



Brewing Innovation: Modelling Opportune Dynamics for Social Innovation in Calgary's Brewing Industry

Zak Ismail

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Abstract

Business success has always revolved around the bottom line – and that bottom line was profit. Successful companies have since incorporated corporate social responsibility into their practice not only to address environmental and social issues, but as a competitive advantage to differentiate in the market. The traditional business world drew a line between for-profit organizations providing consumer value and non-profit organizations providing social value. Today, we are seeing this line blurring with the successful competition of various social enterprises or socially purposed for-profit businesses

This paper takes a comprehensive look at the various dynamics by which socially purposed breweries create social value in a traditionally capitalist market. Business models in and outside the brewing industry are trending toward social purpose and the vehicle for this revolution is social innovation. This particular industry is an interesting case study because so many levels of community involvement create a multitude of opportunities to make a positive impact. Opportunities to generate community prosperity will be identified through a case study of two successfully competitive breweries in Calgary, Alberta: Village Brewery and Wild Rose Brewery. These are two local businesses that compete successfully while displaying a modern commitment to providing social value by various means. This shift in business mentality is led by consumers; Calgary's market is responding to the trend by supporting breweries that stand for social change.

An analysis of how each business reaches its audience will be conducted; and this will be demonstrated by outlining techniques applied in marketing strategies. From the business standpoint, there will be an analysis of each competitor's value-creating structure inclusive of suppliers and distributors. As well, innovations that make the brewery's products more socially responsible will be examined. Taking into account these and other dynamics by which breweries can generate community prosperity, a model is developed identifying key areas where breweries have found opportunities to employ social innovation. Social enterprises or socially purposed for-profit businesses might be able to draw from this model to identify similar opportunities in other industries.

Key Words: Social Enterprises; Social Entrepreneurship; Social Innovation

Introduction

Business success traditionally revolved around the bottom line – and that bottom line was profit. Through heated competition in the business world toes got stepped on, inequality grew, and environmental degradation became the norm. To combat this trend, non-profit organizations took it upon themselves to address growing social issues by providing social value. Charitable organizations are a direct way to add to the social economy; however, they face a relatively predictable limitation to the value they can generate. A non-profit organization can only create value proportionate to how much capital is invested or raised for the cause.

Beyond community prosperity from the non-profit sector, successfully competitive companies are making efforts to address social and environmental concerns by employing methods of corporate social responsibility; or CSR. Porter and Kramer (2006) have identified four main arguments for engagement in CSR activities: moral obligation, sustainability, license to operate, and reputation.

Corporate Social Responsibility Imperatives:

- Moral Obligation
- Sustainability
- License to Operate
- Reputation

CSR for obvious reasons can make a firm more attractive than competitors, thus providing a competitive advantage. It is argued, however, by Busse et al. (2013) that authentic acts of CSR are seemingly rare. In an era where many competitive firms are showcase their social initiatives it has

become difficult to tell which businesses are truly making social or environmental efforts and which businesses simply want to stand out. This lack of sincerity or authenticity in the general playing field of CSR became very well known during the era of greenwashing, where social responsibility became more of a competitive feature than measurable impact.

The traditional business world drew a line between for-profit organizations providing consumer value and non-profit organizations providing social value. Today, we are seeing a shift from this division; the lines are becoming blurred. This shift can be identified as sector-bending which is defined by Dees and Anderson (2003) as various approaches, activities and relationships that blur the distinction between non-profit and for-profit organizations. We see a growing number of social enterprises that compete and succeed in today's markets while adopting a blended value approach. In this context, Chalmers (2012) defines social enterprise as a focus on new forms of organizational structure that blend social and commercial purpose. Businesses committed to social purpose still seek profit, but this pursuit is in the context of the triple bottom line, identified by Porter and Kramer (2006) as economic, social, and environmental performance.

Amidst a technological revolution inspiring an open flow of information, consumers are demanding more ethically responsible products and players in all industries are responding. In the condition of today's unfair and polluted world, it no longer feels right to fuel profit-hungry companies by blindly spending money. While this revolution is led by consumer

choices today, the vehicle is social innovation. Social innovation is defined by Chalmers (2012) as processes or outcomes that change the basic routines, resource and authority flows, and beliefs of a social system. So where do existing businesses find opportunities to employ social innovation?

