

# Analysis of BrewDog

## Introduction

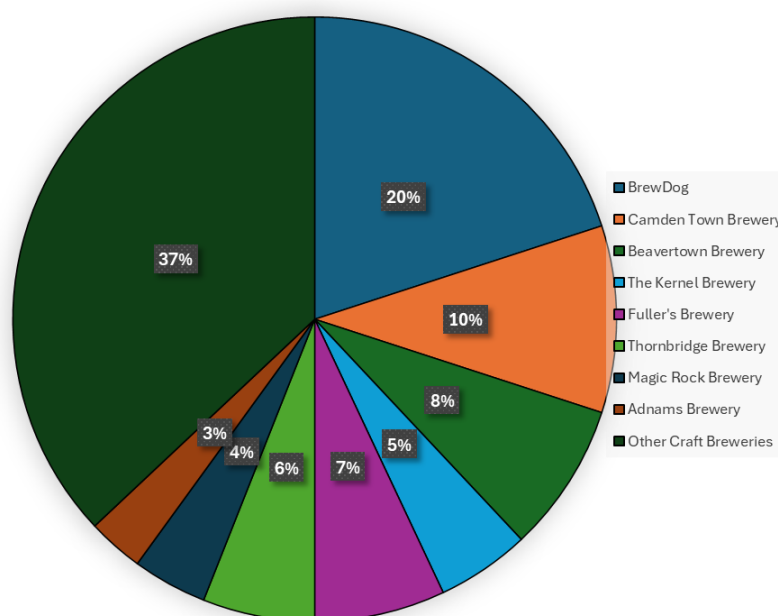
The average Brit enjoys 68 litres of beer each year, ranking them fourth in European per-capita consumption [1]. With more than 3000 companies selling beer in the UK [2], the consumer is spoilt for choice in what makes for one of the most competitive industries out there. Some of that beer was devoid of any alcohol, some of it was imported from the furthest corners of Earth. An increasing amount, however, was brewed and bottled locally, be that in the Cornish countryside or nestled in London railway arches [3][4]. These so-called craft beers can be produced in microbreweries the size of a bedroom, which are how some of today's top brands grew their roots.

One example is BrewDog, a Scottish beer company that is currently dominating the UK craft beer market. In 2007, the founders began selling handmade craft beer at farmers markets in north-east Scotland. Presently, the company has 115 venues across over 20 countries and operates in several industries, including selling craft beers, craft spirits, merchandise and operating hospitality establishments such as pubs and hotels. We analyse the source of their successes and offer an insight into future strategy.

## The Craft Beer Market

The UK craft beer industry has shown steady growth and extremely high levels of competition, with an estimated market cap of £1.6bn and a yearly growth of 5.8% [5]. BrewDog holds a leading market share of 20% (ref fig.1) although small craft breweries together hold the majority. The UK craft beer market could be best described as a 'question mark' following the BCG growth-share matrix [6]. The UK pub and bar industry, on the other hand, is undoubtedly a 'cash cow'. This is particularly important for BrewDog as it currently straddles both markets. The ONS estimates an astonishing 30-35% of a household's food and drink expenditure is spent on eating out, this figure has increased as the economy expands following the pandemic turmoil [8]. However, whilst craft beer is certainly become more popular and the market is seeing consistent growth, market analysts wonder if the trend is more temporary than structural.

