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REINVENTING A BUSINESS MODEL: HOW CONTRACT BREWERIES BECAME A PERMANENT FORM OF ORGANIZING

DISSERTAÇÃO APRESENTADA À ESCOLA BRASILEIRA DE ADMINISTRAÇÃO PÚBLICA E DE EMPRESAS PARA OBTENÇÃO DO GRAU DE MESTRE

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REINVENTING A BUSINESS MODEL:
how contract breweries became a permanent form of organizing

Dissertação de mestrado apresentada ao Mestrado Executivo em Gestão Empresarial da Escola Brasileira de Administração Pública e de Empresas da Fundação Getulio Vargas – FGV/EBAPE como requisito para a obtenção do título de Mestre em Administração.

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RESUMO

Os impactos da chamada revolução da cerveja artesanal chegaram à indústria de cerveja brasileira nos primeiros anos deste século. Por conseguinte, um grupo de novos empreendedores surgiu no país, segundo os quais eles estariam retornando a cerveja a seu devido lugar, não apenas como um negócio local, mas também como um produto que pode conferir uma personalidade regional específica. A recente evolução do segmento de cerveja artesanal está abrindo caminho para o desenvolvimento de diferentes formas de se organizar, tais como produção por contrato, modelo desenhado para empresas que não dispõem de instalações fabris próprias. Embora a maior parte das empresas ainda perceba produção por contrato como um modelo de negócio de transição, este modelo evoluiu até tornar-se uma forma permanente de organização. Limitada a cervejarias por contrato da região metropolitana do Rio de Janeiro, esta pesquisa busca analisar *como as cervejarias por contrato evoluíram de um modelo de negócio temporário e de transição para uma forma permanente de organização*. Ademais, haja vista algumas características específicas observadas nos modelos de negócio adotados pelas cervejarias por contrato, que podem diferir consideravelmente uma das outras no que concerne a sua temporariedade e capacidade de sobreviver a longo prazo, uma tipologia de cervejarias por contrato é proposta.

Palavras-chave: Modelos de negócio. Evolução de modelos de negócio. Sustentabilidade de modelos de negócio. Cervejarias por contrato.

ABSTRACT

The impacts of the so-called craft beer revolution reached Brazilian beer industry in the first years of this century. As a result, a group of new entrepreneurs emerged in the country, who argue that they are restoring beer to its rightful status, not only as a local business but also as a product that may bring a specific regional personality. The recent evolution of the craft beer segment is paving the way to the development of different forms of organizing, such as contract brewing, designed for companies which do not own physical brewing facilities. Although most companies still understand contract brewing as a transitional business model, it did change into a permanent form of organizing. Limited to contract breweries from the Rio de Janeiro metropolitan area, this research attempts to assess *how contract breweries changed from a temporary, transitional business model into a permanent form of organizing*. Furthermore, in view of some distinctive features observed in the models adopted by contract breweries, which may differ from each other considerably with regard to their temporariness and the ability to survive in the long term, I propose a typology of contract breweries.

Keywords: Business models. Business model evolution. Business model sustainability. Contract breweries.

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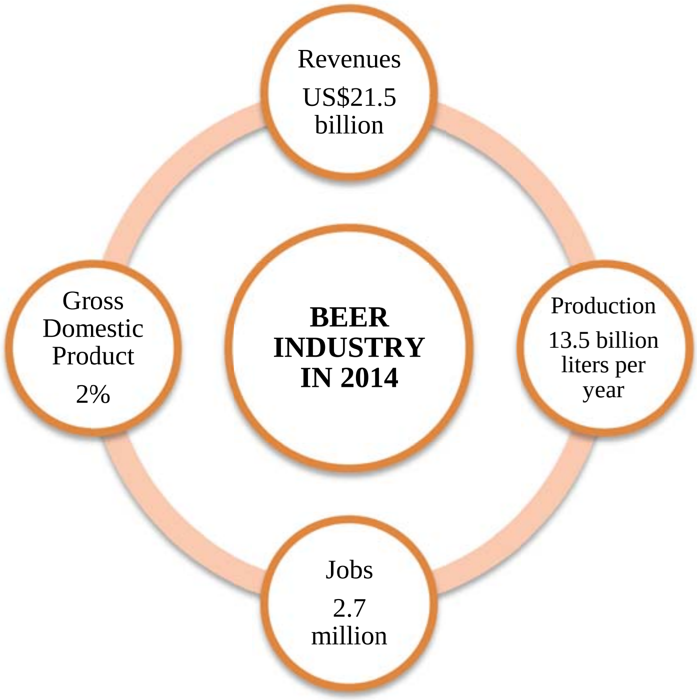
1 RESEARCH PROBLEM

1.1 Introduction

Influenced by the traditions of the great brewing nations of Europe, American microbrewers have given a valuable contribution to spread out what is being dubbed the craft beer revolution, whose impacts reached the Brazilian beer industry in the first years of the twenty-first century. As a result, a group of new entrepreneurs emerged in Brazil. These entrepreneurs, most of whom have started out as homebrewers, agree with their American counterparts that they are restoring beer to its rightful status, both as a local business and a product that may encompass a specific regional personality (HINDY, 2014).

In Brazil, the world's third largest beer producer, in 2013 overall beer production decreased for the first time since 2005. However, the industry as a whole, which generated US$ 21.5 billion in sales in 2014, still represents 2% of Brazil's Gross Domestic Product (ASSOCIAÇÃO BRASILEIRA DA INDÚSTRIA DA CERVEJA, 2014).

Figure 1 – The Brazilian beer industry in 2014.



Source: ASSOCIAÇÃO BRASILEIRA DA INDÚSTRIA DA CERVEJA (2014).

If we consider only the craft beer segment, the growth is outstanding. It has already generated over US$ 700 million a year in sales (ANTUNES, 2015) and expanded an average

of 36% per year from 2011 to 2014 (BOUÇAS, 2015). In 2015, craft beers already amounted to 1% of total sales and they may double their share by 2020 (MALTA; BOUÇAS, 2015).

Growth potential is indeed remarkable. In the United States the craft beer industry, which has been developing since the 1970s (HINDY, 2014), already accounts for over 108,000 jobs, 6.5% of the total volume produced, and 10.2% of total beer sales (ANTUNES, 2015). In fact, the Brazilian phenomenon reproduces the American movement in a number of aspects. Firstly, imports introduced Brazilian consumers to craft beer, as in the United States (MORADO, 2009; HINDY, 2014). Moreover, craft breweries from both countries make extensive use of local ingredients (HIERONYMUS, 2016), giving birth to new styles and a subsequent vertical integration (local barley, wheat and hop production). Companies from these countries are remarkable innovators: as their American colleagues, Brazilian craft brewers reinterpreted the India Pale Ale (IPA) style, with an emphasis on bitterness, giving hops a celebrity status. As a result, several IPA spin-offs are now available, e.g., double-hopped IPA and Imperial IPA (see Figure 2 and Figure 3). However, their innovation transcends styles and recipes and also encompasses the conception of unusual equipment, e.g., Randall, a device that infuses the beer with flavor-enhancing ingredients (CALAGIONE, 2011). Furthermore, craft breweries are increasingly making more use of metal cans instead of the more expensive glass bottles. Finally, some companies from both countries have similar marketing techniques, adamantly differentiating craft beers from mass-produced competitors (see Figure 4 and Figure 5).

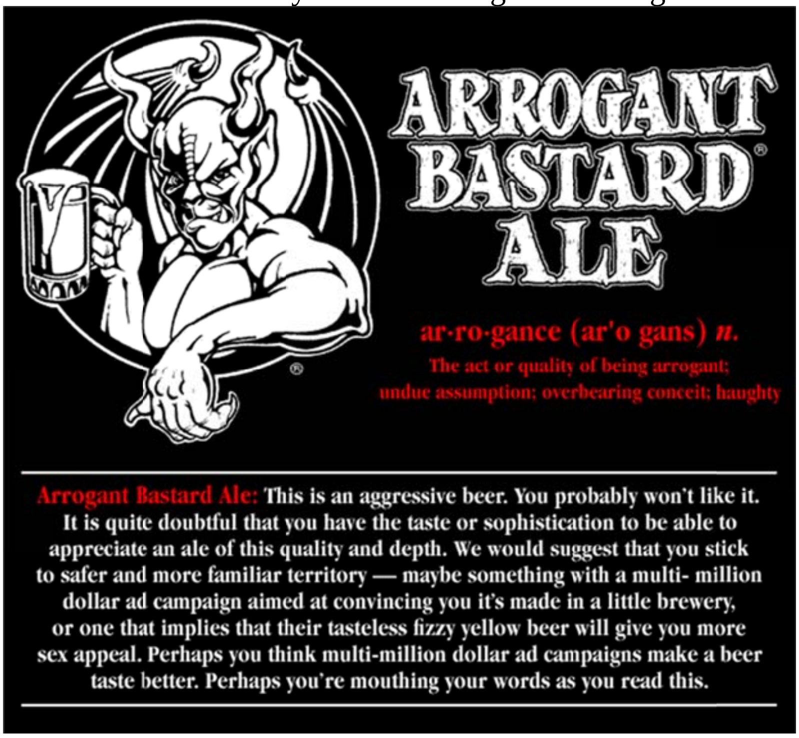
Figure 2 – American brewery Dogfish Head’s 120 Minute IPA.
The pack reads “The holy grail for hopheads!”.

Source: DOGFISH HEAD CRAFT BREWERY (2016).

Figure 3 – Brazilian brewery 2cabeças' passion fruit IPA.

Source: 2CABEÇAS (2016).

Figure 4 – American brewery Stone Brewing Co.'s Arrogant Bastard Ale.



Source: DAFONT.COM (2014).

Figure 5 – Brazilian brewery Bodebrown pleading with its customers to join in the craft beer revolution.

Source: CERVEJARIA BODEBROWN (2016).

The evolution of the craft beer sector is paving the way to the development of different forms of organizing. One of them is contract brewing, designed for companies that do not own physical brewing facilities. Instead, they hire another brewery to produce and bottle the beer, while they dedicate to activities such as marketing, sales, and distribution (BREWERS ASSOCIATION, 2015). Even though contract brewing has been employed in the United States since the 1980s (HINDY, 2014), this form of organizing has unlimited combinations. Also known as gypsy breweries, some of these companies developed a model which is similar to brand licensing. Alternatively, some contract breweries may be understood as project-based organizations. Their business model may vary from simply hiring another brewery for a single project to more complex collaborations, in which three or more contract breweries join forces to create the recipe, hire an established brewery to produce the beer, purchase the whole batch, and then market and distribute their products.

