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Marketing In Monopolistic Competition:
The Case of Craft Beer

Department *of* Economics



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Marketing In Monopolistic Competition: The Case of Craft Beer

Submitted to the Department of Economics of Allegheny College in partial fulfillment of the requirements for the degree of Bachelor of Arts.

I hereby recognize and pledge to fulfill my responsibilities as defined in the Honor Code and to maintain the integrity of both myself and the College community as a whole.

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**(HONOR CODE
SIGNATURE)**

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Abstract

The entirety of my market research and industry evaluation surrounds the idea of one specific question. Do localized marketing strategies limit growth in monopolistic competition, specifically for microbreweries? When I refer to monopolistic competition, I will be specifically looking at the market of craft beer. Being a craft beer connoisseur, this topic truly excites me because I have always enjoyed drinking craft beer as opposed to mainstream mass produced beer. Since I began drinking beer, I have always been more drawn to the personalized and unique drinking experience that craft beer has to offer. In this paper I will unveil how I evaluated different marketing strategies to analyze how firms in a monopolistically competitive market create a brand for themselves and find success. When looking at the craft beer industry, along with other monopolistically competitive industries like restaurants, barbershops, and bars, we don't see a constant fixation to just make money. Instead, we see a group of companies motivated to not only offer consumers a quality product, but more importantly, a quality experience. This type of company appeals heavily to the millennial population in the United States. With this deeper level of thought being put into the decision-making process, millennials are more likely to choose a more socially responsible company like a craft brewery, rather than a large brewing company like MillerCoors and Pabst ([Rayapura, 2014](#)). But, to really understand these breweries and what they stand for, we must dive deep into the history of craft beer specifically the roots of how craft beer made its way to the United States of America.

Introduction:

Seven months, three weeks, three days, and a few extra hours. That is about how long economics students at Allegheny College have to complete their senior project. With unlimited options, and a world of choice, deciding what I wanted to dedicate almost an entire year to was difficult. The most important thing I wanted to consider was picking a topic that deeply interested me. I did not want to spend the entire year researching and writing about a subject that didn't easily excite me. After frying my brain by reading dozens of articles regarding a multitude of different topics, I needed a break. I sat down on my couch and cracked open a bottle of Voodoo Love Child, a beer brewed by Voodoo Brewery, right here in Meadville. A beer like Voodoo Love Child is placed in a high class category of beers labeled as craft beer. Craft beer embraces character and uniqueness. It is known to stand out from the crowd of bland and boring mass produced beers. As I took another sip of Love Child, I began to think about the craft beer world and how interesting this industry is. I also took into consideration the recent extreme growth of the industry and how more people are beginning to prefer craft beer over basic lagers and pilsners like Bud Light and Budweiser. With the amount of growth in the craft brewing market, I knew that this industry would allow for a very interesting and eventful senior project, and perhaps some of my primary research could include drinking delicious craft beer (...it did).

The entirety of my market research and industry evaluation surrounds the idea of one specific question. Do localized marketing strategies limit growth in monopolistic competition, specifically for microbreweries? When I refer to monopolistic competition, I specifically look at the market of craft beer. Being a craft beer connoisseur, this topic truly excites me because I have always enjoyed drinking craft beer as opposed to mainstream mass produced beer. Since I began drinking beer, I have always been more drawn to the personalized and unique drinking

experience that craft beer has to offer, every beer is different from the next. Additionally, I have always had questions in regards to the craft beer, and through extensive research and conducting my own studies, I was able to find closure with many of these questions. In this paper I am going to unveil how I evaluated different marketing strategies to analyze how firms in a monopolistically competitive market create a brand for themselves and find success. But, in the craft beer world, success can be defined in multiple different ways.

In the money hungry world of large corporations, success is a binary term. Are you producing revenue and growing the firm, or not? When looking at the craft beer industry, along with other monopolistically competitive industries like restaurants, barber shops, and bars, we don't see a constant fixation to just make money. Instead, we see a group of companies motivated to not only offer consumers a quality product, but more importantly, a quality experience. This type of company appeals heavily to the millennial population in the United States. According to a study from 2017, "As consumers, millennials are attracted to products that reflect their values, lifestyle, and personality. They tend to be adventurous consumers that appreciate diversity, authenticity, creativity, and individualism." ([Gatrell et al., 2017](#)). With this deeper level of thought being put into the decision making process, millennials are more likely to choose a more socially responsible company like a craft brewery, rather than a large brewing company like MillerCoors and Pabst ([Rayapura, 2014](#)). But, to really understand these breweries and what they stand for, we must dive deep into the history of craft beer, specifically the roots of how craft beer made its way to the United States of America. After understanding the background of this industry, I will dive into the literature section of the paper, discussing multiple theories that play a large part in my project. The literature review will look at the craft beer industry in depth, as well as theories of monopolistic competition, neolocalism, and regional

branding. Next, I will talk about the case study that I conducted, examining the three microbreweries I studied and how they have utilized different marketing strategies to be able to find success in their markets. I will then talk about how these strategies have affected their potential for growth and expansion. Finally, I will speak about how my theories and case study tie together in the conclusion section, connecting my data and research as one.

Background/History:

Preamble:

Plato, one of the founders of Western Philosophy, the founder of the Academy, and the founder of the Platonist School of Thought, once wisely stated, “He was a wise man who invented beer.” ([Arata, 2018](#)). Thomas Jefferson, one of the Founding Fathers of the United States and the third president of the country, once said, “Beer, if drunk in moderation, softens the temper, cheers the spirit and promotes health.” (Arata, 2018). Beer is a beverage full of history and surprising details that make it rich in culture. The history of beer is saturated with interesting people and events that have shaped it into what it is today. The first signs of brewing date back thousands of years, and over time the industry has continued to evolve.

The History of Beer:

In the year 1800 BC, “Hymn to Ninkasi” was inscribed on a tablet. The hymn was a Sumerian beer recipe and one of the first recorded brewing recipes found ([Mestorey, 2019](#)). Ninsaki is the name of the Sumerian Goddess of beer. Figures 1 and 2 show an image of the “Hymn to Ninkasi”, and a more modern interpretation of what Ninsaki was pictured to look like.

