

Week 1: Introduction to the Business Problem

Part 1: Problem and Background

Problem

Suppose I am advising a couple who want to start their own brewery. They can live anywhere in the US, but they want to raise their chances of success. They are looking for market research about potential markets. The goal is to find neighborhoods that are underserved by breweries: neighborhoods that, given their market characteristics, should have more breweries than they currently have.

Background

Craft beer attracts people of certain demographic characteristics. Cities with a high proportion of craft-brew aficionados tend to have

- Enough average income to pay prices that are higher than those for mass-produced beer;
- An economy that is sufficiently vibrant, measured, for example, by the number of people with jobs out of the whole population;
- Many people with an interest in trying new things and in learning details and relationships, often correlated with education levels;
- Enough of a craft-beer culture to generate a critical mass of interest.

The last item is complex. A city that is oversaturated with a particular industry will produce too much competition. On the other hand, a sufficiently high concentration of that industry is necessary to ensure a sufficient number of suppliers. While a garage brewer can rely on the internet, a commercial brewer will need to keep costs down to protect its margin, and this is helped by the pre-existence of a large enough base.

Friendly government regulation is also important. The very first entrant might raise suspicion – perhaps only the well-connected will get in. As a few breweries are established, counties will develop adequate policies. If too many exist, a backlash may develop.

On the demand side, there is a “spillover” effect as an industry grows. The “Got Milk” campaign is a classic example: instead of promoting the products of a particular supplier, the industry association promoted milk in general, betting that if enough people drank enough milk, then drinking it would be socially acceptable and bring more people in. Likewise, the first craft-brew place in a city might struggle to generate interest and be only patronized by people perceived by others as “geeks.” But if there is a critical mass of breweries, it will be acceptable to go beyond the mass-market beer.

As an example of the latter point, note that Budweiser first reacted against the craft beer revolution: “brewed for drinking, not dissecting,” said [a 2015 commercial](#), to which craft beers responded [in the same style](#). By now, Anheuser-Busch has caved, producing a line of “distinctive” beers, such as the [Discovery Reserve](#), “its taste inspired by an archival recipe from that time in history. Featuring toasted Voyager barley malt, the lager’s reddish color is reminiscent of the next frontier - Mars.”

The goal, then, is to find MSAs (a) that have a sufficient critical mass of people who are likely to have been exposed to craft beer and who have enough income to afford it, which is (b) demonstrated by the existence of some craft brewing, but (c) not enough to overwhelm a new entrant.