The first Brazilian contract breweries started their operations in the beginning of this decade. They had difficulty in finding stable production partners, which were initially indifferent to the unusual model. Actually, such instability challenges the sustainability of the business model or, in other words, the companies' ability to survive in the long run, which may lead us to assume that contract brewery is a *transitional* business model, which is sustainable only if the company is able to gather the necessary resources to become a brick-and-mortar brewery in the medium term. Also, contract breweries may be understood as project-based organizations if we consider that (a) their main production unit is a batch of beer and (b) each batch of beer has characteristics of a project. Nonetheless, there are companies that do not intend to own conventional production facilities whatsoever, inspired by Danish company Mikkeller, one of Europe's best-known craft brewers (RISEN, 2010).

In sum, at least two different contract brewing configurations coexist with regard to the temporariness of the business model. On the one hand, there is a *transitional* form of

organizing ridden with difficulties which may decisively affect the companies' sustainability. On the other hand, a few companies not only managed to overcome these difficulties but also changed contract brewing into a *permanent* business model, supposedly providing them with better conditions to survive in the long run. Therefore, this research attempts to answer: *how did some contract breweries change from a temporary, transitional business model into a permanent form of organizing?*

1.2 Objectives

In order to assess how contract breweries changed from a temporary, transitional business model into a permanent form of organizing, this research attempts to achieve the objectives listed below.

1.2.1 General objective

- To assess the contract brewing business model as adopted in Brazil with regard to the following business model key elements or building blocks: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure.

1.2.2 Specific objectives

- To identify the peculiarities of the Brazilian beer industry.
- To assess how contract breweries adjusted to the specificities of the beer industry in Brazil.
- To identify potential patterns in the combination of the contract brewing business model's key elements.
- To assess how the different combinations of the business model's key elements may affect the organizations' sustainability.
- To compare the advantages and disadvantages of the different types of contract breweries.

1.3 Delimitation of the study

The Brewers Association, a not-for-profit trade association with more than 3,400 United States brewery members and 46,000 members of the American Homebrewers Association, joined by beer wholesalers, retailers, and individuals, describe four different craft beer industry market segments: brewpubs, microbreweries, regional craft breweries and contract brewing companies (BREWERS ASSOCIATION, 2015).

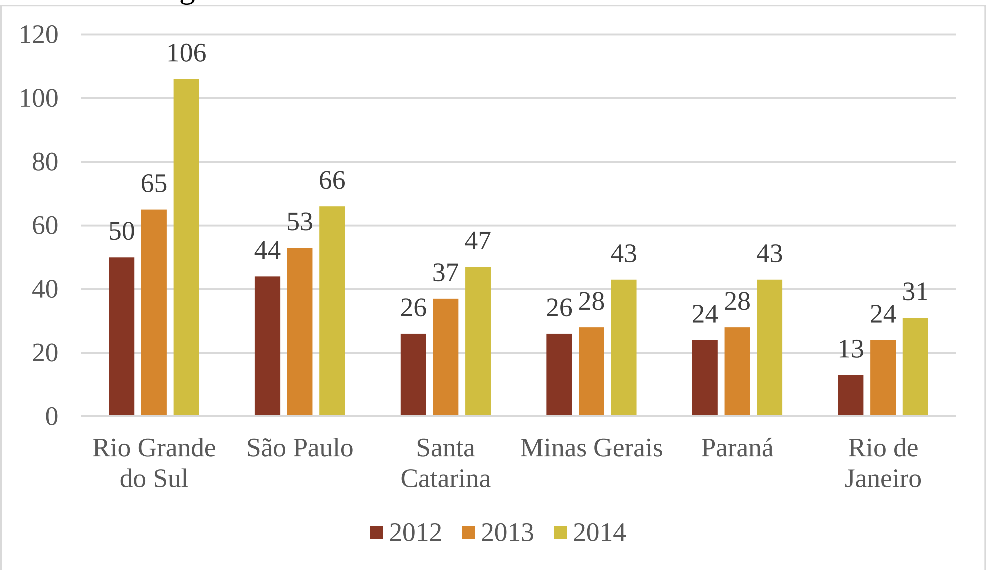
- Brewpubs are restaurant-breweries which sell 25 percent or more of their beer on site. The beer is brewed primarily for sale in the restaurant and bar. The beer is often dispensed directly from the brewery's storage tanks. Where allowed by law, brewpubs often sell beer "to go" and/or distribute to off-site accounts.
- Microbreweries produce less than 15,000 barrels (17,600 hectoliters) of beer per year with 75 percent or more of their beer sold 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 tap-room or restaurant sales.
- A regional craft brewery is an independent regional brewery with a majority of volume in "traditional" (i.e., existing styles recognized by the Beer Judge Certification Program – BJCP, a non-profit organization that certifies and ranks beer judges) or "innovative" beer(s).
- A contract brewery hires another brewery to produce its beer. It can also be a producing brewery that hires another brewery to produce additional beer. The contract brewing company handles marketing, sales and distribution of its beer, while generally leaving the brewing and packaging to its producer-brewery (BREWERS ASSOCIATION, 2015).

Although a first effort to define craft beer was materialized through Decree no. 8442 of 2015, the law has taxation purposes only. However, it introduces two brewery sizes (i.e., breweries which produce 5 million liters or less of craft beer per year and those which produce from 5 to 10 million liters of craft beer per year. In Brazil there is no official categorization concerning craft beer-related businesses. Nonetheless, the same definition of contract breweries applies to the country's craft beer industry.

This study is limited to the contract brewing models employed by companies from the Rio de Janeiro metropolitan area. Rio de Janeiro is Brazil's second-largest economy and,

therefore, representative of the country's metropolitan areas. Moreover, from 2013 to 2015, Rio de Janeiro state presented the most outstanding growth rate in the number of small breweries – 138% – in comparison with other Brazilian states (ZOBARAN; ROSA, 2015), as illustrated in Figure 6. Mondial de la Bière, the greatest event dedicated to craft beer in Brazil, registered a 585% increase in brands from Rio de Janeiro state in just three years (ZOBARAN, 2015).

Figure 6 – Small breweries from Rio de Janeiro state.



Source: Zobaran and Rosa (2015).

1.4 Relevance of the study

When it comes to craft beer, the artisanal quality of the production process is what defines its symbolic value. As a result, it is described as the complete opposite of mass-produced beer. Not only is it portrayed as a more refined, sophisticated, and civilized product, but also craft beer is repeatedly associated with intangible features such as high quality, good taste, and food pairing potential (CHAVES; GOIA, 2016). A product to which consumers emotionally connect (ASSOCIAÇÃO BRASILEIRA DE BARES E RESTAURANTES, 2015), the aforementioned artisanal quality, and the reflections of the slow food movement (AQUILANI, LAURETI, *et al.*, 2015) amount to the development of a segment which has in exclusivity its main attribute. Consequently, the companies in this segment are particularly interesting since they do not intend to continually grow – although it is generally believed that all companies should (PORTER, 1990) – so as not to lose their exclusivity.

The peculiarities of the craft beer segment as well as its high growth rate may explain why a number of potential entrepreneurs decided to become professional brewers, perceived as both a pleasurable and rewarding profession. Building or buying physical facilities or resorting to contract brewing is one of the first decisions of a startup brewery. Those companies which choose contract brewing are usually formed by two to three partners and, in some cases, few interns, which means that designing complex multi-layered organizational structures is not a concern for them. However, designing a distinctive business model which can contribute to the brewery's performance is pivotal for its sustainability. Or, in the words of Chia and Holt (2009), *"performance is about sustaining distinctiveness"*.

Homebrewing has been spurring potential entrepreneurs to turn to professional brewing, especially considering that there are cheaper options to starting up a fully-equipped brewery. It explains why contract brewing is the chosen business model of a significant amount of the entrepreneurs in the craft beer segment, most of whom are skilled, passionate homebrewers (ZOBARAN; ROSA, 2015). However, there is a fanciful quality to contract brewing, which blurs the down-to-earth facets of this form of organizing (RUFFIN, 2016). Moreover, potential entrepreneurs still rely to a large degree on other entrepreneurs' trial-and-error experiences and, therefore, might benefit from a better understanding of contract breweries.

From an academic stance, despite its potential contribution to the expansion of the incipient Brazilian craft beer segment, this particular business model has not been scholarly explored whatsoever. In August 2015, an online search of Fundação Getulio Vargas' libraries found only one academic paper on the craft beer segment in the past 10 years and none regarding contract brewing. Table 1 contains the parameters used in the search.

With regard to strategy and strategizing, Golsorkhi, Rouleau, Seidl, and Vaara (2010) state that *"a 'good' theory allows us to advance knowledge without having to reinvent the wheel"*. It also applies to strategy implementation in general and business models in particular. In fact, further development in theoretical understanding may offer a means to make sense of the practices that constitute this aspect of strategy implementation (i.e., business models) in a way that also has practical relevance for entrepreneurs.

Table 1 – Search for academic papers or books on the craft beer segment.

Search Options	**Parameters**
Term	craft beer OR craft brewing OR contract brewing OR contract brewery/ies OR gypsy brewery/ies OR cerveja
Knowledge area	Social and Human Sciences
Type	Complete text
Publication date	From 1 January, 2005 to 10 August, 2015
Language	English and Portuguese
Limitation	Only full text
Document	Books and academic journals

Source: Prepared by the author.

1.5 Structure of the study

This study is structured in six sections, of which the research problem and its constituent parts is the first. The following section, the study's theoretical background, encompasses notions of organizational theory, structure, culture, and change. The theoretical framework also includes the conceptualization of resource dependence theory and transaction cost theory, followed by a few remarks on the entrepreneur as the creator of new organizations. This section concludes with a review on business models, organized in two parts. The first part is comprised of business model definitions and typologies, including project-based organizations, whereas in the second part the literature review aims at discussing business model dynamics, evolution, and sustainability. The methodology section details the type of research as well as data collection and analysis criteria and procedures. This section also contains the limitations of the method.

The fourth section is comprised of the case descriptions, which include the study's findings. In the following section the findings are discussed in light of the theories previously presented. Moreover, I propose an initial typology of contract breweries as an attempt to explain the business model's different configurations, their features and potential to survive in the long run. The final section, the concluding remarks, comprises a review of the study and some suggestions for further research. The study is concluded with the references section and an appendix containing the framework of themes explored in the semi-structured interviews.

2 THEORETICAL BACKGROUND

Organizational theory is about studying how organizations operate, affect, and are affected by the surrounding environment. Also, it comprises principles regarding design, operation, change, and redesign of organizations so that they are able to create value (JONES, 2010). In order to understand how organizations operate, first we should comprehend the relationship between organizational theory, structure, culture, design, and change.

2.1 Organizational theory, structure, culture, design, and change

According to Jones (2010), organizational structure's main purpose is control: to control how people coordinate their actions to achieve organizational objectives as well as the means by which people are motivated to achieve these objectives. Moreover, the author defines organizational culture as a set of shared values and norms which guide the interactions among the members of the organization and between them and people who do not belong to the organization. As structure evolves, so does organizational culture. Both can be managed through design and change.

Organizational design is the process of selecting and managing aspects of structure and culture so that the organization can control the activities necessary to achieve its objectives. While structure and culture are the means to achieve objectives, design is about how and why several means can be chosen. Finding the correct balance between them contributes to the organization's survival in the long term (JONES, 2010).