Figure 1: The “Hymn to Ninkasi” (History of Beer, 2013)

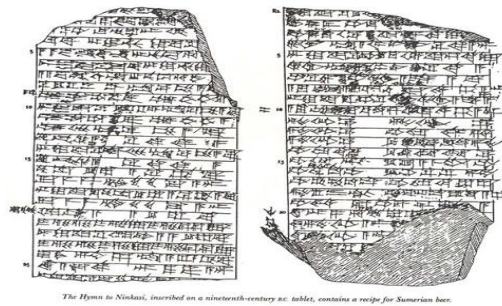


Figure 2: The image of Ninkasi (Graham, 2018)



Years later, in 580 AD, one of the many “patron saints to beer” was born, Saint Arnold of Metz (Mestorey, 2019). Saint Arnold was one of the most important patron saints to beer because of his incredible history surrounding beer. According to Mestorey, Saint Arnold helped “end a plague by convincing people to drink beer rather than [the] impure water.” As history progressed we watched the United States become the second largest consumer of beer in the world, drinking 24.2 billion liters per year ([List of Countries, 2019](#)). But, we first need to rewind to January 17th, 1920, when the United States became a dry country ([Slavicek, 2009](#)).

On January 16, 1919, the 18th amendment was ratified, and a year later, on January 16th, 1920, it came into full effect ([Slavicek, 2009](#)). According to the Constitution Center, Section 1 of the amendment states, “After one year from the ratification of this article the manufacture, sale, or transportation of intoxicating liquors within, the importation thereof into, or the exportation thereof from the United States and all territory subject to the jurisdiction thereof for beverage purposes is hereby prohibited” ([Constitution Center, 2020](#)). During the prohibition era, thousands of breweries, distilleries, and bars closed across the country (Slavicek, 2009). Prohibition also allowed organized crime to soar (Slavicek, 2009). Due to the public disapproval of the prohibition amendment, there became a demand for an underground liquor industry, which

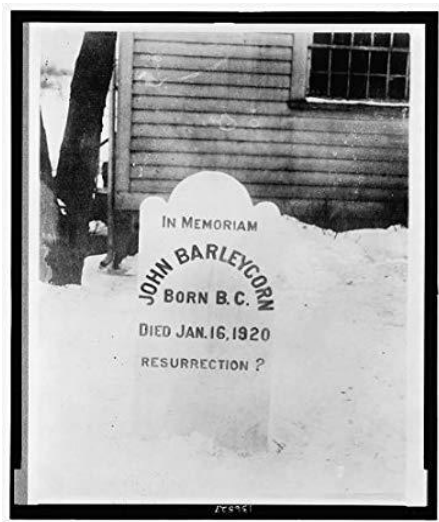


*Figure 3: To the left is a tombstone in remembrance of John Barleycorn. According to, **The Prohibition Era**, “Barleycorn is a character from an English folksong who personifies grain barley and the alcohol that can be made from it.” (Slavicek, 2009).*

was run by mobsters throughout big cities (Slavicek, 2009). According to Louise Slavicek, “Much of this booming underground liquor industry had fallen under the control of mobsters like Chicago’s infamous Al Capone, who made millions from his various bootlegging enterprises” (Slavicek, 2009).

Twelve years later in 1933, the beer industry saw hope with the writing of the 21st amendment. The 21st amendment states, “The eighteenth article of amendment to the

Constitution of the United States is hereby repealed” (Constitution Center, 2020). From this point on, the beer industry in the United States took off, and within a year of the implication of the 21st amendment, 756 breweries were producing beer (Mestorey, 2019). But, as the United States continued to develop and advance technologically, larger breweries continued to expand as they pushed smaller breweries out of the market. Smaller breweries were closing due to a decreasing demand for craft beer, and an increase of demand for mass produced beers. Along with craft breweries closing, many breweries merged or were acquired by larger breweries. By 1983 there were about 80 breweries in the United States, owned by 51 independent companies (Mestorey, 2019). Most interestingly, all of these breweries were producing very similar styles of beer, all simple and bland beer, which were purchased for quantity rather than quality. Large brewing firms like Anheuser-Busch, Miller, and Pabst took over this industry, and in 1981 the top five firms controlled 75.9% of the market (seen below in figure 4). In 1981 the Herfindahl-Hirschman Index (“A common measure of market concentration and is used to determine market competitiveness.” ([Hayes, 2020](#))) for the beer industry was at 1614, showing a highly concentrated industry ([Stack, 2003](#)).

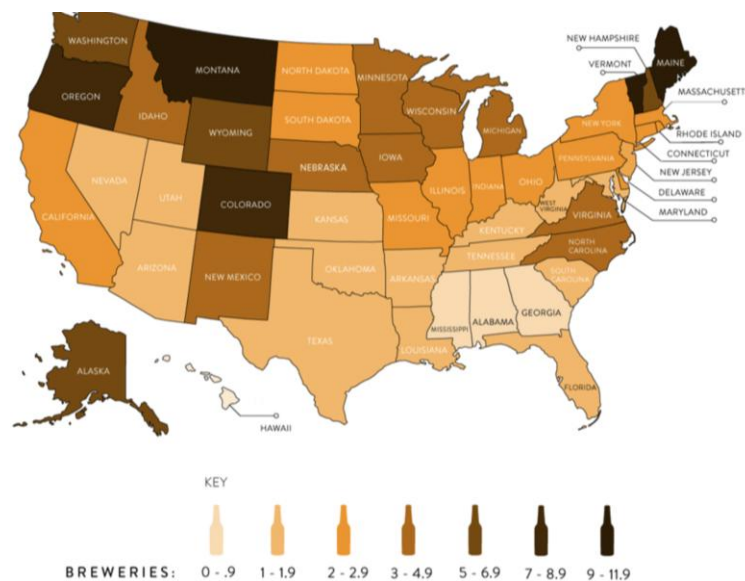
Figure 4: Concentration of the Brewing Industry (Stack, 2003)

Year	Five Largest (%)	Ten Largest (%)	Herfindahl Index[4]
1947	19.0	28.2	140
1954	24.9	38.3	240
1958	28.5	45.2	310
1964	39.0	58.2	440
1968	47.6	63.2	690
1974	64.0	80.8	1080
1978	74.3	92.3	1292
1981	75.9	93.9	1614

Modern Craft Beer:

With the turn of the century, and the rise of the millennial generation, the art of “modern craft beer” took over, and the craft brewery industry took off. According to the Brewers Association, in 2018 there were over 7,400 breweries, with more popping up everyday. This new era of modern craft beer consists of small breweries across the country that only have between 10-50 employees (Mestorey, 2019). This new method of beer production has created over 456,000 jobs in the United States and has been responsible for a total economic impact of \$67.8 billion on the United States economy (Mestorey, 2019). This industry exhibits many qualities of monopolistic competition, including easy entry and exit, a multitude of firms, and product differentiation among the breweries’ variations of beers. Within the monopolistically competitive market we see a very high success rate, proving a low failure rate of start-up breweries. The image show below (figure 5) presents us with a map of the United States, showing the number

Figure 5: Breweries Per Capita in the USA (Jones, 2019)



of craft breweries per capita in each state.