There is no feasible way to convert an existing traditionally competitive business to a socially purposed business; in fact, these businesses abide by the very same legal structure. In fact, there's no legal structure in Canada tailored to these businesses. A socially purposed business can either be structured as a for-profit, a non-profit, a registered charity, or a cooperative (Futurpreneur, n.d.). Having said that, through extensive performance and impact analysis businesses can be certified as a B 'Beneficial' Corporation; this certification helps businesses define themselves to consumers and investors as socially and environmentally responsible (Futurpreneur, n.d.). Today, there are over 1000 B Corporations from 33 countries and over 60 industries all working toward the same goal of redefining success in business (B Corporation, n.d.).

Social purpose is not just an action of rebranding; a commitment to social purpose must exist in every step of the value chain.

This integration can be understood through a case study of the brewing industry, which provides an intriguing frame of reference because players in this industry walk a fine line between just producing an intoxicant and being a valued member of the community. In this context, the difference between being socially or economically motivated is black and white. The case study approach taken for this analysis will revolve around two players in Calgary's brewing industry

that have been making a real impact in the community, exposing the various dynamics by which businesses in a traditionally competitive industry can achieve a triple bottom line.

Traditional Brewing

Competition in the brewing industry is no different than any other industry. Traditionally, creating value in this industry was all about brewing the best beer and being able to offer it at the best price. The value chain is set in motion by consumer demand and proceeds through the following links: agriculture, brewing, packaging, wholesalers and transportation, before it is finally sold and consumed (Hodgson, 2013). Brewing is only one part of beer's value chain, and players in the industry create value by linking some or perhaps even all of the components in the chain.

Hodgson (2013) also identifies that the brewing industry in Canada accounts for about the same GDP contribution as the postal service industry; however, it is important to note that since brewing is just one component of the value chain beer actually contributes much more. He also adds that the beer economy accounts for about 1% of jobs in Canada. Beer as an alcoholic product is heavily regulated making it heavily taxable as well; in fact, for every dollar spent on beer there is about \$0.44 generated in tax. These figures are evidence that beer is a valuable economic product. The purpose of this paper is to explore how responsible business in the industry can make brewing an impactful process in the social and environmental community.

A good place to start in analyzing this claim is by looking into the industry at CSR engagements that are making a tangible social or environmental impact. For example, Central City Brewers (based in Surrey, BC) is continuing their annual IPA for Autism fundraising initiative where \$2 from every specially marked 6-pack is donated to Simon Fraser University's research program - since first launch in 2012 this initiative has raised \$175,000 for autism research (Beer Me BC, 2015). This is a classical engagement in CSR; the brewery is using profits as leverage to make a social impact. Busse et al. (2013) recognizes this as CSR cutting into profits; the firm is voluntarily allocating capital toward CSR efforts without regard to potential economic benefits that could result from the engagement. This type of activity cannot be considered as an investment because the goodwill it brings which may make them more attractive to consumers cannot be valued in financial terms.

Another intriguing example is an effort from Heineken, a Dutch multinational with a refreshing commitment to social responsibility. Centaur Communications Ltd. (2012) explains a shift in CSR strategy. Heineken used to focus efforts on national campaigns around charities involved with alcohol addiction; but these efforts have shifted to supporting projects geared toward tackling alcohol misuse in the communities surrounding their breweries. In this instance of brewery CSR engagement the firm is trying to do right in communities they may have played a part in harming. This is a solid commitment to moral high-ground because rather than ignoring negative effects of doing business in their field, the company is raising awareness to the issue and promoting responsible consumption. Busse et al. (2013) rationalizes this type of investment as

a precautionary measure: the cost of engaging in CSR might be significantly lower than the performance decline associated with ignoring the issue. While Heineken may be engaging with the best of intentions, this attitude supports the notion that CSR efforts can naturally seem inauthentic, or at least supports the idea that corporate efforts can easily become jaded.