Organizational change is the process of moving from the current state to a desired state in the future in order to increase the organization's efficacy. Its main objective is to find novel or better ways of using resources and capabilities towards value creation and improved performance (PORRAS; SILVERS, 1991). Therefore, change and organizational design are strongly interrelated. In fact, organizational change may be understood as the process of organizational transformation and reconfiguration (JONES, 2010).

Jones (2010) argues that an organization's design determines how effectively it can respond to various pressures from the environment and then gain access to resources. Organizations are increasingly discovering that organizational design, change, and redesign are a source of sustainable competitive advantage. Competitive advantage is the ability of an organization to create more value than its competitors with the available resources. Competitive advantage may derive from an organization's core competencies, which allow

the development of a strategy to surpass its competitors and produce better products, or produce the same products at lower costs. How organizations plan and change their structure is crucial for how much value they can create, since it affects how a strategy is implemented.

As far as startups are concerned, it should be noted that the initial configuration has important reflections in the future, as organizations grow in size and complexity. In fact, initial choices are pivotal for long term performance (JONES, 2010). The author adds that the consequence of a bad design is the decline of the organization, since the whole process of value creation decelerates. Furthermore, neglecting the design until the threat of a crisis is upon the organization forces it to make changes which compromise the strategy.

Hill and Jones (2008, p. 3) define strategy as *"a set of related actions that managers take to increase their company's performance"*. The authors add that *"achieving superior performance relative to rivals is the ultimate challenge"* for most companies. Furthermore, they are said to have a competitive advantage if their strategies result in superior performance.

2.2 Organizing in a changing environment

The environment is the group of pressures and forces surrounding an organization, which have the potential to affect how it operates as well as its ability to acquire scarce resources, such as raw materials, qualified personnel, strategic information, and the support of outside stakeholders. The organizational environment is comprised of general and specific environment. The general environment consists of forces which shape the specific environment and affect the ability of all organizations in a given environment to obtain resources. For instance, political, economic, cultural, and demographic forces are part of the general environment. The specific environment consists of forces exerted by outside stakeholders which directly impact an organization's ability to secure resources, e.g., clients, wholesalers, labor unions, competitors, suppliers, and the government (JONES, 2010).

The environment's complexity increases as the number of general and specific forces an organization needs to manage as well as their pressure and interconnectivity also increases (CHILD, 1972; DESS; BEARD, 1984). The more complex an organization's environment, the greater the uncertainty about the environment. As a result, preventing and controlling the flow of resources becomes extremely difficult (JONES, 2010).

2.2.1 Resource dependence theory

Resource dependence theory is the study of how an organization's external resources affect its behavior. According to this theory, an organization has to minimize its dependence on other organizations for the supply of scarce resources in the environment and to find ways of influencing them to make resources available. Hence, an organization has to manage two aspects of its resource dependence: (1) it has to influence other organizations in order to obtain resources and (2) it must respond to the needs and demands of the other organizations in its environment (PFEFFER; SALANCIK, 1978; JONES, 2010).

So as to manage resource dependence and control the access to scarce resources, and therefore reduce uncertainty, organizations develop several strategies (MILLER; SHAMSIE, 1996). In the specific environment, two types of interdependence cause uncertainty, namely symbiotic – i.e., interdependencies between an organization and its suppliers and wholesalers – and competitive – i.e., interdependencies among organizations which compete for scarce inputs and outputs (PFEFFER; SALANCIK, 1978; JONES, 2010). In general, organizations choose an interorganizational strategy which offers the most reduction in uncertainty with least loss of control (JONES; PUSTAY, 1988).

An interorganizational strategy involves more or less formal linkages between two or more organizations. A linkage is formal when two or more organizations agree to directly coordinate their interdependencies to reduce uncertainty. The more formal a linkage, the more direct is the coordination and the more likely will it be based upon an explicit written agreement or involve a common asset among organizations. Conversely, the more informal a linkage, the more loose is the coordination method and the more likely will it be based upon a tacit or verbal agreement (JONES, 2010), as illustrated in Figure 7.

Figure 7 – Interorganizational strategies to manage symbiotic interdependencies.

Source: Adapted from Jones (2010).

Jones (2010) defines reputation as a state in which an organization is held in high regard and trusted by other parties due to its fair business practices. Reputation and trust are probably the most common linkage mechanism for managing symbiotic interdependencies. In turn, cooptation concerns managing symbiotic interdependencies by neutralizing problematic forces in the specific environment.

Strategic alliance, which is closely related to contract brewing, deserves separate attention. Strategic alliance, which is an increasingly common mechanism for managing symbiotic interdependencies, is an agreement which commits two or more organizations to share their resources in order to jointly develop new business opportunities. There are four types of strategic alliances, ranging from the most informal to the most formal: (1) long-term contracts, (2) networks, (3) minority ownership, and (4) joint ventures (JONES, 2010).

Long-term contracts, which are the least formal type of alliance, aim to reduce costs, either by sharing resources or risks. Contracts can be verbal or written, casual, shared, or implicit. A network is described as a cluster of organizations whose actions are coordinated by contracts and agreements rather than through a formal hierarchy of authority (JONES, 2010). Networks are a more formal type of alliance than contracts since they involve bonds of cooperation between organizations and a more formal coordination of activities (POWELL; KOPUT; SMITH-DOERR, 1996). Minority ownership makes organizations extremely interdependent, which implies strong bonds of cooperation (JONES, 2010). The most formal strategic alliance is the joint venture, that is, a strategic alliance among two or more organizations which agree to jointly establish and share the ownership of a new business (KOGUT, 1988).

With regard to strategic alliances, Porter (1990, p. 93) argues that

> “alliances as a broad-based strategy will only ensure a company’s mediocrity, not its international leadership. No company can rely on another outside, independent company for skill and assets that are central to its competitive advantage. Alliances are best used as a selective tool, employed on a temporary basis or involving noncore activities”.

Lastly, Jones (2010) states that the most formal strategy, merger and acquisition, results in resource exchanges taking place within one organization rather than between organizations.

2.2.2 Transaction cost theory

Transaction cost theory "is concerned with understanding economic exchange (i.e., transactions) in situations where transactions are complex and a lot is at stake" (KETOKIVI; MAHONEY, 2016). It states that the goal of an organization is to minimize the costs of exchanging resources in the environment and the costs of managing exchanges inside the organization (WILLIAMSON, 1975; 1979). Organizations try to minimize transaction costs and bureaucratic costs because they hinder productive capacity. Organizations attempt to find mechanisms which allow interorganizational transactions to be relatively more efficient (JONES, 2010).

Jones (2010) argues that transaction costs increase when the following conditions exist:

- Organizations begin to exchange more goods and services;
- Uncertainty increases;
- The number of possible exchange partners falls.

In accordance with this theory, under circumstances of high transaction costs an organization should choose a more formal linkage mechanism. Organizations have more control over each other's behavior as the linkage mechanism grows more formal, since formal mechanisms minimize the transaction costs associated with reduction in uncertainty, opportunism, and risk (JONES, 2010).

By weighing the savings in transaction costs of particular linkage mechanisms against bureaucratic costs, organizations can use transaction cost theory to choose an interorganizational strategy. As transaction cost theory sheds light on the costs associated with different linkage mechanisms to reduce uncertainty, it allows better predictions with regard to why and when a company will choose a particular interorganizational strategy, in comparison with resource dependence theory. When deciding which strategy to pursue, the following steps should be taken:

- Locate the sources of transaction costs that may affect an exchange relationship and verify how high the transaction costs are likely to be;
- Estimate the transaction cost savings from using different linkage mechanisms;
- Estimate the bureaucratic costs of operating the linkage mechanisms;
- Choose the linkage mechanism which yields the highest transaction cost savings at the lowest bureaucratic cost (JONES, 2010).

Jones (2010) states that three interaction mechanisms may help organizations to avoid bureaucratic costs, while simultaneously minimizing transaction costs: keiretsu, franchise, and outsourcing. Keiretsu is the Japanese system for achieving the benefits of formal linkages without incurring its costs. A franchise, in turn, is a business which is authorized to sell a company's products in a particular area. The franchiser sells the right to use its resources (e.g., name or operating system) in return for a flat fee or share of profits.

Finally, outsourcing is about moving a value creation activity, which was performed inside the organization, to another organization. The decision of whether or not to outsource is the result of weighing the bureaucratic costs of executing the activity against the benefits. The specific method adopted by a given company to manage its outsourcing process is that which most efficiently reduces the uncertainty associated with the exchange.

2.3 Business models

Campos (2015) states that in different countries entrepreneurship is becoming the most desired career path parents wish for their children, replacing classic careers such as medicine or engineering. Although in Brazil entrepreneurs have not achieved such social status yet, the remarkable growth in the number of homebrewers may be credited to a large extent to potential entrepreneurs who wish to start their own businesses. As stated earlier, Brazilians usually have an emotional connection with craft beer (ASSOCIAÇÃO BRASILEIRA DE BARES E RESTAURANTES, 2015), including potential entrepreneurs, who perceive craft brewing as both a pleasurable and rewarding profession which does not necessarily require a brew master degree.

Campos (2015) proposes the Upside-down approach, according to which the entrepreneurial process should be developed as follows. Instead of starting the process with a great idea and then move to the execution stage, the potential entrepreneur should start from his network of available resources, followed by execution and innovation. In fact, potential entrepreneurs may rely on a number of social and economic resources (e.g., experience, social connections in the industry in which they wish to operate, and affiliation to ethnical and religious groups). Among economic resources licenses and contracts stand out, since they materialize a contract brewery's strategic alliance.

With respect to the relationship between the entrepreneur and the contract brewing business model, Campos (2015, p. 20) explains that, in general, the term entrepreneur may be interpreted as: "*(1) a person involved in projects with high growth rates and high*

capitalization; (2) a person involved in innovation […]; (3) an opportunity recognizer; and (4) a creator of new organizations”, such as contract breweries, which rely on a distinctive business model.

Demil and Lecocq (2010) define business model as *“the articulation between different areas of a firm’s activity designed to produce a proposition of value to customers”* (DEMIL; LECOCQ, 2010, p. 227) and discuss two different uses of the term: a static approach, which refers to the coherence between core business model components, and a transformational approach, which addresses change and innovation in the organization or in the model itself. In accordance with these approaches, the remainder of this section is organized in two parts, since the research encompasses both the interactions between the contract brewing model’s components (static approach) and how it changed over time (transformational approach). Hence, the first part is comprised of business model definitions and typologies, including project-based organizations, whereas in the second part the literature review aims at discussing business model dynamics, evolution, and sustainability, understood not as an environmental concern but as its ability to survive in the long term.