According to Bart Watson, chief economist at Brewers Association, 96 craft breweries were closed down in 2016 ([Crowell, 2017](#)). Watson also stated that a lot of these brewery closings have to do with the size of the breweries, “On average, the 96 craft closings produced 395 [barrels] in 2015.” Watson then states, “At that size, you probably aren’t making a ton of money even if things are going well — so if there is a hiccup [lease increase, partner leaves, more competitive market] it’s not going to take too much.” (Crowell, 2017). This provides reasoning for why there is such a low failure rate of breweries. Basically, Watson is saying that because some breweries produce a limited amount of beer. These breweries do not have room for error when it comes to other factors that play a part in their success. These factors could range from anything such as construction around the brewery that deters customers, to the inability to pay lease. According to Watson only 96 breweries closed in 2016. So why are almost all breweries successful?

What is Beer:

Through the 1980’s we observed a rather monotonous industry of beer, most tasted very similar, and there was a limited variety of beers to choose from. A lot of the success that today’s breweries are finding is due to younger generations wanting to have a full experience while drinking beer, rather than just drink a light and bland beer. Craft beer is appealing due to its uniqueness and how different breweries can create authentic flavors and experiences. But how do breweries create authenticity and product differentiation in their beverages? It begins with understanding the basics of brewing beer. All beer contains the four main brewing ingredients: water, grain, hops, and yeast ([52Brews, 2020](#)). According to 52Brews, “The varieties of beer stem from the different types of these four main ingredients used, the proportions put in each

brew, and the different brewing methodologies used.” Craft breweries are interesting in the fact that they are able to take products that have been produced for thousands of years, and construct a brand new piece of art, giving each beverage its own individual characteristics. This is how we see product differentiation play a role in the craft beer industry.

Pittsburgh Beer:

After much contemplation I knew I wanted to start by looking at a brewery in Pittsburgh, because starting with a brewery in my hometown would give me a subject to connect to. I also decided that a Pittsburgh brewery would give me great results due to the fact that it is a large city. To understand why the city of Pittsburgh was the good fit for my project, we need rewind decades, before the city was producing about four million barrels of craft beer each year.

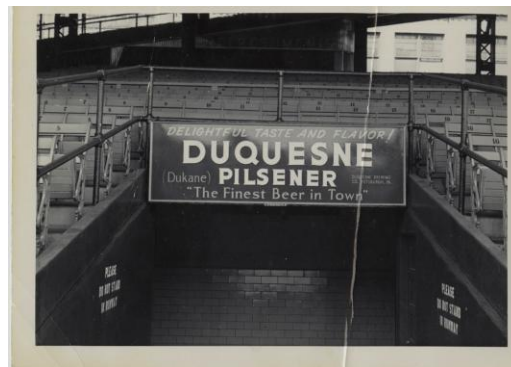
([Przybyłek, 2018](#)).

Pittsburgh is full of interesting history and details that make it very unique. In the 1960s, right before large breweries began to take over the industry, Pittsburgh’s beer industry was flourishing, producing the simple and light flavored beer the rest of the country would soon be hooked on, only Pittsburgh’s was better, at least that’s what the Yinzers thought (Przybyłek, 2018). The difference between Pittsburgh and the rest of the country, was that Pittsburgh’s beer stayed in Pittsburgh, it was something the local citizens could connect to. The Pittsburgh Brewing Company and the Duquesne Brewing Company produced two beverages that became a staple of the Yinzer hometown, and were embedded into the culture of the city. These particular drinks were Iron City Lager and Duquesne Pilsner. As the beers became more popular in the city, they developed into Pittsburgh icons, seen on billboards around every turn (Przybyłek, 2018).

Figure 6: Iron City Billboard (Przybyłek, 2018)



Figure 7: Duquesne Pilsner Banner (Przybyłek, 2018)



As the 1980's approached, the country began to turn to a few large brewers and, like mentioned earlier in the paper, the American people began to turn away from the historic methods of craft breweries (Przybyłek, 2018). But, Pittsburgh's regional breweries continued to succeed, due to the loyalty of the Pittsburgh beer drinkers. The bond between brewer and consumer was tighter in Pittsburgh than anywhere in the country, and regional breweries continued to sell.

Today, with craft beer flourishing, the regional breweries like Pittsburgh Brewing Co. and Duquesne Brewing Co. have set the example for Pittsburgh and have welcomed in 62 new craft breweries to the city. The breweries use a variety of different strategies to influence

customers, all positioning themselves in a unique way. But which technique creates the most success among breweries? Is it the strategy of connecting the brewery brand to a local area utilizing rich history? Or is it more successful for breweries to stay general and attempt to connect to a broader audience?

Literature Review:

Craft Beer:

Throughout this section you will see how over the past decade craft beer has been making more of an impact in the United States beer industry. When the craft beer industry is broken down, there are three main subcategories that have led to its recent growth: brewpubs, microbreweries, and regional breweries ([Brewers Association, 2019](#)). Each brewery subcategory has defining characteristics that separate themselves from the others. Brewers Association, a non-profit trade association, defines the three categories of breweries using the following characteristics:

*“**Brewpubs:** A restaurant-brewery that sells 25% or more of its beer on-site and operates significant food services. The beer is brewed primarily for sale in the restaurant and bar, and is often dispensed directly from the brewery’s storage tanks. Where allowed by law, brewpubs often sell beer to-go and/or distribute to off-site accounts.*

***Microbreweries:** A brewery that produces less than 15,000 barrels of beer per year and sells 75% or more of its beer off-site. Microbreweries sell to the public by one or more of the following methods: the traditional three-tier system (brewer to wholesaler to retailer to consumer); the two-tier system (brewer acting as wholesaler to retailer to consumer); and directly to the consumer through carry-outs and/or on-site taproom or restaurant sales.*

Regional Breweries: A brewery with an annual beer production of between 15,000 and 6,000,000 barrels.”