Phillips Brewing is a much smaller company than the aforementioned; however, they're being hailed for making a big impact in their community. The company, operating in Victoria, BC, is being named Green Company of the Year 2015 by Drinks Magazine, and it's the first brewing company ever to receive this international accreditation (CBN, 2015). The judges have recognized Phillips for a deep-rooted environmentally friendly approach, an impressive waste-reduction program, and they've also suggested the firm's custom carbon reclamation system to be a pioneering example for smaller breweries (CBN, 2015). This is a significant idea in the context of our case study. Phillips is being recognized for focusing on environmental initiatives within the community they operate. Rather than committing to lean operation while focusing on sales to create the revenues necessary for CSR engagement, the brewery has made environmental responsibility part of their practice and is succeeding in making community impact this way. This success is in line with Heineken's engagement in their local communities and it illustrates a valuable point: breweries are most successful in generating social and environmental value when they focus on the community which they operate in.

This understanding raises a valuable question that all beer companies must ask: which community do we feel responsible to? Before examining the businesses analyzed for this case study I will start with a brief orientation to Alberta's beer industry. Beer distribution, as a type of liquor, is subject to regulations set in place by the Alberta Gaming and Liquor Commission (AGLC). The sale of alcohol became privatized in Alberta in 1993; and the AGLC (2015) states that before privatization there were 2,200 products available through 803 public retailers, while at the beginning of 2015 there were 20,113 products available at 2,016 liquor retailers.

This growth in variety indicates that privatization allowed the industry to become much more openly innovative, and some of that innovation can be seen in the success of local microbreweries. In Calgary, these breweries are competing and growing fast; however, they are growing with community roots. Comber (2014) details the honest and personal means by which four of Calgary's seven breweries came to be; these breweries are considered microbreweries (small and often locally-oriented): Wild Rose Brewery, Village Brewery, Tool Shed Brewing Co., and Last Best Brewing and Distilling. Village Brewery was selected as the first firm in our case study, based on evidence of making a positive impact in the community. The second brewery in the analysis is Wild Rose Brewery; another local microbrewery that has been successfully innovative in making social and environmental impact. We've looked at CSR engagements in the traditional brewing industry and they are all admirable, but what does it take for a brewery to be considered a social enterprise? Dees and Anderson (2003) state that social entrepreneurship is about addressing underlying problems rather than meeting needs,

empowering individuals rather than providing charitable relief, and creating sustainable improvements rather than short term responses. The breweries selected for the case study were chosen because they have illustrated this notion with creative integrity.

Village Brewery

The value proposition behind Village Brewery takes a unique standpoint on the end product: the purpose at Village is to use beer as a 'social lubricant' for gathering people in the community (REAP, 2015). This commitment is notable and unique because it takes sincere consideration of how the product was meant to be enjoyed. Gathering the community is a powerful social mission because it urges people to get together and explore ideas about how to make their community a better place. REAP Calgary, a branded network of sustainable local businesses and also an acronym for Respect for the Earth and All People, is associated with Village and proudly displays some of their social and environmental commitments. Village's sustainability profile on REAP reveals that Village has absolutely no intention to sell products outside of Alberta or even grow too big to brew in Calgary – the purpose behind this commitment is to keep the brand aligned with its original purpose of gathering people around community (2015). In case these values don't adequately illustrate the brewery's commitment, 10% of Village's bottom line goes directly to supporting Calgary's arts and community initiatives (Village, 2015). Most partnering charitable organizations are quite small so this contribution is very meaningful (REAP, 2015).

The sustainability profile by REAP (2015) also identifies elements of social innovation that promote responsible consumption of Village products. Village brews to a lower alcohol content and has designed bottles to be smaller for reduced consumption. This effort does not eliminate the risk of irresponsible consumption but it does support the notion that Village cares for the members of its community. The brewery itself has an upstairs bar that offers and showcases current beers but is also made available to local artisans to display their creations; when these products are sold Village shows further support by taking no commission (2015). This bar also offers free space for meet-ups by charitable organizations and community or art groups. Social innovation is everywhere in this small yet open space - even the hanging lights around the bar are upcycled Village beer bottles made by ReWorks; which is a Calgary retailer located in the Inglewood community that's committed to only selling products made from repurposed materials.