2.4 Business model static approach

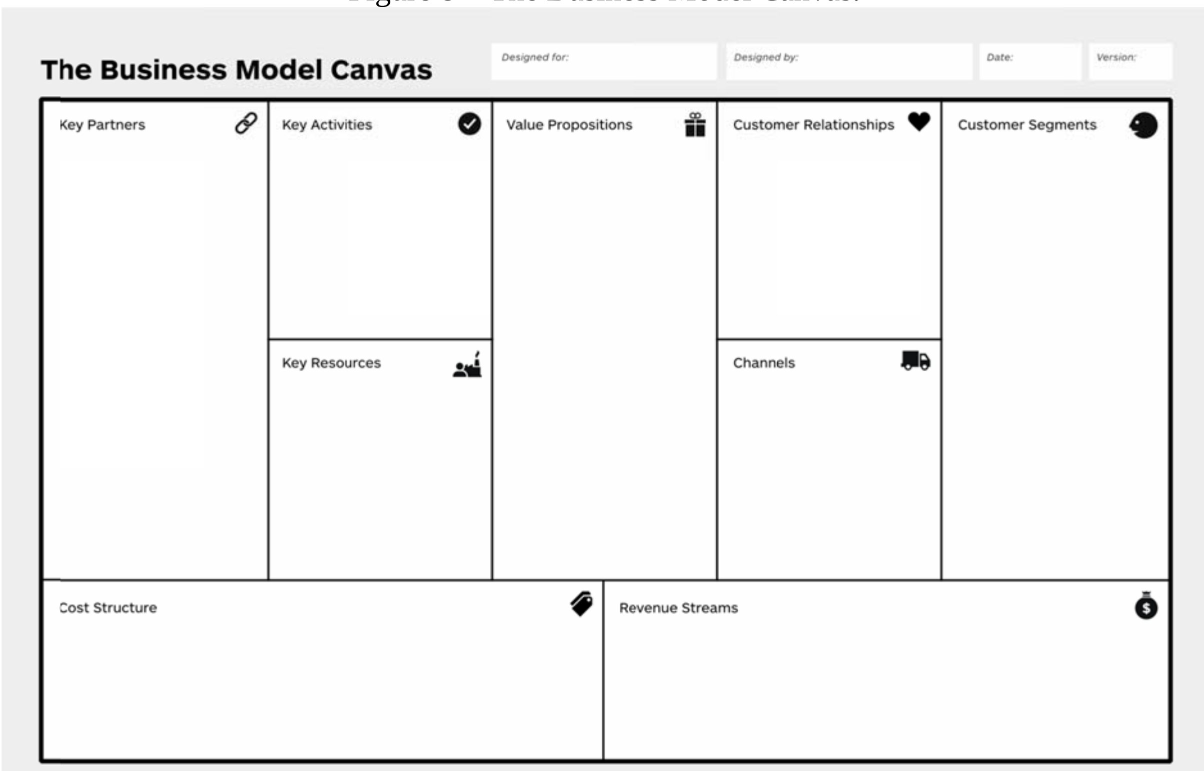
According to Osterwalder and Pigneur (2010), *“a business model describes the rationale of how an organization creates, delivers, and captures value”* (OSTERWALDER; PIGNEUR, 2010). The authors developed the Business Model Canvas, a tool for describing, assessing, and designing business models. As represented in Figure 8, the canvas comprises nine building blocks – customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure –, which are this study’s primary units of analysis, as further explored in the methodology section.

DaSilva and Trkman (2013) argue that over the past twenty years the term “business model” has been repeatedly misunderstood and misused, referred to as *“the answer for explaining how innovative undertakings dealing with technology or any other form of unclear but potentially profitable concepts, foreign to the logic of traditional industries, were materialized in business terms”* (DASILVA; TRKMAN, 2014, p. 380). Furthermore, by examining the term’s historical use and drawing on resource-based view and transaction cost economics, the authors contend that *“the core of a business model is defined as a combination of resources which through transactions generate value for the company and its*

customers" (DASILVA; TRKMAN, 2014, p. 383). As far as value is concerned, it should be noted that it is not exclusively the result of a rational calculation involving economical wins and losses, but rather it responds predominantly to cultural, social, and collective logics (DIMAGGIO, 1990), which reflect in the business model.

So as to answer what a business model is, Schweizer (2005) developed a concept encompassing three interrelated dimensions – (1) value chain constellation, (2) market power of innovators versus owners of complementary assets, and (3) total revenue potential. The former defines how the company is positioned within the industry and how it aims at creating value. The second dimension is important to determine where the competitive advantage and market power of the company come from. In other words, whether it stems from an innovation or whether it is rooted in the possession of or access to complementary assets. The latter describes how the company makes money, including the definition of the customers and how to address them.

Figure 8 – The Business Model Canvas.



Source: Osterwalder and Pigneur (2010).

Schweizer (2005) considered that, across the world, companies from different industries are currently introducing business models that focus on a specific step of the value chain. As a result of the development of deconstructing vertically integrated value chains,

new business models emerge and thus transform the rules of competition for established businesses and industries. The industry is more fragmented and has an increasing number of specialized actors, each of them focusing on a specific part of the value chain.

The author proposed a typology of business models consisting of four different configurations (i.e., Integrated, Layer Player, Market Maker, and Orchestrator models) summarized in Table 2. This research sheds light on the Orchestrator model, according to which the company coordinates the activities in a network of suppliers, focusing on one or a few core steps of the value chain while outsourcing and coordinating the others. The Orchestrator can be considered as being the most promising business model in the long run, since it provides a high total revenue potential by participating in various steps of the value chain. In fact, companies in a wide range of industries are executing nearly every step in the production process – from product development to distribution – through some form of external collaboration. Companies are ready to outsource not only activities that do not belong to their core competencies. More important, outsourcing is no longer limited to their non-core competencies. The rationale for this may lie in risk sharing, obtaining access to new markets and technologies, or speeding products to market (SCHWEIZER, 2005), as illustrated by the contract brewing model examined in this research.

Table 2 – Configuration of business models.

Business Model	**Value Chain Constellation**	**Market Power vs. Complementary Assets**	**Total Revenue Potential**
Integrated	Existing	Low	High
Layer Player	Existing	High	Low
Market Maker	Innovator	High	Low
Orchestrator	Innovator	Low	High

Source: Adapted from Schweizer (2005).

Osterwalder and Pigneur (2010) discuss different business model patterns (i.e., business models with similar characteristics, arrangements of building blocks, or behaviors), two of which are of particular interest for this research: unbundling business models and open business models. According to the former, the three types of businesses (customer relationship, product innovation, and infrastructure businesses) are unbundled into separate entities in order to avoid conflicts or undesirable trade-offs. In turn, open business models can be used to create and capture value by systematically collaborating with outside partners.

Since contract breweries may be understood as project-based organizations, as stated in the previous section, this research took account of their main features. Should we observe the brewing process as a whole, comprising both the contract brewery and its production partner, both adhocracies are present – *administrative* and *operational* – as described by Mintzberg (1979). Adhocracy is a highly organic structure with little formalization of behavior. Designed to be innovative, the organization does not rely on any form of standardization for coordination. Therefore, it must avoid the trapping of bureaucratic structure, especially sharp divisions of labor, highly formalized behaviors, and an emphasis on planning and control systems.

So as to broaden the debate on how adhocracies make decisions, Mintzberg (1979) conceptualizes the two aforementioned parts. The *operating adhocracy* is composed of multidisciplinary teams of experts who often work directly under contract, despite the fact that in some situations there is no contract per se. The operating adhocracy seeks to innovate and to solve problems on behalf of its clients. Consulting firms, creative advertising agency, and manufacturer of engineering prototypes are examples cited by Mintzberg (1979). Furthermore, the *administrative adhocracy*, though also project-based, undertakes its projects to fulfill its own needs. The administrative adhocracy makes a clear distinction between its administrative component and operating core, being the latter cut off from the rest of the organization. In effect, the administrative component can be structured as an adhocracy itself.

Such is the case of the contract breweries. The separation of the operating core, which should not be confused with the operating adhocracy, may assume a number of different forms, e.g., it may be contracted out to other organizations. In this study, the contract brewery may be described as an administrative adhocracy, whereas its production partners exemplify the operating core.

In light of the description of a project-based adhocracy, and taking into consideration the nature of projects as temporary organizations (TURNER; MÜLLER, 2003), we come to the conclusion that adhocracies and temporary organizations share a number of features. Among the basic concepts of temporary organizations, action stands out in comparison with decision. Four interconnected concepts – time, task, team, and transition – are also noteworthy, as summarized below and in Table 3.

1. Time, i.e., time horizons and time limits and their implications for action;
2. Task, whose definition provides the *raison d'être* of the temporary organization;
3. Team, which forms around available time and task;

4. Transition, which contains an inherent element of change in order to accomplish a desired purpose (LUNDIN; SÖDERHOLM, 1995).

Table 3 – Temporary and permanent organizations.

Temporary organizations	**Permanent organizations**
Time	Survival
Task	Goals
Team	Working organization
Transition	Continuous development

Source: Adapted from Lundin and Söderholm (1995).

According to Söderlund and Tell (2010), to a great extent the attractiveness of projects lies in their capacity to integrate diverse knowledge bases and expertise, which have led firms to explore the use and value of projects as a key feature of their organizational design and growth trajectories. Projects also allow for low-cost and flexible resource commitments. As opposed to the multi-divisional organization, which requires substantial investments in fixed capital equipment for the manufacturing of high volumes at subsequent low unit cost, in project-based firms corporate strategy tends to assume temporary features, which favor the use of temporary systems as significant organizational cornerstones.

One of the innovations introduced by multi-divisional organizations regards the division by product or market, facilitating intra-unit coordination at the expense of scale, while benefiting at the same time from economies of scale and scope through centralized functions. On the other hand, project-based organizations have in the focus an obvious advantage, as well as the possibility of benefiting from economies of system. The key characteristic of this form of organizing is the fact that project is the main production unit. (SÖDERLUND; TELL, 2010).

In sum, project-based organizations could *"be viewed as operating on two distinct levels, one being the project level (the temporary system/team/organization) and the other the firm level (the permanent system/firm/corporation). These organizational levels work jointly in the development and evolution of the firm"* (SÖDERLUND; TELL, 2010, p. 212).

Whitley (2006) adds that even though project-based organizations may coincide in their fluid, temporary nature and membership of multiple networks, alliances, and partnerships, they differ considerably in a number of respects, notably the singularity of their goals and outputs and the distinctiveness and stability of work roles and task organization.

Lastly, Jacobsson, Lundin, and Söderholm's (2015) framework, based upon the family resemblance concept, is particularly useful for better understanding both similarities and differences in the models employed by contract breweries, especially with regard to temporariness. So as to define an empirical instance as a temporary form of organizing the following conditions must be met:

- A need for an external organizational requirement or pressure in terms of one or more of the following characteristics: goal, expectation, or control.
- A need for an internal management focus in terms of one or more of the following characteristics: team, task, or time.
- A choice process and an "end state" in terms of a transition that has been or is to be reached (JACOBSSON; LUNDIN; SÖDERHOLM, 2015, p. 15).