**Figure 1: Market Share of UK Craft Beer Market**



Source: <https://www.statista.com/topics/6456/craft-beer-in-the-uk/>

## Current Business Model

### Overview

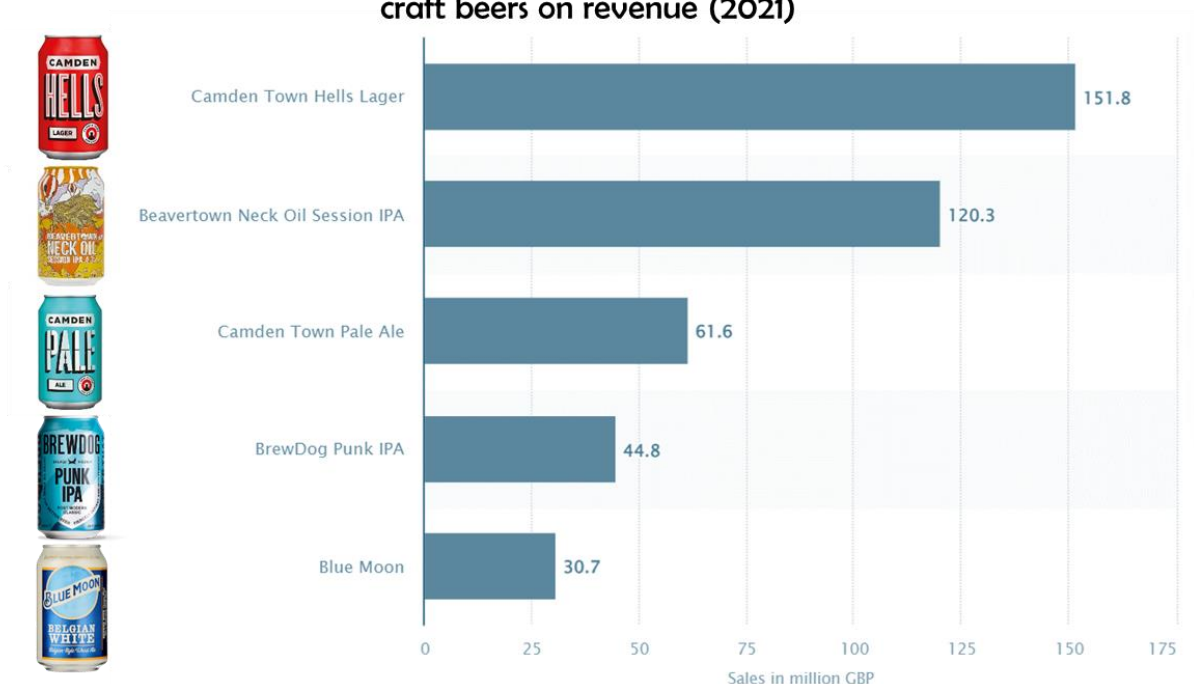
BrewDog is popular for three distinct reasons: firstly, it experiments with innovative brewing techniques. This helped the brand propel itself onto the global stage when it created the world's strongest beer, aptly named 'End of History' [8]. Secondly, BrewDog employs provocative and attention-grabbing marketing tactics which attract significant media attention. For example, they drove a tank down Camden High Street to celebrate the opening of their first London location as well as brewed beer at the bottom of the ocean to promote sustainability [9]! Finally, their commitment to the environment is industry-leading; BrewDog became the first ever carbon-negative beer business [10]. Combined with a genuinely good product (BrewDog's 'Lost Lager' won Best International Lager at the World Beer Awards [11]), it is clear to see the enormous potential BrewDog has.

### Financial Standing

In the calendar year 2022, BrewDog reported £312 million in annual revenue, up 12% from the previous year. 73% of this revenue came from within the UK. Its dominant revenue stream is retailing craft beers at supermarkets, accounting for over 41% of this gross income [12].

A combination nicknamed the 'Core 4' are responsible for 89% of its craft beer sales, with BrewDog's 'Punk IPA' laying at the very heart of the business, amassing £53 million in revenue (2022). Note however, that the cost of production for 'Punk IPA' has increased an eye-watering 34% since 2021. Furthermore, whilst BrewDog certainly leads the UK craft beer industry (ref fig.1), it falls significantly short when pitted against the highest grossing craft beers (ref fig.2). Camden Town's 'Hells Lager' and 'Pale Ale', and Beavertown's 'Neck Oil', significantly dwarf 'Punk IPA's domestic performance. This may be due to a difference in marketing strategy, where the former are typically found indiscriminately of establishment, unlike BrewDog which has prioritised exclusivity to their own pubs.