REAP recognizes another partnership between the brewery and an environmentally conscious brand in the Inglewood community, the Silk Road Spice Merchant; it's through this partnership that the brewery obtains ingredients that can't be found locally. This is an innovative solution to a goal in another of Village's commitments: the commitment to buying local. The brewery deliberately supports suppliers that are as small and local as possible; all barley is grown in Alberta and conveniently malted just outside of Calgary. As well, the brewing process takes advantage of the favourable hard water offered by Calgary's own Bow River. Recycling is another big initiative at Village; for example spent grain (grain that's no longer useful in the brewing process) is given back to farmers for use on their farms, and roughly

95% of the brewing equipment was purchased used.

The brewery itself is designed to utilize gravity as much as possible as a replacement for high speed pumps. The facility is also designed to reuse as much grey water as possible and not put any polluted water back into the ecosystem. The investment style of this brewery is also unique; Village looked to the Calgary community to find 50 actively engaged individuals to be investors in the business. These individuals are called Beer Barons and they serve as agents of the community and offer advice about which art or social causes to support (2015).

Through the brewing and distribution process, Village Brewery shows a true commitment to community and togetherness – this is historically what beer was all about. Further in touch with the product, Village promotes responsible use in the way they design their products. Distribution and supply chain policies are also indicative of sustainable initiatives. Furthermore, the localized supply chain proves that good beer can be made with environmental and social consciousness. This is a powerful concept in today's business world. Bugg-Levine et al. explains how cutting out middlemen and selling to premium markets enables the firm to create enough financial surplus to create blended value by supporting local farmers and artisans while selling at a margin that provides investors with a return (2011). There is also much evidence for the brewery's value of local art and this is another valuable point in terms of Village's contribution to the community. The brewery is in a position to make a positive impact because they have a

very clear understanding of who the community is – Calgary, and with exclusivity of products the brewery wants the city to know that. The success of Village Brewery suggests the power of a small localized firm and that this approach has opened a multitude of opportunity for social innovation.

Wild Rose Brewery

Wild Rose Brewery has similar upbringings to Village - a small community that wanted to make their passion a reality. Just like Village, Wild Rose has made a commitment to only sell their products in Alberta with a mission to match their values with the province's reputation of being 'wild and free'. The rationale behind this commitment is that products are brewed with natural local ingredients and the heart of the province; thus, there just isn't enough to share (2015). The brewery is also associated with REAP Calgary but takes pride in partnering with other 'green' organizations such as local farmers markets and small-scale food producers. Wild Rose is proud to support these organizations because there is a sincere belief that the brewery wouldn't be what it is today without these neighbors (2015).

The brewery has a relatively classical engagement in CSR. Wild Rose contributes to local charities through sponsorship but also through what they call the Charity Pint Program. This program is geared toward charitable organizations that focus on the environment, community events, and health issues. The Charity Pint Program involves a monthly selection of a Wild Rose brew and a charity - for each pint purchased at the brewery's public bar \$0.25 is donated to the charity. The program has been in place since January of 2014

and has since supported at least one charity each month since (2015).

Boynton (2010) reveals through an internal interview that Wild Rose sources local products whenever possible and takes advantage of local opportunities such as specialty malts that are exclusive to Alberta. The interview also revealed that the brewery places recycling in high priority. In fact, much of the brewery's decor is composed of repurposed industrial materials or equipment. Not unlike Village, Wild Rose donates spent grains (empty grain husks) back to a farmer to for use in cow feeding. The establishment reuses beer bottles up to 15 times before they are recycled, and all empty recyclables on the premise are turned in as well. The brewing process recaptures and reuses whatever water possible and makes simple efforts like not turning on lights that aren't needed. Boynton also notes that breweries such as Wild Rose are actually carbon negative because barley absorbs much more carbon dioxide while growing than used in the brewing process. The interview also suggests that the biggest sustainability challenge at Wild Rose is securing enough funds to engage in all desired projects (2010).