In this attempt to assess contract breweries, the research requires that at least one feature from each of the following sets be present for an empirical observation to qualify as a temporary business model, as demonstrated in Table 4.

Table 4 – The temporary business model family resemblance framework.

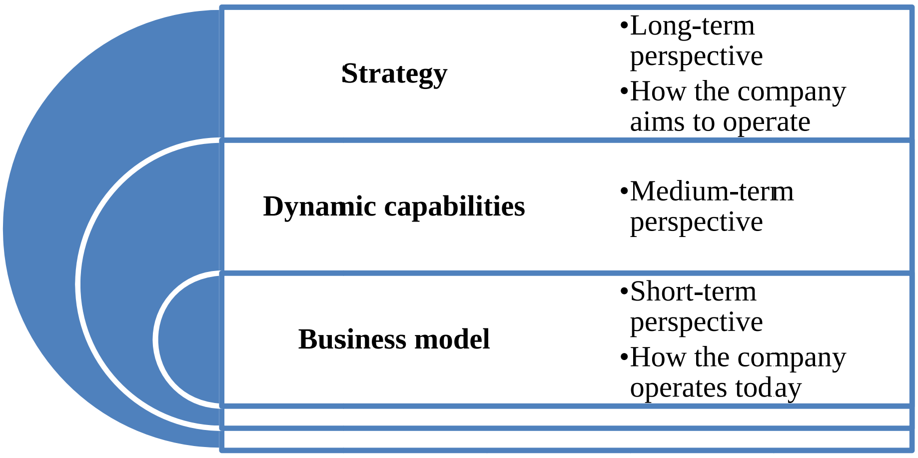
Set 1: External focus	**Set 2: Internal focus**
Control, expectations, goals	Time, task, team

Source: Jacobsson, Lundin, and Söderholm (2015, p. 14).

2.5 Business model transformational approach

Casadesus-Masanell and Ricart (2010) argue that *"business models are reflections of the realized strategy"* (CASADESUS-MASANELL; RICART, 2010, p. 204), whereas strategy involves developing dynamic capabilities aimed at responding efficiently to future and existing contingencies (AMBROSINI; BOWMAN, 2009). Building on these concepts, DaSilva and Trkman (2014) further correlate strategy, dynamic capabilities, and business models: *"strategy (a long-term perspective) sets up dynamic capabilities (a medium-term perspective) which then constrain possible business models (present or short-term perspective) to face either upcoming or existing contingencies"* (DASILVA; TRKMAN, 2014, p. 383), as illustrated in Figure 9.

Figure 9 – Strategy, dynamic capabilities, and business model time frames.



Source: Adapted from DaSilva and Trkman (2014).

As strategy, a business model is dynamic and, therefore, may evolve in response to both external and internal factors. External factors refer to contextual constraints such as the arrival of aggressive new entrants, the increasing cost of key resources, or the emergence of substitute products or services that may require a change in the company's business model. Internal factors comprise not only the outcomes of the managers' decision making processes, but also the consequences of the fluid interaction between core components (DEMIL; LECOCQ, 2010, p. 236).

Still according to the authors, a business model evolves as a result of a number of sequences that encompass intertwined, emergent changes affecting its core components. Observable signs of business model evolution include a substantial change in the cost or revenue structure, the adoption of a new key resource, or specializing in one part of the value chain while outsourcing others (DEMIL; LECOCQ, 2010, p. 240).

Business models are in a constant state of flux, incorporating characteristics of permanence as well as change. Changes in a business model may positively or negatively impact the focal organization's performance, which may be a clear indication of its sustainability in the long term. However, a sustainable business model is rarely found in a first attempt. In fact, it requires progressive refinements to create internal consistency and/or to adapt to its environment (DEMIL; LECOCQ, 2010, p. 228). As Winter and Szulanski (2001) argue, the "*business model, far from being a quantum of information that is revealed in a flash, is typically a complex set of interdependent routines that is discovered, adjusted, and fine-tuned by 'doing'*" (WINTER; SZULANSKI, 2001, p. 731). DaSilva and Trkman (2014) summarize the discussion on business model's sustainability: "*without a clear strategy*

ready to modify the existing business model, the competitive advantage may soon be offset" (DASILVA; TRKMAN, 2014, p. 386).

So as to cope with such degree of uncertainty, Morgan (2006) argues that *"the fundamental challenge is to think in terms of gestalt patterns, not just in terms of immediate organization-environment relations"* (MORGAN, 2006, p. 288). Therefore, organizations should not draw a clear distinction between organization and environment and see survival as hinging on their own preservation rather than on the evolution of the system to which they belong, since both organization and environment are elements of the same interconnected pattern and in evolution it is pattern that evolves.

In a mature, "red ocean" (KIM; MAUBORGNE, 2015) industry such as the Brazilian beer industry, a holistic mindset requires regarding how aspects of the contract brewing company's stakeholder network impact its degree of resistance to stakeholder pressures and how it responds to them, especially considering that the contract brewing model was first designed for start-ups. Rowley (1997) used social network analysis to develop *"a theory of stakeholder influences, which accommodates multiple, interdependent stakeholder demands and predicts how organizations respond to the simultaneous influence of multiple stakeholders"* (ROWLEY, 1997, p. 887). The author examined the influence of structural conditions on organizations' response strategies. Stakeholder network analysis takes into consideration two aspects that impact the focal organization's degree of resistance to stakeholder pressures, i.e., network density and the focal organization's centrality.

> Density is a characteristic of the whole network; it measures the relative number of ties in the network that link actors together and is calculated as a ratio of the number of relationships that exist in the network (stakeholder environment), compared with the total number of possible ties if each network member were tied to every other member. A complete network is one in which all possible ties exist (ROWLEY, 1997, p. 896).

The author argues that as network density increases, the ability of a given organization's stakeholders to constrain the organization's actions also increases. As far as centrality is concerned, Rowley (1997) differentiates it from density, which refers to the network as a whole, as an actor's individual position in the network in relation to others. Furthermore, *"centrality refers to power obtained through the network's structure, as opposed to power gained through individual attributes"* (ROWLEY, 1997, p. 898). Inasmuch as the organization's centrality increases, so does its ability to resist stakeholder pressures. Network density influences the ability of a focal organization's stakeholders to constrain its

actions, whereas organization's centrality influences its ability to resist stakeholder pressures. A structural classification of stakeholder influences, considering organizational responses to stakeholder pressures, is summarized in Table 5.

Table 5 – A structural classification of stakeholder influences: organizational responses to stakeholder pressures.

		Centrality of the focal organization: **High**	Centrality of the focal organization: **Low**
Density of the stakeholder network	**High**	**Compromiser** *Under conditions of high density and high centrality, the focal organization will adopt a compromiser role attempting to negotiate with its stakeholders.*	**Subordinate** *Under conditions of high density and low centrality, the focal organization will adopt a subordinate role, attempting to comply with stakeholder expectations.*
	Low	**Commander** *Under conditions of low density and high centrality, the focal organization will adopt a commander role, attempting to control stakeholder behaviors and expectations.*	**Solitary** *Under conditions of low density and low centrality, the focal organization will adopt a solitarian role attempting to avoid stakeholder pressures.*

Source: Adapted from Rowley (1997).

As incipient as the Brazilian craft beer segment may be, its significant growth in the past few years, not only in production and sales but also in the number of breweries, as well as the existence of long established actors (e.g., competitors, suppliers, and wholesalers) lead us to conclude that local contract breweries are under conditions of high density and low centrality, hence adopting a subordinate role, as we will further discuss in the following sections.

3 METHODOLOGICAL PROCEDURES

3.1 Type of research

In order to assess *how contract breweries changed from a temporary, transitional business model into a permanent form of organizing*, I resorted to a multiple-case study research. According to Yin (2014), *"the case study is preferred when examining contemporary events, but when the relevant behaviors cannot be manipulated. […] it adds two sources of evidence […]: direct observation of the events being studied and interviews of the persons involved in the events"* (YIN, 2014, p. 12). The author argues that a case study investigates not only a contemporary phenomenon in depth, but also within its contextual conditions, *"especially when the boundaries between phenomenon and context may not be clearly evident"* (YIN, 2014, p. 16).

This research involves nine primary units of analysis, corresponding to each of the nine business model building blocks proposed by Osterwalder and Pigneur (2010), discussed in the previous section. As stated, I designed this research so as to cover multiple cases, whose selection I will discuss in the following paragraphs, and then draw a single set of cross-case conclusions pertaining to the transformation of the contract brewing business model as well as its sustainability, understood not as an environmental concern but as their ability to survive in the long term. The fact that some elements of this form of organizing differ among contract breweries was knew from the outset of the research. Nonetheless, I assumed that all contract breweries were temporary organizations which had a common business model configuration, as further explained in the following section.

3.2 Data collection

As summarized in Table 6, I selected four diverse organizations from a population consisting of contract breweries from the Rio de Janeiro metropolitan area[1], filling each of the following categories:

1) Pioneering work, for these companies introduced contract brewing in Brazil and gave a relevant contribution to the development of this business model;

[1] Although the size of the population of contract breweries from the Rio de Janeiro metropolitan area is not precisely known, the estimate is 30 organizations (ZOBARAN; ROSA, 2015).

2) Mainstream or specialized press mentions, since these contract breweries' repeated media exposition indicates their relevance in the local craft beer segment;
3) Representative of a city other than Rio de Janeiro, but still from the Rio de Janeiro metropolitan area – Niterói's upper- and middle-classes, producers and consumers of craft beer, resemble those of Rio de Janeiro; also, Niterói may influence the development of the segment in other cities of Rio de Janeiro state;
4) Family business, a category which can be considered a polar type (EISENHARDT, 1989), since most breweries are founded by two or more friends instead of family members.

Furthermore, the cases were selected to allow the resultant theory to be extended to a broad range of organizations, thus enhancing external validity (EISENHARDT, 1989, p. 537).

As in hypothesis-testing research, where the triangulation made possible by multiple data collection methods provides stronger substantiation of constructs and hypotheses (EISENHARDT, 1989, p. 538), I collected a combination of data types comprising the breweries' social media posts from February 2015 to August 2016, interview with cofounders, mainstream and specialized newspaper and magazine accounts, both in Brazilian and foreign vehicles, and observations. The observations in several craft beer events were especially useful for confirmation of the companies' stated value propositions and their customer relationships. As indicated in Table 6, I also relied on a lecture presentation by one of the breweries' cofounders. Yin (2014) corroborates the collection of such a wide array of data: *"The case study's unique strength is its ability to deal with a full variety of evidence – documents, artifacts, interviews, and observations"* (YIN, 2014, p. 12).