[Brewers Association, 2019](#)

In 2008, there were 1,521 established craft breweries across the United States ([Brewers Association, 2019](#)). This number consists of 1,009 brewpubs, 450 microbreweries, and 62 regional breweries ([Brewers Association, 2019](#)). By 2018, these numbers spiked by extraordinary amounts, and the total number of breweries increased by 483%. In 2018 there were 7,346 established breweries, broken down into 2,594 brewpubs, 4,522 microbreweries, and 230 regional breweries ([Brewers Association, 2019](#)). Amidst these thousands of breweries, different competitors are continuously updating and developing their products in order to separate themselves from competitors. According to the Brewers Association, beers are broken down into Ales, Lagers, and hybrids ([Brewers Association, 2019](#)). Within these three categories, the beers are broken down by location (European, North American, Belgian, etc.). Within each locational style of beer, is the specific beer style (Blonde Ale, American-Style Lager, Smoke Porter, etc.). Brewers can modify these styles of beer by adjusting the amount of hops or malt barley in the beer.¹ When we break down the industry of craft beer, we see characteristics of monopolistic competition and product differentiation are very prominent.

Monopolistic Competition:

The *Theory of Monopolistic Competition* was written in 1933 by Edward Chamberlin ([Rothschild, 1987](#)). Within this piece, Chamberlin lays out the theories of monopolistic

¹ Click here to discover the world of craft beer and learn every style imaginable.
<https://www.brewersassociation.org/edu/brewers-association-beer-style-guidelines/#tab-beerstyleguidelines>

competition and describes the characteristics of a monopolistically competitive market. Chamberlin considers two different types of markets in which monopolistic competition is observed ([Rothschild, 1987, p. 34](#)). In order to focus on the information that is relevant to my research question, I will discuss the second market type, which is the “large group” market (Rothschild, 1987, p. 35). This market scenario consists of many competitors in the market and, according to Rothschild, “[is] made up of ‘groups’ of products...” In monopolistic competition, each firm of that industry creates products that are similar but have enough variety to be “less than perfect substitutes” (Rothschild, 1987, p. 35). This is referred to as product differentiation. Product differentiation is defined as, “Any set of commodities closely related in consumption and/or in production” ([Eaton & Lipsey, 2005, Ch. 12](#)).

Along with product differentiation and a large number of players in the market, there are a couple additional key characteristics of monopolistic competition. These include easy entry and exit to the market and super-normal profits in the short-run ([Monopolistic Competition, n.d.](#)). Due to product differentiation, firms face a downward-sloping demand curve in this type of market ([Geoffrey, 2019, section 11.1](#)). This will cause the short-run model of monopolistic competition to closely resemble that of a monopoly (Geoffrey, 2019, section 11.1). Below, in [Figure 8](#), we see a short-run model for monopolistic competition displaying demand, marginal cost, marginal revenue, and average total cost (Monopolistic Competition, n.d.). We observe the super-normal profit of the short-run shown by the box on the graph connected by points A, B, C, P. But, in the long-run, as seen in [Figure 9](#), profits will begin to come back down to a normal level, as more competitors enter the market and prices begin to drop, due to a shift in demand for typical firms in the industry.

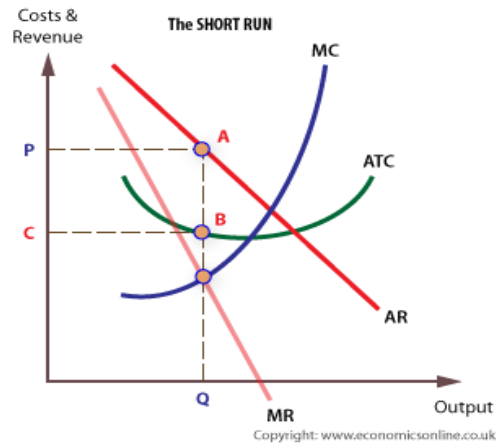


Figure 8: **Short-run** model for monopolistic competition

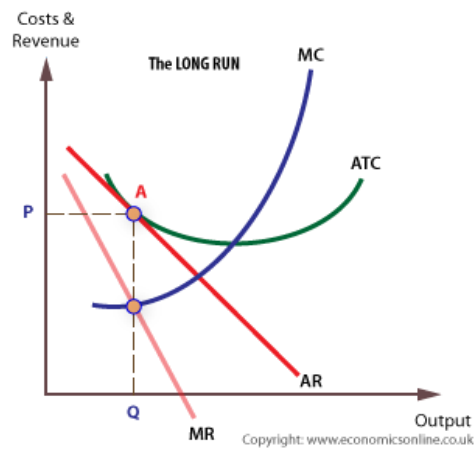


Figure 9: **Long-run** model for monopolistic competition

We can relate monopolistic competition to the craft beer industry by simply connecting Chamberlin's theory with the Brewers Association's analysis of the industry. We see over 7,000 breweries exist in the United States, showing that it is a competitive industry with many players. Due to this high number of firms, we can observe that there is no one brewery controlling prices.

We also see breweries continuously updating tastes and beer styles in order to differentiate their product from their competition. Similar to restaurants, we see breweries succeed in the market in the short-term, and when competition enters that specific local market, in the long term, profits will decline. Also, firms will need to advertise, specifically on a “local basis”, which proves more evidence that the craft beer industry is a great model of monopolistic competition (Monopolistic Competition, n.d.). We also see how the breweries act as price makers. This meaning that the companies in this industry can set their own prices for their products. Firms involved in monopolistic competition do not have to “take” prices from the industry as an entirety (Monopolistic Competition, n.d.). The fact that businesses in monopolistic competition are price makers, is why the demand curve is downward sloping. Then, when looking at the long-run of monopolistic competition, “Super-normal profits attract in new entrants, which shifts the demand curve for existing firm to the left.” (Monopolistic Competition, n.d.). This then means that, “New entrants continue until only normal profit is available. At this point, firms have reached their long run equilibrium.” (Monopolistic Competition, n.d.). When a new brewery enters a local market, that specific brewery will need defining characteristics to separate themselves and find success. These characteristics can include better quality beer, a better drinking experience, or connecting to the local area more than competitors.

