but some possible strategies for developing collective reputations in the U.S. craft beer industry do exist, as these examples illustrate. As previously mentioned, regional identification of beer is often tied to the adoption of specific recipes or brewing styles rather than exclusive access to high-quality ingredients. Examples include Belgian witbier and German hefeweizen, English porters and Irish milk stouts, and even the domestic American IPAs. Country of origin alone may provide far too vague a description to create value for brewers, but a combination of country and style could offer a more informative signal.

The idea of using specific inputs or recipes to generate collective reputation is not new, and the choice of hops offers an opportunity for tying the land to a specific region. Hops can display *terroir* effects similar to those

observed in wine. For example, in Wisconsin a very popular hop variety, Chinook (with 5% of total planted acreage), was renamed Skyrocket because of the terroir effect on flavor profile (Brewers Association, 2017b). Another approach is to develop local hop varieties. Idaho 7, a variety bred in Idaho, is currently being used experimentally in brews. This is a great example of Idaho craft brewers trying to grow their reputation by taking advantage of the fact that most craft brewers proudly display the ingredient lists for their brews. One should keep in mind, however, that—lacking official regulations—a craft brewery in Colorado could freely use Idaho 7, so there is no exclusivity in the use of the name.

Another input that could be used to build a collective reputation is malt. Traditionally, malting has been done by large companies on a large scale. But a growing trend of “micro-maltsters”—small, regional maltsters—are malting grains, often locally sourced, for local brewers in support of the craft industry (Keene, 2013). This provides craft brewers with another opportunity to connect their beer to region-specific malts that may also have unique attributes.

Breweries are also playing an ever-increasing role in regional tourism (indeed, many brewers’ guilds are subsidized by state or regional tourism boards). For example, the Yakima Valley in Washington State is known for growing over 70% of hops grown in the United States, which became the largest hop producing country in the world in 2016, surpassing Germany for the first time (Hop Growers of America, 2016). Certain unique varieties of hops grown in Yakima are even trademarked, which gives this region and its brewers a natural terroir advantage. The Yakima Valley “Spirits and Hops Trail” links breweries to related agritourism, allowing the region to not only capitalize on the natural agribusiness relationships between hop growers and brewers but also on its unique agricultural characteristics.

Unlike wine, however, where high-reputation centers are tied to places where good grapes are grown, group recognition in beer frequently appears to gravitate toward urban centers, where craft beer is consumed and often made. Over the last 20 years, several U.S. cities have become known for their brewing culture. Although big cities have a greater absolute number of breweries, many smaller cities—such as Asheville, NC; Fort Collins, CO; and Missoula, MT—have been able to create unique brewing communities. Asheville, NC promotes a “Beercation Getaway” to capitalize on its approximately 15 breweries (see <https://www.exploreasheville.com/stories/post/beercation-getaway/>). In many cases, craft beer touring supports some other natural amenity, so craft brewers could try to tie their image to the local attraction.

Tourism affiliation can provide the means to adopt common quality standards: members could be required to pay a fee to receive additional promotional efforts from the regional tourism board. An advantage of this strategy is that marketing promotions provided by regional associations are likely more credible than information from individual firms (Rickard, McCluskey, and Patterson, 2015).

The distributor also provides important information to brewers that can help build their success and ultimately the reputation of the regions’ craft brewers. In addition to providing insight into the consumer market, the distributor can help communicate various marketing requirements, such as packaging, product rotation, and timing of releases for seasonal brews. Not to be overlooked, the distributor also provides quality control management that can ensure that beer received by consumers meets standards.

## In Summary

While there is no one clear strategy for creating or maintaining the collective reputation of breweries, efforts should extend across the entire supply chain. Beyond promoting specific attributes or affiliations, quality standards for inputs are necessary to ensure that the collective reputation is sustained over time. Marketing efforts play an important role as well. Craft beer distributors can help build the collective reputation of craft breweries, within either specific marketing regions or certain product groups, such as beer styles. Finally, community efforts—including retailers, tourism boards and guilds—can help promote the reputation of craft beer regions. Building a collective reputation for craft beer will require a collective effort.

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