I also collected evidence – social media posts from February 2015 to August 2016, mainstream and specialized newspaper and magazine accounts, both in Brazilian and foreign vehicles, and observations – from four other breweries, albeit none of their cofounders was available for an interview. Not only was there plenty of data regarding their nine business model building blocks (OSTERWALDER; PIGNEUR, 2010) available, but also the breweries' intention to either remain a contract brewery or eventually own physical production facilities was addressed in these sources. The fact that no other contract brewery fell under the family business category was offset by the addition of another organization mentioned in the press, which can also be considered a polar type (EISENHARDT, 1989). In this case, the organization cosponsored an Olympic athlete, not a usual branding technique for a craft brewery (HINDY, 2014, p. 96).

Table 6 – Case selection[2].

Brewery	City of Origin	Category	Justification	Data Collection
2cabeças	Rio de Janeiro	Pioneering work	Claims to be the first contract brewer in Rio de Janeiro	Social media, lecture presentation, interview with one of two cofounders, newspaper and magazine accounts, and observations
Hocus Pocus	Rio de Janeiro	Press mentions	Was one of four Brazilian breweries to ever participate in the Canadian beer festival and contest Mondial de la Bière, in 2016 (ZOBARAN, 2016b)	Social media, interview with one of two cofounders, newspaper and magazine accounts and observations
Dead Dog	Niterói	Other city from the metro area	Niterói's upper- and middle-classes, producers and consumers of craft beer, resemble those of Rio de Janeiro	Social media, interview with one of two cofounders, newspaper and magazine accounts and observations
Gaspar Family Brew	Rio de Janeiro	Family business	As opposed to most breweries, founded by two or more friends, this one was founded by father and son	Social media, interview with both cofounders, newspaper and magazine accounts and observations
Beertoon	Rio de Janeiro	Pioneering work	One of the cofounders taught at least half the homebrewers in Rio de Janeiro (ZOBARAN, 2016a)	Social media, newspaper and magazine accounts, and observations
Jeffrey	Rio de Janeiro	Press mentions	Owner of a concept store and usually associated with high gastronomy and widely known chefs	Social media, newspaper and magazine accounts, and observations
Trópica Brewing Co.	Rio de Janeiro	Press mentions	Cosponsored an Olympic athlete, unusual branding technique for a craft brewery	Social media, newspaper and magazine accounts, and observations
Oceânica	Niterói	Other city from the metro area	Niterói's upper- and middle-classes, producers and consumers of craft beer, resemble those of Rio de Janeiro	Social media, newspaper and magazine accounts, and observations

Source: Prepared by the author.

[2] It should be noted that all eight cases fall under the mainstream or specialized press mentions category, however, the chosen breweries do not fit into any of the other categories.

Taking into consideration that contract breweries may be understood as project-based organizations, since their main production unit is a batch of beer and each batch of beer has characteristics of a project, I initially assumed that all contract breweries were temporary organizations. As stated earlier, temporary organizations favor the use of temporary systems as significant organizational cornerstones, as opposed to multi-divisional organizations, which require substantial investments in fixed capital equipment for the manufacturing of high volumes at subsequent low unit cost (SÖDERLUND; TELL, 2010). Therefore, I relied on a basic proposition – contract brewery is a *transitional* business model, as historically observed in the United States (HINDY, 2014), which (a) may be understood as a project-based organization and (b) is sustainable only if it is able to gather the necessary resources to become a brick-and-mortar brewery in the medium term – as a general strategy to guide me through my analysis, pointing to relevant contextual conditions to be described and explanations to be examined (YIN, 2014, p. 136).

3.3 Data analysis

In combination with this general strategy I used the explanation building analytic technique. Yin (2014) argues that explanation building is a special type of pattern matching, albeit more difficult. A pattern-matching logic compares an empirically based pattern with a predicted one made before data collection (or with several alternative predictions).

According to Yin (2014), *"the procedure is mainly relevant to explanatory case studies"* (YIN, 2014, p. 147), such as this one, and it involves building an explanation about the case by stipulating a presumed set of causal links about a given phenomenon, or how and why something happened.

3.4 Limitations of the method

Developing strong, plausible, and fair arguments which are supported by the research data can prove to be a challenging task (YIN, 2014, p. 166). Furthermore, case study analysis requires experience, since (1) it should show that the researcher attended to all the evidence, (2) it should address, if possible, all rival explanations, and (3) it should address the most significant aspect of the study (YIN, 2014, p. 168). As far as the explanation building analytic technique is concerned, it should also be noted that *"the causal links may be complex and difficult to measure in any precise manner"* (YIN, 2014, p. 147).

4 CASE DESCRIPTIONS

Contract breweries can assume different forms. Although all of them involve contracting their operating core out to other organizations, the model itself can present remarkably distinctive features, especially regarding its temporariness. Bernardo Couto, 2cabeças' cofounder, defines a contract or gypsy brewery as a brand that does not have its own home, or a brick-and-mortar brewery. However, not necessarily does it move from one place to another. Actually, according to Couto,

> *"this is not a positive thing […] you'd always be starting over. […] It only makes sense if you want to launch a beer to be sold in the northeast, for example. Then you might find a partner there"*.

Pedro Butelli, a former teacher who cofounded Hocus Pocus, defines a gypsy brewery as a company that creates beer recipes and produces them by using other breweries' excess capacity. Sandro Gomes, Dead Dog's cofounder, used to differentiate contract from gypsy breweries when he and his partner started the business.

> *"Later I found out that my first idea of what a gypsy brewery is was wrong. I thought it would produce each time with a different brewery. This model is not viable here. The first thing they do is make you establish yourself there [by investing in a piece of equipment]."*

Throughout this study contract brewery and gypsy brewery are interpreted as synonyms. Nonetheless, as stated, the different configurations are described and discussed hereinafter. 2cabeças is discussed in the first section, while – due to the similarities of their business models – Hocus Pocus, Dead Dog, and Gaspar Family Brew are discussed as a group in the following section.

4.1 2cabeças

2cabeças, which claims to be the first Brazilian contract brewery, was launched in January 2012. It has since changed from a start-up struggling to find a steady production partner, into a company that intends to remain gypsy like the world-famous Mikkeller, founded in 2006 in Denmark (MIKKELLER, 2016)[3].

The company's origin goes back to 2009, when Couto took up homebrewing in his kitchen in Rio de Janeiro. In 2010, he started Homini Lúpulo, a blog then entirely dedicated to homebrewing. The following year was devoted to studying the possibility of starting a business. Contract brewing seemed a promising model, albeit hardly known in Brazil. As opposed to the high investment required to open a conventional brewery – *"not everybody has 3 or 4 million [reais][4] to start a business"* –, 2cabeças could be launched with 55,000 reais or 17,000 dollars, as follows:

- Company registration: 2,000 reais;
- Visual identity development: 8,000 reais;
- Barrel purchase (20 units): 10,000 reais;
- Production purchase (two batches of 1,000 liters each): 2 x 15,000 = 30,000 reais;
- Promotional material: 5,000 reais.

As demonstrated above, the most usual arrangement then – and now – resembles a simple buyer-seller deal. The buyer (contract brewery) orders, for instance, 1,000 liters of a given recipe from the seller (conventional brewery). The latter produces the beer and puts it in the former's own barrels. Then the contract brewery buys the whole batch, stocks it, and sells it to wholesalers. Although, for taxation purposes, the conventional brewery is in charge of raw materials, the effort in finding and negotiating with suppliers falls on the contract brewery. According to Couto, in some instances the arrangement seemed an ordinary rent, since the contract brewery paid for using the facilities. Other activities of the production cycle, such as purchasing raw materials, were the contract brewery's responsibility.

> *"To produce here I'll charge this much […] So we had to go after malt, hops […] Yes, it was like a rent."*

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[3] In April 2016, Mikkeller opened the brewery Mikkeller Brewing San Diego in the United States, which makes it the longest-lasting gypsy brewery to this date, having survived as such for 10 years.
[4] In US dollars, 920,000 or 1.2 million.

> *"Others had a price per liter of beer, but the [conventional brewery] was in charge of raw materials."*

Being strategically positioned in the Rio de Janeiro metropolitan area made Allegra brewery 2cabeças' natural choice for a production partner, followed by Magnus (in Socorro, São Paulo), Mistura Clássica (in Volta Redonda, Rio de Janeiro), and Cidade Imperial (in Petrópolis, Rio de Janeiro). The company's pioneering operations posed a number of challenges, which required constant adjustments.

> *"The [production] brewery perceived contract brewing as giving room to a competitor, instead of a way of capitalizing the company or of learning from innovative partners."*

> *"The brewer did not understand our propositions."*

> *"Pricing was another issue because the producer wanted to sell the whole batch [to 2cabeças] for the same price it sold their beers, even though it was risk-free."*

Continuity was a major concern, since the brewery that produced their previous batch would not guarantee a following production. Usually the continuity issue was offset by an unappealing alternative: higher stock levels.

> *"[They would say] 'I'm sorry, there's no room for you this month'."*

> *"There never was a written contract because we wouldn't stay long enough with the same partner. When we started discussing a contract, things were usually going downhill."*

Prices of raw materials in Brazil were also challenging for the start-up.

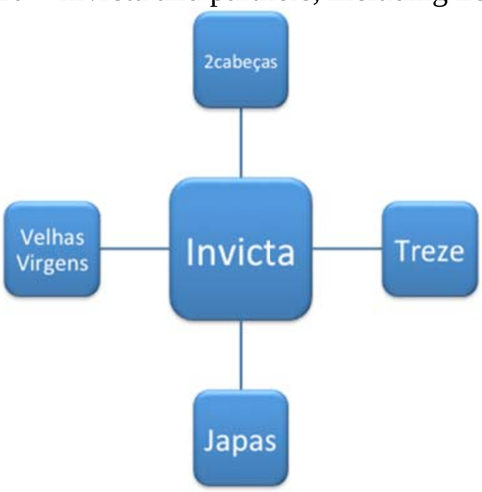
> *"We were talking to an American brewer the other day and we figured we pay five times as much as she does for hops."*

2cabeças had been partnering with Invicta brewery (from Ribeirão Preto, São Paulo) since 2013, but still having similar difficulties. The company successfully negotiated an agreement with Invicta, since then a shareholder in 2cabeças, according to which its beers are continuously produced at Invicta's facilities. As a result, 2cabeças no longer purchases batch by batch and takes sales and distribution upon itself. Instead, the company receives royalties on every beer sold.

The chosen partner is noteworthy. Invicta is a craft brewery itself, as opposed to other companies with which contract breweries usually partner. Their main interests are different: while the former seeks an innovative partner from which to learn, the contract brewery wants to reduce production and distribution costs and therefore be able to charge lower prices for their own products. Moreover, the latter is able to give full attention to what it intends to specialize in: branding. On the other hand, the previous agreement yielded a higher margin, although it demanded higher cash flow.