**Figure 2: BrewDog's leading 'Punk IPA' compared to other UK craft beers on revenue (2021)**



Bouncing back from the lull in the hospitality industry, BrewDog bars reported a 68% year-on-year increase in revenue from 2021, reaching £44 million in 2022. All-in-all, this places BrewDog 14<sup>th</sup> on the Global Beer rankings by revenue [13]. Curiously, the top 10 were all founded over 100 years ago, meaning their customer bases are more likely habitual and traditional consumers which BrewDog may struggle to win over.

However, despite these massive successes, they also reported a third consecutive year of operating losses, totalling £24 million. Investigating their financial standing further, their annual accounts report a total net debt of £328.6 million in 2022, up from £200.2 million in 2021, comprised mostly of bank loans. Whilst we won't comment further on their borrowing situation, we note their debt-to-income ratio is dangerously above unit value.

### **Competitive Advantage**

BrewDog's competitive advantage is a direct result of its agility combined with its dominant core competencies. This is most apparent in its craft beer range, where it experiments and creates products rapidly, such as seasonal or promotional beverages, before exiting when appropriate. It released over 100 new beers in 2022 alone, some of which were profitable and some more for show, such as the 'ALD-IPA' collaboration with Aldi [14]. It has established its own niche market, with each beer having a distinct 'personality' and fanbase.

Its strong brand image appeals to a younger demographic seeking authenticity and uniqueness. This is fostered by their community engagement through events, crowdfunding campaigns and promoting employee equity-ownership. Its commitment to sustainability and social progress is also unrivalled; BrewDog own and maintain a forest, known as the 'Lost Forest' in Scotland, and frequently launch collaborations championing Men's mental health campaigns.

### **Strategic Position**

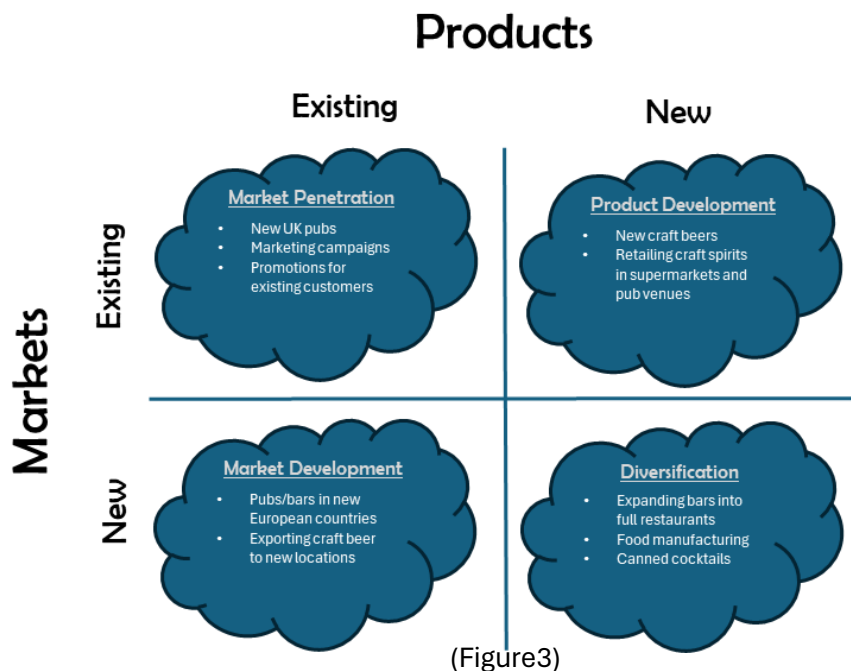
BrewDog's strategic position is primarily needs-based, with its value chain tailored to a select clientele. This focus is necessary because of the high cost of craft lager production and the small number of industry segments it competes in. Its strategic decisions deepen relationships with said group, prioritising their satisfaction over company growth to maximise retention. Their value proposition focuses on target markets rather than trying to attract everyone. The best performing target audience for BrewDog are consumers that already love craft beer for its high quality and variety.