Neolocalism:

Another way to differentiate a product from those of the competitors’ is through branding, specifically branding to a location. In order to understand the branding of craft breweries, we must understand the basic concepts. This starts with the idea of neolocalism, or the “conscious effort by businesses to foster a sense of place based on attributes of their

community,” ([Holtkamp et al., 2016, p. 66](#)). Through a case study analyzing microbreweries in Oregon, Texas, and Colorado, we see that the concept of neolocalism can be determined through three main indicators. These consist of, “(1) use of local names and images in labeling and marketing; (2) environmental sustainability; and (3) social and community engagement.” (Holtkamp et al., 2016, p. 66). Below, in Figure 10, we see the neolocal assessment matrix based upon these indicators. This breakdown shows the fundamental indicators of neolocalism (Holtkamp et al., 2016, 67). The matrix then breaks down each indicator using factors that are involved in that respective indicator. You can then score the business to determine if it is neolocal or not.

Figure 10: Neolocal Assessment Matrix (Holtkamp et al., 2016, 67).

Table 1 *Neolocal assessment matrix*

Indicator	Factor	Yes (1)/No (0)	Indicator score
Branding	Brewery name		
	Beer names		
	Label imagery		
Environmental sustainability	Water		
	Energy		
	Waste		
	Packaging		
Community engagement	Formal program		
	Employee volunteerism		
	Local business engagement		
Total score			

In this case study, the authors conducted an assessment on the craft breweries, asking questions related to the three indicators of neolocalism. Below is a model of their assessment.

Questions related to the naming and branding used by microbreweries:

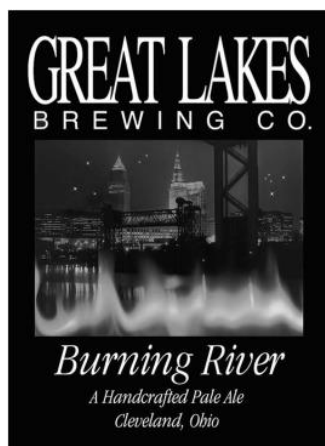
1. *Is the name of the brewery a local reference?*
 2. *Are local place names and references used in the beer names?*
 3. *Are local images used in the beer labeling?*
- Questions related to environmental sustainability:*
1. *Does the microbrewery have a water sustainability program?*
 2. *Does the microbrewery have an energy sustainability program?*
 3. *Does the microbrewery have a waste sustainability program?*
 4. *Does the microbrewery have a packaging sustainability program?*
- Questions related to community engagement:*
1. *Does the microbrewery have a formal community engagement program?*
 2. *Does the microbrewery support employee volunteer service?*
 3. *Does the microbrewery engage with other local businesses?*
- [*\(Holtkamp et al., 2016, 71\)*](#)

After the authors conducted the assessment, they analyzed the results and broke down what the scores mean. The biggest flaw seen in the results from the assessment was the lack of attention for detail. The average assessment score was a 2.06 out of 10 (Holtkamp et al., 2016, p. 72). They had only used websites and databases to get their information and answers, so many of the questions in the sustainability and community sections were unanswered. If the authors had reached out to the breweries, or figured out a way to collect data for these answers, results could have been different. But, on the contrary, the authors state, “Although there is extensive research related to the concept of neolocalism and how it is embraced by businesses, there has been little research done to evaluate business practices associated with the concept. This research is the first step in filling that gap and offers a method to evaluate businesses on key indicators of neolocalism.” (Holtkamp et al., 2016, p. 75). Analyzing the idea of neolocalism brings up the idea of spatial branding and discovering how craft breweries connect themselves to a certain place.

Spatial Branding:

Related to the concept of neolocalism is that of spatial branding. Spatial branding is the idea that firms in a certain industry can differentiate themselves through leveraging the specific place they are located, such as integrating the area's history into their culture ([Gatrell et al., 2017](#)). They can also use sustainability efforts to connect themselves with the surrounding area as well. I analyze a case study conducted by Jay Gatrell, Neil Reid, and Thomas L. Steiger. When studying their research, I consider their triple helix model of spatial branding. This consists of place, region, and sustainability, quite similar to the neolocal indicators. Within this study, the authors analyze three breweries: Great Lakes Brewing Co, Falls City Brewing Company, and Goodwood Brewing Company (Gatrell et al., 2017). The authors analyze and break down the history of the brewery along with how they “[balance] history, place, and human-environment interactions.” (Gatrell et al., 2017). The authors examine how the breweries leverage the history of the town and area to manifest an interesting and authentic brand. Gatrell, Reid, and Steiger show how these breweries qualify as a neolocal business, and how they use spatial branding to connect to the area in which they are established. For example, when investigating Great Lakes Brewing Company (GLBC), the authors bring to light a specific ale called Burning River Pale Ale. The backstory of this unique ale is:

Figure 11: “The Pale Ale is a reference to the environmental challenges of the Cuyahoga River which actually caught fire in 1969 and spurred environmental debates across the country and signposted the unsustainable manufacturing practices of the Midwest cities that would soon become known as the Rust Belt (Latson, 2015, Stradling and Stradling, 2008). The fire, ignited when sparks from a passing train made contact with oil-soaked debris in the river, was one of a number of events that led to the creation of the U.S. Environmental Protection Agency (Latson, 2015, Maag, 2009).” ([Gatrell et al., 2017](#))



This beer showcases the characteristics of a neolocal brewery and how GLBC uses spatial branding to connect with that specific area or region. The authors also show how GLBC uses spatial branding by explaining their involvement in the community as well as their commitment to sustainability (Gatrell et al., 2017). Each year the brewery hosts the Burning River Fest, “a food, beer, and music festival that raises money for the brewery's own Burning River Foundation.” The Burning River Foundation raises money for, “local non-profits working towards more sustainable waterways.” (Gatrell et al., 2017). According to the authors, these community enhancing operations are allowing GLBC to be one of the leading forces of the “revitalization” of the Ohio City area (Gatrell et al., 2017). In fact, in 1968, the Ohio City Redevelopment Association was created to help bring life back to the Ohio City area. For the first sixteen years they struggled to see improved development (Gatrell et al., 2017). But, in 1986, when the Great Lakes Brewing Company was founded, the results began to change. This brewery led the revival of Ohio City and was the forefront in creating a community rather than just a town (Gatrell et al., 2017). The Ohio City crime rate has decreased about 25% since 2005

and Ohio City is now “the second most walkable neighborhood in Cleveland (Ohio City Neighborhood, 2016).” (Gatrell et al., 2017).