2cabeças has managed to stabilize its stakeholder network and focus on its main competencies, thus strengthening its orchestrating role. Combining characteristics of unbundling and open business models, the company concentrates on brand development and product innovation, both of which benefit from systematic collaboration with outside partners. In fact, through collaborations 2cabeças has developed awarded recipes and obtained access to markets such as the United States, Germany, Denmark, and the United Kingdom. Nonetheless, there is still a slight risk of short supply since Invicta is also a shareholder in three other contract breweries (Treze, Japas, and Velhas Virgens; see Figure 10) and produces its own line of craft beers, which may eventually require expanding the brewing facilities.

Figure 10 – Invicta and partners, including 2cabeças.



Source: Prepared by the author.

Couto explains how collaborations work:

> *"Except for very specific cases where the market is already more stable, including for this kind of thing [business model development], the collaborator doesn't earn royalties or anything. Actually, the collaboration is a form of gaining access to another market".*

Figure 11 below illustrates how collaborators' brands appear on a beer label. However, collaborations do not work necessarily the same with other contract breweries.

Figure 11 – *Hello My Name Is Zé*, a 2cabeças and Brewdog's collaboration.

Source: 2CABEÇAS (2016).

For instance, internationally-acclaimed Mikkeller earns a predetermined fee from its partners for every beer sold, like royalties, thus adding to its revenue stream.

2cabeças' experience helped develop some different arrangements, further discussed in the following sections.

> *"In the beginning we'd propose an agreement [because nobody knew contract brewing in Brazil]. Now we might say there are some ready-made models."*

Other models similar to 2cabeças' are still developing. For instance, Blondine brewery produces a few contract breweries' recipes, for which it pays royalties on every beer sold. However, Blondine does not hold shares in any of these gypsy breweries.

4.2 Hocus Pocus, Dead Dog, and Gaspar Family Brew

Created in 2014, Hocus Pocus, Dead Dog, and Gaspar Family Brew are following 2cabeças' first steps. Both Hocus Pocus and Dead Dog produce their beers at Antuérpia brewery, in Juiz de Fora, Minas Gerais. Their model is identical: they pay a price per liter, which include the use of Antuérpia's facilities and workforce. Raw materials are paid for separately. Contract breweries are also in charge of selecting and negotiating with suppliers, even though their production partner is responsible for actually purchasing raw materials. Sandro Gomes, a Dead Dog cofounder, says

> *"I cannot buy raw materials or more than 20% of his production. Otherwise I'll be equated with a factory [for taxation purposes]".*

In order to buy the entire batch, the contract breweries spend from 15,000 to 20,000 reais[5].

Hocus Pocus and Dead Dog actively participate in the production cycle so as to make sure the recipe will be produced exactly as designed. Craft beer production is still developing in Brazil. Therefore, inexperienced breweries may produce lower-quality beers either by mistake or by saving raw materials in the process. Pedro Butelli, a Hocus Pocus cofounder, states that

> *"unless the recipe creators attentively oversee the production process, by mistake or by saving in the process, a less qualified brewery might end up producing a lower-quality beer in many aspects, especially regarding the beer's sensory features".*

Although there may be slight variations in the model, Antuérpia holds similar agreements with around 15 contract breweries, some of which are represented in Figure 12.

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[5] In US dollars, from 4,600 to 6,200 US dollars.

Figure 12 – Antuérpia and part of its contract brewing partners.

Source: Prepared by the author.

According to Gomes,

> *"[Conventional] breweries are not viable without gypsies. One depends on the other. […] 30% [of a conventional brewery] is idle most of the year so that it can meet demand peaks. That's where the gypsy enters."*

Nonetheless, contract breweries and their production partners often have conflicting interests, to some extent explained by their different backgrounds. While most contract breweries aim at giving a contribution to the craft beer revolution by producing high-quality beers, their partners are usually run by former employees of cost-driven mass-producers such as Ambev and Grupo Kirin, as illustrated by Gomes: *"they make it clear that the contracts may be cancelled at any time"*.

As a consequence, contract brewing seldom involves an actual agreement, as stated by Tomás Gaspar, one of Gaspar Family Brew's cofounders: *"we don't have an actual contract, it's more like a memorandum of understanding"*. Gaspar produces his beers at Allegra, in Rio de Janeiro, in a very similar model, which may also present minor variations from contract brewery to contract brewery.

> *"Allegra's in charge of malt and water and we're responsible for hops and yeast, and we pay a price per liter. [...] but I can't guarantee they use the same model with everybody."*

Another trending feature Hocus Pocus, Dead Dog, and Gaspar Family Brew's models have in common is what may be perceived as a "token of good will": the companies had to buy a fermenter for their production partners as a gesture that they intended to work with them for a long time. *"In my case, Antuérpia made me stay there. […] I had to buy a fermenter. Everybody does"*, says Gomes.

The contract brewery that bought the fermenter does not necessarily use the equipment. Instead, Antuérpia manages the production of its different partners (apart from Hocus Pocus and Dead Dog, other companies from Rio de Janeiro produce their beers at Antuérpia, e.g., Oceânica), so that the kitchen and a fermenter are available on a ten-day notice. Then the contract breweries sell their beers to wholesalers, bars or directly to final customers at craft beer events and the like. Gaspar Family Brew and Allegra, which has partnered – or still does – with contract breweries such as Jeffrey and Irada!, hold a similar agreement (see Figure 13).

Figure 13 – Allegra and part of its contract brewing partners.

Source: Prepared by the author.

These indications of low confidence (e.g., inexistence of actual contracts and a material guarantee represented by a piece of equipment) result in higher prices and lower margins, requiring constant adjustments in the contract breweries' business plans. Gomes argues that *"gypsy breweries have to afford an expensive service for not having invested in a lot of equipment"*. He adds:

> *"We started off with a beer truck. In the beginning we focused only on events. We did not sell to any bar in the first year. […] Only when we got a better margin did we get into the bars"*.

Despite the difficulties, Butelli and Gaspar understand contract brewing does appeal as a transitional model. Butelli believes it is

> *"a transitory model for many Brazilian breweries, but it's not an intrinsic characteristic of gypsy breweries, just a reflection of low excess capacity in the country. Different conditions can make a gypsy model like Mikkeller's viable"*.

> *"We've always dreamed of having our own brewery, but we couldn't afford it [...] Contract brewing is a good test model. There's no reason why we should invest 2 or 3 million [reais][6] if we still don't know if people will like our beers, our brand"*, says Gaspar.

Gomes, in turn, remarks the flexibility in adapting the business model, especially this first generation of Brazilian contract breweries.

> *"We were contacted by a new brewery opening in Itaboraí and another from Campos [both from Rio de Janeiro state]. […] They know they won't be in trouble […] New [contract breweries] can't find [a partner] though"*.

> *"Though I have an anchor in the form of a fermenter, now I want to be a little gypsy. I want to produce something else in Itaboraí and something somewhere else. I want to have two or three [production partners]."*

[6] In US dollars, 620,000 or 920,000.

> *“A brewery requires a lot of competencies that I don’t have and I don’t have time to develop them. […] A brewpub is something that moves me […] There I could exercise my brewer spirit.”*

> *“My idea is to find a microfarmer – it’s common in the US – and buy my hops from them and link one brand to the other.”*

Apart from using a third party’s facilities, these three contract breweries’ business model and 2cabeças’ share another characteristic: the focus on brand development, as stated by Gaspar.

> *“We believe in the power of our story [behind the brand]. [...] That cute ‘drink local’ story... We truly believe in it.”*

Gomes adds: *“a friend of mine says we don’t have customers; we have fans”*.

However, a major difference stands out: while 2cabeças does not intend to build its own brewery, Hocus Pocus, Dead Dog, and Gaspar Family Brew agree that contract brewing should be only temporary.

4.3 Additional cases

As the cases described in the previous sections, four additional cases revealed two main arrangements, represented on the one hand by Beertoon and on the other by Jeffrey, Trópica, and Oceânica.

4.3.1 Beertoon

Launched in 2015 at Mondial de la Bière, in Rio de Janeiro, Beertoon is an association of Leonardo Botto, a pioneering homebrewer who has 19 commercially produced recipes, all of which are served at his Botto Bar; Ique, a prize-winning cartoonist; and Léo Cerqueira, a businessman. Beertoon, whose brand is to be associated with gastronomy, plans to reuse malt residue – a common waste in the beer industry – to produce food in the Bread Factory project.

The company also participates in the food truck trend with its KomBeerToon, an adapted van for events and product distribution in Rio de Janeiro (RODRIGUES, 2015).

Beertoon initially produced its beers at Allegra brewery, in Rio de Janeiro (see Figure 13), and then moved to Süd Brau brewery, in Bento Gonçalves, Rio Grande do Sul, more than 1,400 kilometers away from Rio de Janeiro. However, as announced in March 2016, Mistura Clássica and Beertoon now belong to the same group. So as to expand its production capacity, the former moved from Volta Redonda to Angra dos Reis, both in Rio de Janeiro state. Beertoon's creative recipes, appealing visual identity, and integration with the craft beer scene in Rio de Janeiro are now associated with well-equipped Mistura Clássica, which distributes its products to several sales points (ZOBARAN, 2016a).

Beertoon and Mistura Clássica's agreement is similar to that of 2cabeças and Invicta. As Beertoon, Mistura Clássica is a craft brewery, in contrast with other companies with which contract breweries usually partner. Their main interests are different yet complementary: Mistura Clássica sought an innovative partner which appealed to younger consumers and had access to networks of collaborating breweries, while Beertoon aimed at reducing production and distribution costs and therefore be able to charge lower prices for their products. In sum, Beertoon and Mistura Clássica combined their main resources – the former's brand appeal and the latter's modern production facilities – to develop new business opportunities (ZOBARAN, 2016a).

4.3.2 Jeffrey, Trópica, and Oceânica

Jeffrey started its operations in 2013 with a single recipe, produced at Allegra brewery, in Rio de Janeiro (see Figure 13). The company opened a concept store in Leblon, an upper-class neighborhood in Rio de Janeiro, where it promotes several events intended to further position the brand within the realm of high gastronomy. The concept store is also home to a microbrewery, Jeffrey Lab, where the company experiments new recipes. Jeffrey's products are distributed to over 130 sales points, including renowned chefs' restaurants. Jeffrey announced plans to move its production to what it called Los Patos, the company's own brewery in Petrópolis, Rio de Janeiro, thus illustrating the temporary nature of its business model (CALIXTO; MONTI, 2015).

Likewise, Trópica started as a contract brewery in March 2015, producing 2,500 liters of beer a month. In less than a year the company reached the 10,000-liter mark, which led it to buy a fully-equipped 40,000-liter capacity brewery in Campos dos Goytacazes, Rio de

Janeiro, with enough room to expand to 60,000 liters in the short term. Trópica, which resorted to simple buyer-seller arrangements for a short period, also exemplifies the temporariness of this business model (ZOBARAN, 2016c).