### **Corporate Strategy**

BrewDog's corporate strategy is to compete across multiple markets including beer production and distribution, selling craft spirits, selling merchandise, operating hospitality establishments in the form of pubs and hotels and organising festivals, to name a few. It has more specific business strategies for each of these arms, including attention-grabbing promotional campaigns unique to its pubs during sporting events or holiday periods. For example, on 2024 New Years Eve it cut the price of all beverages by over half, resembling what one would have paid in the early 2000s [15].

In pursuing this diversified corporate strategy and by following some of concepts highlighted in the Ansoff growth matrix (ref fig.3), BrewDog hopes to increase its market value above the sum of its strategic business units, thus creating a corporate advantage and a keystone ecosystem.

# Ansoff Matrix for BrewDog



## Operational Effectiveness

“The primary goal of strategy is to establish a competitive advantage through the development and deployment of resources and capabilities.” [16] These strategic assets are then leveraged to develop competitive advantage. For example, if we analyse one of BrewDog’s core competencies, its ability to rapidly create and distribute novel craft lagers, we can further understand the company’s inner workings. It uses tangible resources in the way of distilleries and distribution centres to physically create the beer and its cash flow or borrowing capacity to fund explosive advertising and push the new release. Then, it leverages intangible resources such as its reputation among consumers and retailers for delivering high-quality products to initialise sales. This is all tied together by its human resources in know-how, communication and collaboration, among many others. This firm-first process is a key strength with strategic importance.

BrewDog also addresses operational inefficiencies by addressing concerns amongst new customers with minimal intervention. For example, they redesigned their packaging and promotional material to better reflect what the beer would look like once poured, helping address apprehensions that craft beer is darker and stronger than common lagers. This improved perceived value/quality from the consumers perspective, without needing to increase price.

## PESTEL Analysis

We discuss a few key points from a PESTEL analysis of BrewDog which may influence their current and future strategy. Logically, the sale of alcohol or operation of pubs is heavily taxed and under political scrutiny, although there is little BrewDog, or its competitors can do to avoid this. Expansion into the non-alcoholic market could counteract this. BrewDog should work to maintain its favourable socio-cultural image in all aspects of its business, especially as their importance and the competitive advantage they provide increases in today’s cultural climate.

Online platforms are increasingly popular, with leading pub chains such as Wetherspoons and Green King offering an app from which customers can order straight to their table. BrewDog also explored this space, taking it one step further and featuring delivery services on select beers. The profitability

of this is unclear, yet it remains important to innovate, research and disrupt the technology side of the market.

### Porter's Five Forces Analysis

We offer a brief analysis using Porter's Framework [17], noting that some points have been raised already. The craft beer industry has fewer barriers to entry compared to large-scale brewing; BrewDog's strong brand presence and loyal customer base can act as friction points to deter new entrants. This also increases its bargaining power with retailers and end consumers.