After analyzing localized marketing strategies like neolocalism and spatial branding, as well as gaining a better understanding of monopolistic competition, we come to the question of, what should the market focus be for firms, like craft breweries, that are involved in monopolistic competition? This question arises in a study by Tom Wesson and Joao Neiva De Figueiredo, analyzing the options of a narrow market segment and a broad market segment (Wesson & De Figueiredo, 2001). The authors state, “That is, whether it is better to serve a narrow segment of the market, hoping to flourish by gaining a relatively high and increasing market share within that segment, or whether it is better to attempt to appeal to a broader cross-section of the market, thereby allowing the firm to succeed with a lower market share among the customers whom it is targeting.” Wesson and De Figueiredo also discusses the fact that this decision will determine a lot for the brewery, such as the products sold, the brewery’s brand, the equipment needed, and many more details (Wesson & De Figueiredo, 2001). The authors note that entrepreneurs should not take this decision lightly (Wesson & De Figueiredo, 2001). Published in 2001, their findings are slightly outdated, but they states, “that microbreweries are far more likely to attempt to serve too broad a market segment than to focus too narrowly; that microbreweries are in direct competition with imports; and that microbreweries benefit from having many microbrewery rivals within the same state.” (Wesson & De Figueiredo, 2001). Today, I believe breweries are better at making this decision and make it clear which market they will be penetrating. Through the use of a case study I will break down this industry even further and focus on what enables breweries to find success. I do this by exploring how the breweries market in a monopolistically competitive industry, and how craft breweries find their success using different marketing

strategies. Within the case study we see Wesson's and De Figueiredo's findings offer insight to the details of why different microbreweries market the way they do.

The theories and literature that I have analyzed have become the foundation of my study and allow me to dig even deeper into this industry to conduct my own research and provide distinct results. According to an article from *The Atlantic*, there are eleven signs that a city or town will succeed. One of those signs is the existence of craft breweries ([Fallows, 2016](#)).

Case Study:

About the case study:

Conducting a case study on multiple well-known microbreweries is never something I would complain about doing. Through this process I was able to meet and speak with some incredible people who are experts in the field of craft beer. Through these people I was able to get a deep insight of some market leading microbreweries that have defined success on their own terms, and have gone above and beyond those standards. During my field research I studied three microbreweries. The first brewery was Penn Brewery, which is the oldest and largest microbrewery in Pittsburgh. Next I investigated JAFB (Just a Family Brewery). JAFB is owned and run by a Allegheny College alumnus and is located in Wooster, Ohio. The final brewery that I analyzed is Meadville's very own Voodoo Brewing Company. By looking at these three breweries I was able to get a deeper insight into the thought process of how microbreweries market their brand. I was able to pick the minds of some genius beer experts in order to understand how breweries position their brand in the minds of customers. I formulated a detailed understanding of why the "experience" matters so much. But, most importantly, the case study

revealed very important information on how to create success in a monopolistic competition like the craft beer industry.

Penn Brewery - Pittsburgh, PA:

[Penn Brewery](#) is the epitome of a neolocal microbrewery, utilizing neolocal marketing techniques in every aspect of their business. As the “oldest and largest microbrewery” in Pittsburgh, Penn Brewery carries a great reputation among Pittsburgh beer drinkers. The brewery produced their first barrels in 1986, and has been a top competitor in the Pittsburgh area ever since ([Pittsburgh Original](#)). Today they brew between eight to nine thousand barrels per year, winning over the hearts of new beer fanatics every day. Their slogan, “Pittsburgh’s Microbrewery”, creates a local appeal that speaks to prospective consumers. Penn Brewery uses this slogan to position themselves in the customer’s mind as the staple for craft beer in the Pittsburgh area. Using this slogan immediately appeals to beer-loving tourists that come to

Figure 12: Penn Brewery Logo ([Pittsburgh Original](#)).



Pittsburgh. Using this slogan also allows Penn Brewery to offer the customer more than just good quality craft beer. It proves that the brewery offers an experience to customers, utilizing the interesting history. This microbrewery is special in the fact that you can get a sense of its antiquity before you even walk through the doors. Penn Brewery is one of the few breweries left in the country that has accessible lagering tunnels. According to Linda Nyman, head of marketing at Penn Brewery, these lagering tunnels were initially created in the 1800's. The tunnels built into the hillside and were utilized to chill beer barrels underground, until they were ready for use. Although the brewery does not use the tunnels for this function today, they have transformed the tunnels into a one of a kind event space, which attracts many tourists to the brewery (Nyman, personal communication, February 27, 2020). People are able to walk through the tunnels and get an understanding of the history behind craft breweries, as well as see first-hand how operations have evolved. These facilities have gotten the Penn Brewery buildings on the national register of historic buildings (Nyman, personal communication, February 27, 2020). Another aspect of Penn Brewery that differentiates them from the competition is their unorthodox method of organization. The brewery has their original location set up with their production facility in the same location as their brewpub. At this main brewery they produce and serve beer as well as a full menu of food. It is more common for microbreweries to keep their main production facility and their brewpub in different locations. This feature sets Penn Brewery apart from their competition, and is something that can further enhance the consumer experience.

In Pittsburgh, the craft beer market has become saturated with new microbreweries that appeal to young crowds. Penn Brewery has done a fantastic job of defining who they are and staying true to their brand. According to Nyman, they have been able to create a strong following of customers that have been loyal for over thirty years. While Penn Brewery has succeeded at

creating a loyal following of older aged customers, they have also been able to adapt to the evolving craft beer market, offering products that appeal to millennials such as IPA's and chocolate stouts (Nyman, personal communication, February 27, 2020). At the beginning of each year the brewery goes through a planning process, discussing what new products could be successful and what they can change to better themselves. Nyman says a large key to the success of Penn Brewery is staying true to their roots while still making some products that can appeal to younger consumers. The brewery staff have a deep market knowledge that allows them to be ahead of the curve when tailoring products to what customers want. They also keep close relationships with wholesalers to discuss what products are finding the most success. In certain instances, wholesalers will ask the brewery to create certain types of beer in order to appeal to customers (Nyman, personal communication, February 27, 2020). Nyman says a lot of the time these requests are for seasonal beers that are getting a lot of attention such as a Shandy or Christmas Ale. The brewery recently installed a "small batch brewing system" allowing the brewers to find their creative side (Nyman, personal communication, February 27, 2020). By utilizing this system, brewers have a "testing laboratory" where they can experiment with new beer styles and put out unique products that have never been seen before such as passionfruit ale, wheat beers, or even a maple bacon breakfast stout (Nyman, personal communication, February 27, 2020). This is what allows Penn Brewery to stay competitive with younger audiences, as this method allows for a new beer experience that is often new to the craft beer market. If the beer finds success as a draft in the brewpub, they then look into producing the flavor on a larger scale. But, if costs are too high they cannot take it to the next level (Nyman, personal communication, February 27, 2020). Costs begin to increase when the beer gains a higher alcohol by volume (ABV) or the beer becomes more hoppy. This is due to the high costs of additional malt barley

and hops. In the end, Penn Brewery does not want to lose sight of their rich history. Nyman stated, “Don’t try to be something you are not, stay true to yourself because that is what makes you valuable.”