Wild Rose Brewery engages in a traditional method of CSR: cutting into profits to support social causes. The fundraising program seeks to support relevant causes in the brewery's immediate community. The brewery utilizes their small scale for product exclusivity in this very community. Once again, it's proven that quality products can be brewed using local ingredients. There is also a strong commitment to recycling initiatives - some simple and obvious and others quite innovative; all

however, reducing the practice's environmental impact. With community roots and innovative community integration this brewery has found success with a high moral standard, and this has put them in a position to be a valued member of the Calgary community.

Lessons

It's notable that while both breweries share a competitive landscape they both produce premium and exclusive products for a market with growing consciousness. Both competitors are motivated to do good in the same community and this is healthy competition. This is the first dynamic for generating social value: **knowing who the community is**. A clear understanding of which community the breweries want to serve makes it possible to generate direct measurable impact as a result of regular business. Both breweries recognize Calgary and the beer-drinking community of Alberta as their community; environmental and social initiatives are specific and relevant to this community. In the context of small organizations creating social value in this community, a little support goes a long way.

Second, the breweries placed great consideration on **how to integrate the community** with the business. This is enacted through support for local farmers and artisans by various means including offering underutilized brewing space for community gatherings. To truly understand this dynamic the firm must have consideration for all stakeholders. There must be a place in the business for everyone involved. These firms made brewing a community process rather than a factory-led supply chain. While the process might not be as cost-effective as it could be, there are bits of social and environmental value shed in every

step and the end result is a product made by and for the community.

The third dynamic for applying social innovation is in the business' **scale**. Both breweries created a profitable practice- it's only logical in the business community to proceed with expansion. The breweries, however, chose not to. Expanding would mean adopting less considerate policies and giving up the quality that they strive for; furthermore, exporting products introduces a whole new realm of environmental cost. Valuing the scale of the brewery and only offering products exclusive to the community where they operate plays a great part in making each Village and Wild Rose brewers of premium products. This consideration also attracts the community because there's a special feeling in enjoying a product only your community has access to.

Fourth is a keen understanding of the **purpose** behind the value chain. Both breweries were motivated beyond just producing an intoxicant; Village Brewery did justice in describing beer as a 'social lubricant' for gathering people in the community, and that's just how these breweries treat their product. This looks like promoting responsible consumption and gearing social initiatives toward supporting addiction-focused organizations. It's also significant to note that the breweries offer a space for their products to be enjoyed and use this space for community gatherings. Both firms found great social success just by simply focusing on why people purchase their product and tapping into that experience.

The fifth and final dynamic for applying social innovation in the brewing industry is

consideration for the **supply chain**. Supply chain management for a socially responsible business is not about cutting costs, it's about linking existing elements in the community to create exclusive value. In the context of the brewing industry, Alberta offers various crops and natural sources of water that can be teamed to brew a quality-proven beer. This concept illustrates taking advantage of local opportunities rather than finding the most profitable avenue of production. It might be more economical to import ingredients, but both brewers found success localizing the supply chain and the result of this is empowering local farm initiatives with less environmental disruption. Another huge opportunity for innovation exists in utilizing modern technology and science to do things better than the traditional industry.