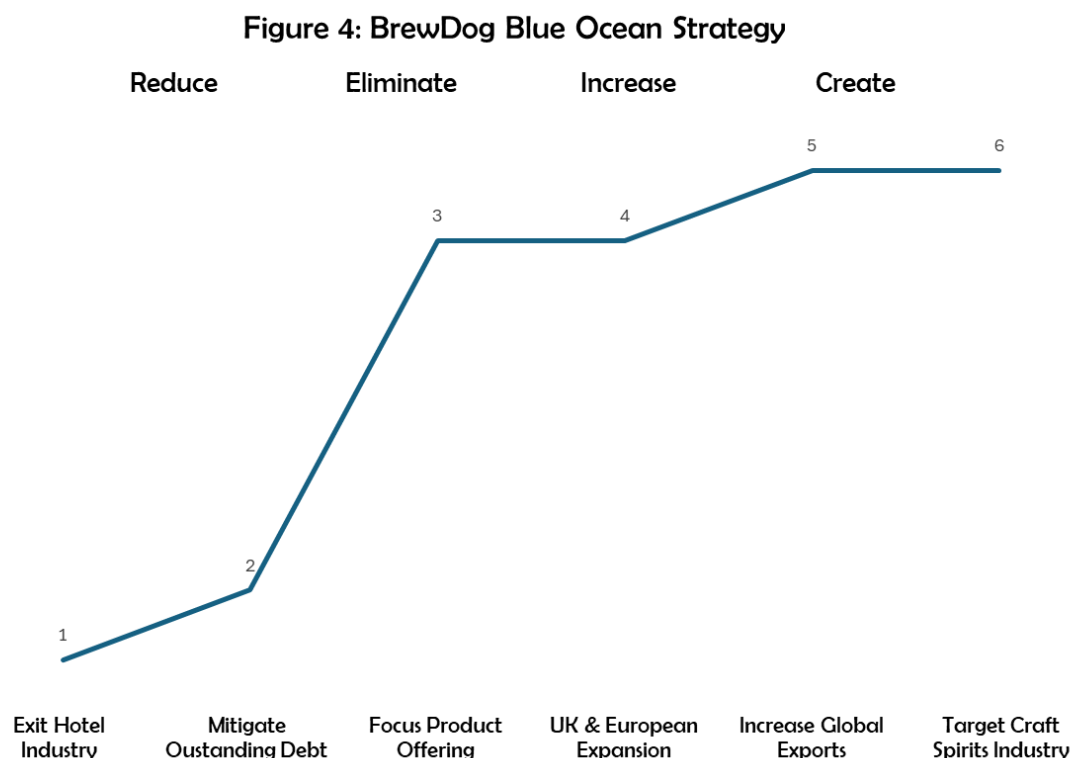
Additionally, BrewDog's size and market share should help its bargaining power with suppliers when negotiating high quality ingredients at potentially more favourable rates than its competitors. Although it can still suffer from price fluctuations, clearly evidenced in the increase of Punk IPA's production cost.

Finally, the two most important forces BrewDog must consider are threat of substitution and intensity of competitive rivalry. Logically, whilst BrewDog's 'Core 4' are quintessential to the business, there is low risk of imitation or complete substitution. Given the uniqueness of each flavour, there is however, the risk that a new beer comes along which is simply better and more popular, emphasising the importance of continuous experimentation. This challenger could come from small or large craft breweries alike; thus differentiation is also essential for BrewDog to stay afloat in this ultra-competitive landscape. Furthermore, beer and other alcoholic beverages could lose popularity altogether as healthier lifestyles become more accessible.

### Strategic Recommendations

#### Blue Ocean Strategy

We outline a proposed Blue Ocean canvas for future corporate and business strategy (ref fig.4) and further discuss some key points below. We identify BrewDog's unique competitive advantages and focus on the most effective ones.



## **Merger or Acquisition**

Whilst BrewDog could consider a merger/acquisition of a rival firm in either an adjacent industry, such as hospitality, or within the craft-beer domain, such as Camden Hells or Beavertown, we briefly outline why the advantages and potential synergies are insufficient to motivate BrewDog in such a direction.

Logically, a merger or acquisition would be the only option to unlock other market-dominating craft beers such as Camden Town's Hells Lager or Beavertown's Neck Oil. Whilst their revenues alone are extremely enticing and they hold a significant market share, there is insufficient diversification in product offerings and a limited potential for knowledge acquisition. The extremely high cost likely associated with such a transaction would not justify the few operational and anticompetitive economies of scope they stand to gain.

Analysing a collaboration between BrewDog and Beavertown further, we identify a great fit in working culture (e.g. emphasis on local, sustainable production) and an alignment in corporate strategy (e.g. prioritising key customers and bold brand identities), allowing the two competitors to achieve scale economies and capture an estimated 28% market share. However, the aforementioned price premium and considerable resource/capability surplus does not outweigh these advantages; realistically the acquirer would gut the acquired firm for its most valuable resources, their leading lagers, hence few synergies could be established.

Conversely, the hospitality sector can be seen as too radical a change in direction with too steep a learning curve for BrewDog to enter. It is difficult to see how the core resources of such differing business could contribute to lasting value.