It is not hard to see that Penn Brewery is the true definition of a neolocal Pittsburgh microbrewery. When we look at the neolocal assessment matrix (figure 3) from the literature chapter we can observe how closely Penn Brewery aligns with the neolocal qualifications. The Penn Brewery name along with the slogan of “Pittsburgh’s Microbrewery”, unmistakably shows their brand is loyal Pittsburgh, Pennsylvania. We observe the neolocal strategies through their beer names as well, with many beers holding the “Penn” name in front of each certain style of beer (Penn Pilsner, Penn Weizen, Penn IPA). We see Penn Brewery utilize the history of Pittsburgh brewing by advertising their lagering tunnels, as well as staying true to the Pittsburgh-German history and becoming known as the “Grand daddy of lager breweries” (Nyman, personal communication, February 27, 2020). When it comes to their restaurant menu the Euro-Pittsburgh theme stays consistent, filled with perogies, fish sandwiches, and french fries with coleslaw. Another aspect of neolocalism is that Penn Brewery displays is their ability to connect and give back to the community. The brewery has organized an event called “We Care Wednesdays” at which they invite groups or businesses to sign up. People in the group can dine at Penn Brewery during anytime of the day on their scheduled Wednesday. Penn Brewery pledges to donate 20% of the customer’s food bill to the customers’ favorite cause (Nyman, personal communication, February 27, 2020). Having this weekly event proves to the local community that Penn is focused on their customers’ happiness and truly acts as a community engagement program.

JAFB Wooster Brewery - Wooster, OH:

Paul Fryman, a former Allegheny College Gator, decided to chase his dream and open his own microbrewery and taproom in his hometown of Wooster, OH. Yes, even despite being the hometown of Allegheny's biggest rival, Wooster College, I still pursued the case study. When

Figure 13: JAFB Logo ([JAFB Wooster](#))



speaking with Paul, I could really get a sense for the true passion that he had for brewing and how much this brewery meant to him. Similar to myself, Paul wrote his senior thesis about the craft beer industry in the United States, looking at how microbreweries had impacted the American beer industry. JAFB (Just a Family Brewery) uses a hybrid marketing strategy of both neolocal marketing and a broader marketing strategy (Fryman, personal communication, February 28, 2020) By this, it means that Paul wants to be able to connect to the Wooster area while not limiting the growth of the JAFB brand. Paul says that breweries that don't use the neolocal techniques want to be able to expand further and, "don't want to be trapped" in their original location. By using the name [JAFB Wooster Brewery](#), Paul can expand to different locations and begin to produce on a larger scale if he desires. He will be able to carry over the JAFB name to a new location (Fryman, personal communication, February 28, 2020).

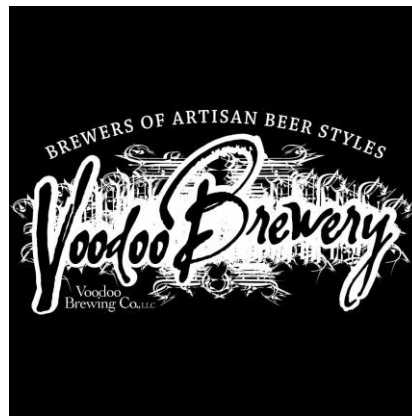
When speaking with Paul about the key to marketing for new breweries, he spoke similarly to Tom Wesson's study, looking at the importance of focus to market entrants (Wesson & De Figueiredo, 2001). Paul would agree with Wesson when he states, "It is a very common situation for an entrepreneur to enter a stable industry in which established firms are already in place, serving a broad cross section of the market. Our findings show that in such circumstances a narrowly focused approach to the market is best." (Wesson & De Figueiredo, 2001). In today's world, with such a saturated market like that of craft beer, Paul says the focal point of a new brewery should be focusing on the home neighborhood. He states that even if the brewery wishes to expand in the long run, they should initially start local, to gain the trust of their community consumers. By doing this, Paul says the brewery will basically market itself. Appealing to the hometown of the brewery by using neolocal and spatial branding techniques, like including the town name in the brewery's title, will make the locals feel welcome. By producing quality craft beer and a unique drinking experience, it will ensure that these customers are loyal for life. Then, in order to compete with regional breweries, the brewery can expand outward gaining loyalty in new places, but ensuring the product quality does not drop. Quality needs to stay at level of the original brewery, because when breweries expand to new territory, they will not have the local appeal to attract attention, and must gain loyalty based on quality.

Voodoo Brewery - Meadville, PA:

When I initially began brainstorming for my case study, I wanted to focus on one location of microbreweries to keep the market consistent. However, as I did more research having more looking at various locations could expand the limits of my project by researching different market segments. Plus, how could I conduct my Allegheny College senior project on local

breweries without including Allegheny's hometown brewery? I was lucky enough to be able to travel to the Voodoo Taproom and sit down with Mary Sperry, head of logistics at Voodoo, to speak about the Brewery.

Figure 14: Voodoo Brewery Logo (<https://www.voodoobrewery.com/>)



Voodoo Brewery is a quite unique establishment as far as craft breweries go, and this is the exact mindset that they wish to instill in the consumer's mind. Voodoo aims to be a unique and authentic craft brewery with good beer. In our discussion, Sperry stated, "We sell culture and we sell a unique experience [to our customers]." Voodoo Brewery has become popular because of the unique customer experience they offer, and then get the added bonus of top tier quality beer. Sperry spoke about how the brewery isn't trying to be special and make all the money in the world, they are worried about one thing and that is having high quality beer. Perry is head of logistics so she explained first hand how sometimes importing products can be difficult due to the high standard of products at Voodoo. Many of their beers require ingredients that are imported internationally from locations like South America and Europe.