Conclusion

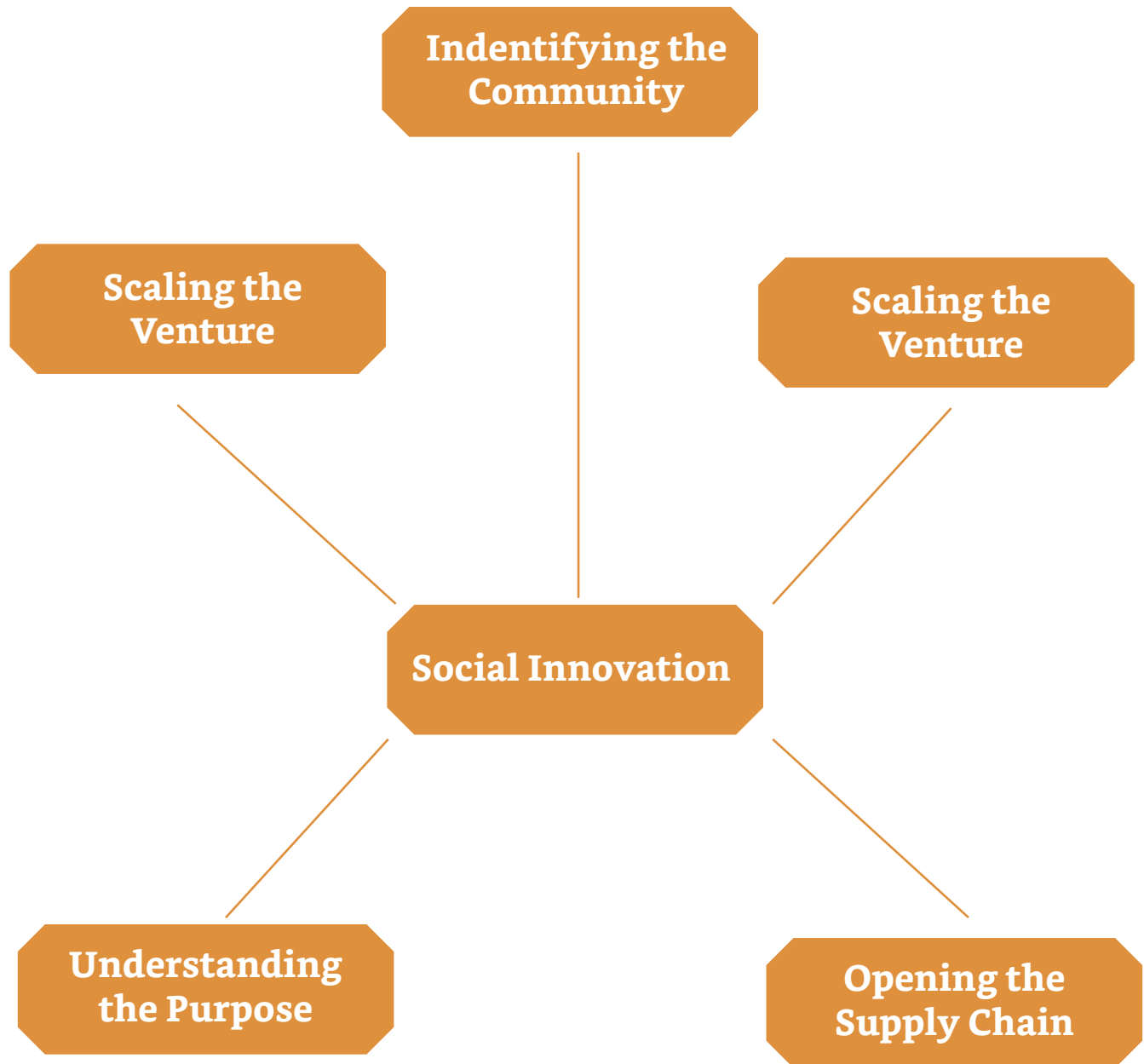
Two small-scale independent breweries in Calgary, Alberta have found success in the same competitive field; in fact, a competitive field with limited market share. The fact that these breweries are successful in utilizing

the community to produce premium and exclusive products is indicative of a consumer trend: people want to support a good cause. Even in the alcohol industry we can see a heavy emphasis on environmental and social value - the result of these mixed initiatives is togetherness and support in the community. This is a revolutionary idea because it proves that businesses committed to social and environmental integrity are generating positive impact and profit. It can be done! The business world is changing, and with the success of socially purposed for-profit businesses like the breweries analyzed in the case study we see raised standards in the business world. Society is at a point where consumers want to support conscious brands, even if it means spending a little more. This is proven to be true in the brewing industry; however, the dynamics by which they found opportunities to apply social innovation are not at all specific to the industry.

These dynamics exist in all ventures and should be considered across industries.



The Dynamics for Generating Social Value



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