## **Diversification**

BrewDog is currently best categorised as a dominant business with low-levels of revenue diversification (outlined in the financial standing section). They wish to exploit the obvious links and synergies from their distribution network to supermarkets, pubs, festivals and more, to explore related business areas, such as retailing spirits or expanding their reach in hospitality and events.

However, over- diversification can have diminishing or negative returns, especially if business areas are unrelated. They should better consider what competitive advantages they bring to the hotel industry given the dissimilarity to their dominant business. It could also risk the quality of its primary offering should BrewDog's resources and attention become too diluted.

On the other hand, diversification is tightly linked to creating shareholder value; it can temporarily boost revenue and make the business more attractive to investors, especially in the face of a merger or acquisition. BrewDog's majority external shareholder, private equity firm TSG Partners, may seek to increase the company's valuation ahead of going public in the coming years, something CEO James Watt expressed interest in [5].

## **Exiting the hotel industry**

After evaluating BrewDog's position in the hotel and hospitality industry in line with Porter's framework, we suggest they consider exiting said market, either partially or entirely. Whilst the threat of new entrants or substitute products is close to none, there is a distinct lack of bargaining power with both suppliers and buyers combined with a fierce rivalry among established competitors, whilst growth and profitability have not been as high as expected.

The capital required for maintenance, let alone expansion, and the minimal profit-margins in the hospitality sector would require significant commitment from BrewDog. Exiting would liberate capital to ease BrewDog's debts and help fuel expansion into European venues. It would be better

placed as a partner of an existing chain, especially one with a similar customer demographic to BrewDog's. For example, it could partner with mid-level hotels where users are more likely to enjoy craft beers, such as the international chain DoubleTree by Hilton, or alternatively youth-hostels where users typically fit the broader target market of second-tier alcohol drinkers, such as A&O hostels.

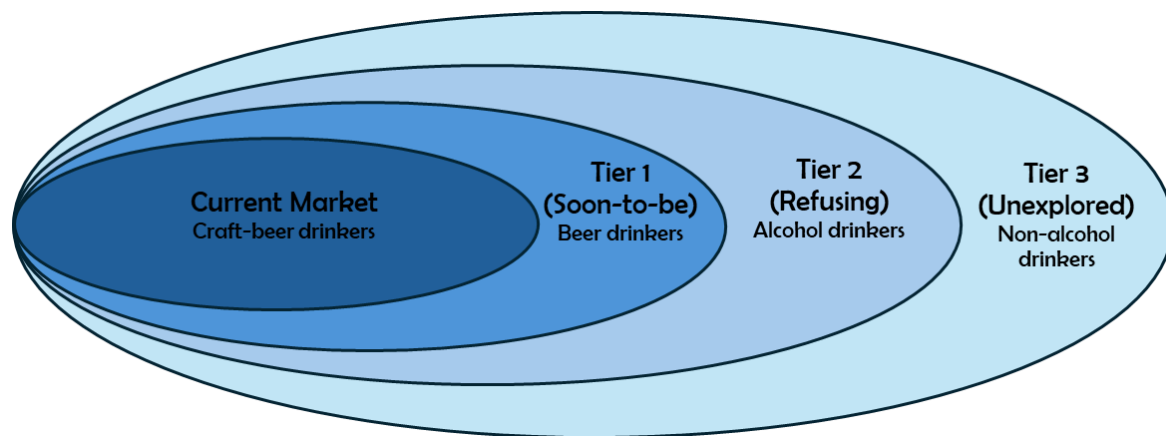


Figure 5: Simplified 3 Tiers of Non-Customers Diagram for BrewDog

## Conclusion

BrewDog is on track to dominate the UK craft beer industry and explode into international markets. To do so, it must continue excelling at what it does best: satisfying its key customer base, rapidly creating innovative new beers and keeping its strong, unique brand identity intact.

It should reconsider its position in adjacent industries, the craft spirits market offers more promise than the hotel business. Additionally, BrewDog must continue expansion and growth by opening exciting venues in the UK, exporting to more countries and eventually following its customer base into new geographies.

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