Voodoo Brewery produces around 8,000 barrels each year. But, they define success not by how many barrels they produce, but by being relatable and appealing to consumers. Sperry

states, “We aim for relatability, and we want [our customers] to connect to us and our beer.” I could feel this attitude as soon as I walked through the doors of the production facility taproom. It was unlike any brewing experience I have ever had, as you feel like a part of the brewing process with large barrels and brewing vats just feet away. You gain an instant connection to the Voodoo brand by spending time in the taproom. This connection is how Voodoo separates themselves from the competition of other breweries.

When I spoke with Mary Sperry about who Voodoo Brewery viewed as their biggest competition her answer was unique. Sperry said, “We don’t view other breweries as competition, we just like brewing beer, and we get along with other people who like brewing beer.” They simply build relationships with other breweries, creating a large network of beer connections throughout the country. Voodoo even partners with other breweries to create different styles of beer that could interest beer fanatics, causing customers of the partnering brewery to also try Voodoo. This became the reasoning behind the Good Vibes Beer Fest that Voodoo began a couple years ago. Sperry spoke a lot about how the Good Vibes Beer Fest was started with the intent to bring a bunch of Voodoo’s “brewery friends” together from across the world, in order to give customers a one of a kind brewing experience. Some breweries come from the other side of the country so many of the people at the fest will never be able to experience these types of beers first hand again.

Due to Voodoo’s initial success and likability, they decided from the beginning they didn’t want to be limited to the local area of Meadville. This probably contributes to the Voodoo brand name being a more generic name rather than area specific. Due to this marketing strategy that Voodoo uses, they have decided to start a franchising program for the Voodoo name. Sperry said some of the reasoning behind this was that they wanted to expand the brewery, but they

wanted different people to put a personal spin on the Voodoo Brewery brand name. Voodoo does not want to have a laid out plan for how each brewery should be run. They want new partners to be able to be creative and build their own Voodoo branch.

In the next chapter, I will connect all of the findings from the case study. I will analyze the marketing thought process of these breweries and understand why they use these certain strategies. I will then discuss why these strategies hinder or help firms in monopolistic competition.

Conclusion:

After analyzing multiple firms in the monopolistically competitive market of craft beer, I was able to get an interesting insight to the question of how localized marketing strategies affect the success of these businesses. I believe after being able to connect with three unique breweries, this question needs to be more approached with a more complex answer. When considering the literature on the craft beer industry, we learned right away that the biggest goal for microbreweries is to create a drinking experience, differentiating themselves from mass producing breweries. In the last decade we watched over 4,000 new microbreweries added to the market with an extremely high success rate. So how were these places able to differentiate themselves from the brewery down the street? It begins before the brewery is even built, in the planning process. The question that must be asked by the owners and entrepreneurs is, do they wish to be able to expand their brewery in the long run, or do they wish to be a local brewery becoming the market leader in that location? This is the first determining factor of craft brewery

success, and the same question Tom Wesson surrounded his findings on. Throughout this case study, I discovered that it truly comes down to the vision each specific brewery.

At Penn Brewery, they are not working to expand. They are happy and extremely successful in the Pittsburgh craft beer market, being the market leader. For them they create a relationship between the consumer and the history of Pittsburgh and their brewery. They share stories that date back more than thirty years. Their brewery is full of character and authenticity, grabbing people's attention and creating customer loyalty through serving top of the line craft beer flavors. People can instantly feel connected to the city and the local history when they walk into Penn Brewery.

At JAFB, a newer and younger brewery, they utilize a hybrid technique between being a local brewery and attacking a broader audience. JAFB Wooster Brewery focuses on connecting to their local town of Wooster through some neolocal techniques. But they do not want to be limited to this market. They chose the broad name of JAFB for the exact reason of not wanting to be trapped in the single location of Wooster. As they develop and can produce on a larger scale, JAFB will expand. Owner Paul Fryman wants to be able to connect to more people through the experience his beer offers.

Voodoo Brewery has offered one of the most personal and unique craft beer experiences I have ever had and I felt instantly connected. But, it was a different connection than I felt at Penn Brewery. In Voodoo I felt connected to the Voodoo brand and the people there. At Penn Brewery I felt more connected to the brewery's history and the city of Pittsburgh. These were feelings I picked up before I even tasted the beer at each location. Voodoo has been able to create this type of experience while still being a brewery that has expanded with success. As Voodoo implements their franchising operation, they will continue to expand, striving to keep the same

quality of beer they have consistently shown.

Breweries that have used the broader marketing strategy to gain a following seem to have a higher quality of beer. These breweries are extremely focused on producing the best product possible because this allows them to separate themselves in a highly competitive market of local and regional breweries. With no obvious connections to the local area, non-neolocal breweries have to find an alternative way to initially catch customers attention. It is hard for people to connect to a place they don't immediately relate to by seeing the title of the brewery containing the name of your hometown. This leads into answering the largest question of my project, do localized marketing strategies limit growth in a monopolistic competition for microbreweries? This question does not hold a yes or no answer, and requires more detail behind it. From the research I have conducted localized marketing strategies do limit growth in a monopolistically competitive market of microbreweries. It is much easier for breweries to expand when they are not named after a specific area, or brand themselves based on the history of a location, we see this with Voodoo Brewery. That being said, the limiting of growth is not necessarily a bad thing. For microbreweries like Penn Brewery, this is the strategy they chose to use, and they don't plan on entering the market in different locations. Penn Brewery has focused on building their empire within the Pittsburgh craft beer market, and they have flourished, becoming the leader of in market. As of now, Penn Brewery produces about the same amount of beer as Voodoo does each year, although this will begin to change as Voodoo expands more. Perhaps, the answer is a combination of both strategies. Perhaps, the perfect marketing strategy takes us back to what Paul Fryman spoke about and what Tom Wesson wrote about. For a brewery that does not want to stay in a single location like Penn Brewery, maybe the best strategy is to use localized marketing to appeal to the initial hometown of the brewery. Then, after success is found through

quality beer in the hometown, the best results will be found through expanding outside of this specific location.

Through this research I have gained a deeper understanding for marketing and monopolistic competition, looking at how these theories apply to a booming industry. I have focused on the field of microbreweries and identified the best marketing techniques among this field. Research has shown, there cannot be one set superior marketing strategy because with small businesses like microbreweries, every brewery will have a different mission in mind. That is the beauty of monopolistic competition, this central question cannot be answered with a yes or no answer because it will always change based on how a specific organization defines success. Whether that means making the most money, or enlightening consumers on a unique history and culture. But, through all the research, the commonality that connects all of these organizations is their passion to differentiate themselves not only through their products, but through creating a unique experience.

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