Based in Niterói, Rio de Janeiro, Oceânica started in 2014. After winning first place in the 2013 Bierland Homebrewer Contest, the company produced its first batch at Bierland, in Blumenau, Santa Catarina. In 2015, Oceânica increased its production through contract brewing. It currently produces at Antuérpia brewery, in Juiz de Fora, Minas Gerais (DELGAUDIO, 2015). The company adopts the same model as Hocus Pocus and Dead Dog (see Figure 12), that is, it pays a price per liter for using Antuérpia's facilities and workforce, whereas raw materials are paid for separately. As stated in Oceânica's website, the company plans to have its own brewery in a not very distant future, again demonstrating contract brewing's transitional role (OCEÂNICA, 2016).

These three companies reveal common value propositions (i.e., to deliver a unique sensory experience and to deliver a culturally-situated experience in line with the so-called craft beer revolution) as well as key activities, such as brand development and recipe design. Moreover, both Jeffrey and Trópica are no longer contract breweries and Oceânica clearly reports its expectation to own production facilities in the near future.

5 DISCUSSION

After learning how the selected contract breweries are operating in practice, we are able to group the business models' key components into three main configurations discussed henceforth. As previously stated, the three configurations in the proposed typology of contract breweries fall under Schweizer's (2005) definition of the Orchestrator business model, since they specialize in one or a few core steps of the value chain while outsourcing and coordinating the others. These contract breweries do not limit outsourcing to their non-core competencies. In addition to risk sharing, obtaining access to new markets and technologies, and speeding products to market (SCHWEIZER, 2005), some of these companies do not intend to acquire the resources to produce their own beers, since, in contrast with Porter (1990), they do not expect to continually grow and become international leaders, as further discussed in the following sections.

Although significant differences in the business models' key components justify the proposed typology of contract breweries, the three configurations share a common feature: they may be described as administrative adhocracies which separate their operating core and contract it out to other organizations – their production partners (MINTZBERG, 1979).

5.1 Shareholder configuration

In this research the first configuration is represented by 2cabeças and Beertoon. In addition to process orientation and continuous production, it differs from other configurations primarily because of its permanent character. So as to remain a contract brewery in the long term, these companies developed their business models through substantial changes in both cost and revenue structures, as well as specializing in one part of the value chain while outsourcing others (DEMIL; LECOCQ, 2010). As a result, from a resource dependence stance, these contract breweries managed to control and better predict their access to scarce resources – i.e., excess production capacity – and, therefore, reduce uncertainty (MILLER; SHAMSIE, 1996).

In other words, by coupling with a conventional brewery open to such innovative form of organizing, these contract breweries managed to eliminate logistics costs (e.g., transportation from the brewery to the warehouse and from the warehouse to the wholesalers) and stabilize their revenue streams by receiving royalties on every beer sold. This formal strategic alliance not only enables more direct coordination, but also it commits the contract

breweries and their respective partners to share their resources so as to develop new business opportunities (JONES, 2010).

Moreover, since then they are able to focus on product innovation, a core competence for delivering their value proposition, from which the conventional brewery and other partners in the same group also benefit. Even though the contract brewery’s ability to grow is limited by its partner’s production capacity, the most distinctive feature of such arrangement, which explains how contract breweries changed into a permanent form of organizing, is that the companies involved are mainly interested in economies of system, a still incipient notion in the Brazilian beer industry.

From a transaction cost theory perspective, these contract breweries managed to reduce their transaction costs by choosing a more formal linkage mechanism. In effect, the business model combines (1) a formal mechanism, which minimizes the transaction costs associated with reduction in uncertainty, opportunism, and risk, and (2) outsourcing, an interaction mechanism which attempts to avoid bureaucratic costs while simultaneously minimizing transaction costs (JONES, 2010). Uncertainty is reduced in the sense that the contract brewery gains predictable, continuous access to crucial resources, namely production facilities. A formal linkage mechanism also provides control over the production partner’s behavior, thus reducing opportunism. Furthermore, transaction costs associated with risk refer to the measures the contract brewery takes so as to minimize the risk of short supply, caused by either a contract violation or unavailability of excess production capacity.

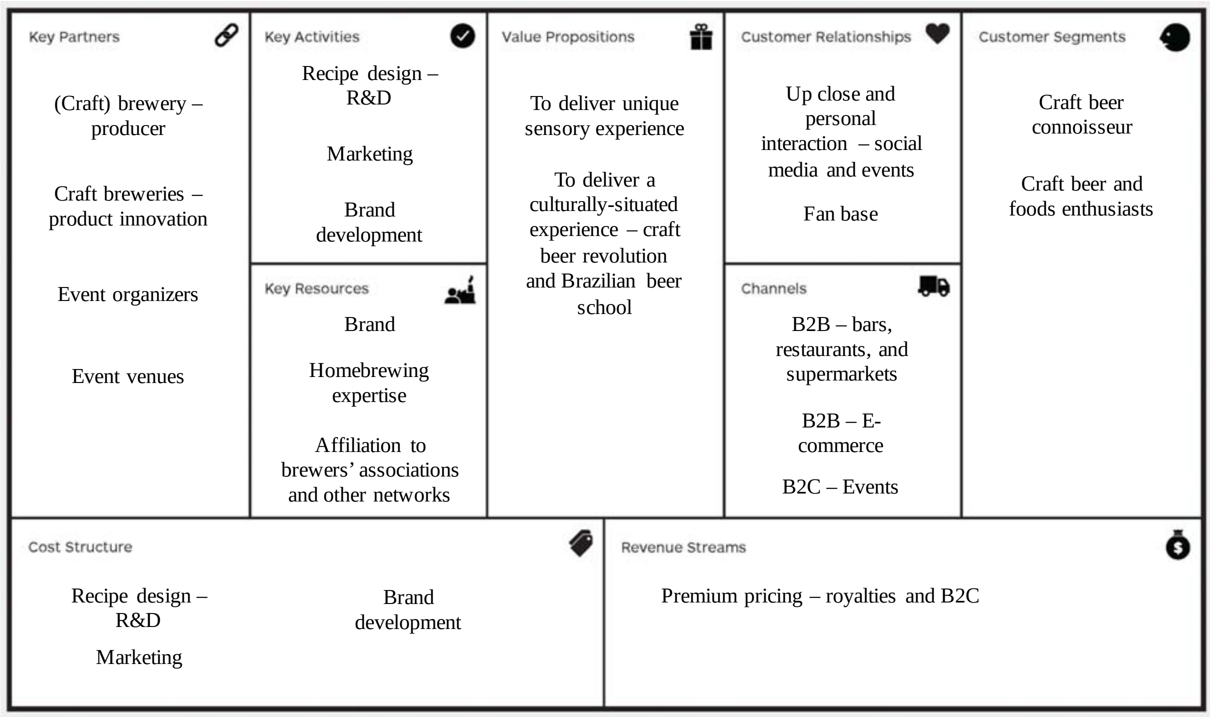
In this configuration, the decision of whether or not to outsource is not only the result of weighing the bureaucratic costs of executing the activity against the benefits. Rather, these companies do not intend to acquire the resources to produce their own beers, since they expect to remain small in the future for reasons such as lack of expertise – and unwillingness to develop it – as well as the managers’ desire to have more spare time. At any rate, through a formal relationship with their production partners, these companies managed to reduce the uncertainty associated with their outsourcing process.

Considering that the contract brewery and its production partner resort to the minority ownership strategic alliance (i.e., the contract brewery holds shares in the conventional brewery and vice-versa), I call this the Shareholder configuration, whose main components are described in

Figure 14 according to the nine building blocks of the Business Model Canvas (OSTERWALDER; PIGNEUR, 2010). It appears to be well equipped to survive in the long run, since it provides the Shareholder with mechanisms for sharing risk, obtaining access to

new markets and technologies, and speeding products to market (SCHWEIZER, 2005), in addition to minimizing resource dependence and reducing transaction costs with least loss of control. As mentioned, among the examined cases the Shareholder model is represented by 2cabeças and Beertoon. Also, it is present in Rio Grande do Sul state, as exemplified by local contract breweries Barco and Coruja (BENETTI, 2016).

Figure 14 – Shareholder configuration.



Source: Prepared by the author.

In order to deliver their value proposition – i.e., a unique, culturally-situated, sensory experience – these companies rely on intangible resources, such as brand, homebrewing expertise, and affiliation to brewers' associations and networks of collaborating breweries. Hence, their key activities refer to brand development, marketing, and recipe design. The latter relates particularly to homebrewing expertise, since new products are usually developed at home. For instance, both 2cabeças and Beertoon are run by experienced homebrewers, respectively Bernardo Couto and Leonardo Botto, who developed innovative products such as a passion fruit IPA (see Figure 3) and Beertoon's India Pale Lager called Delação Premiada. Also, both companies are active members of brewers' associations and systematically collaborate with outside partners, not only from Brazil but also from other countries, as

exemplified in Figure 11. Therefore, these contract breweries' key partners are not only their production partners but also other craft breweries with which they collaborate.

The strength of these companies' brands among craft beer connoisseurs and enthusiasts results in up close and personal customer relationships. In fact, 2cabeças' Bernardo Couto states that the company's T-shirts and other accessories are best-sellers. The behavior of these companies' customers is easily observed in craft beer festivals such as Mondial de la Bière and other smaller events.

Shareholder contract breweries use the same distribution channels as their production partners: the three-tier system (brewer – i.e., production partner to wholesaler to retailer to consumer), the two-tier system (brewer acting as wholesaler to retailer to consumer), or directly to the consumer, especially in craft beer events and product launches.

Finally, as previously discussed, Shareholder contract breweries made substantial changes in their cost and revenue structures: they minimized logistics costs such as those associated with transportation and storage and stabilized their revenue streams, since they receive royalties on every beer sold.

5.2 Transitional configuration

Albeit similar to the Shareholder configuration, the Transitional contract brewery (see Figure 15) is a temporary form of organizing distinguished by the intention to eventually own physical production facilities. As stated earlier, a key challenge for these companies, represented by Hocus Pocus, Dead Dog, Gaspar Family Brew, and Oceânica lies in the availability of excess production capacity in the industry. (Jeffrey and Trópica, which are no longer contract breweries, also employed this same configuration.) If by any chance their production partner changes the terms of the deal, these companies may have difficulty in making their products available, which in turn would affect the development of their young brands. Furthermore, logistics costs (e.g., those associated with transportation and storage) and high cash flow demands may strain the contract brewery's margins. As previously discussed, these companies pay from 15,000 to 20,000 reais[7] for each batch their partners produce. Since they do not order a single batch at a time and sell it entirely before ordering another one, cash flow may be particularly demanding, especially for companies which have several different beers in their product line.

[7] In US dollars, from 4,600 to 6,200 US dollars.

Despite the existence of a strategic alliance in the form of a verbal or implicit contract (whose length is determined by a shared asset – a fermenter), trust was reported to be a concern for the management of symbiotic interdependencies. As stated, these contract breweries and their production partners often have conflicting interests (i.e., while the former aim to deliver a unique, culturally-situated, sensory experience, the latter are cost-driven), which increase the uncertainty and therefore amount to high transaction costs (JONES, 2010).

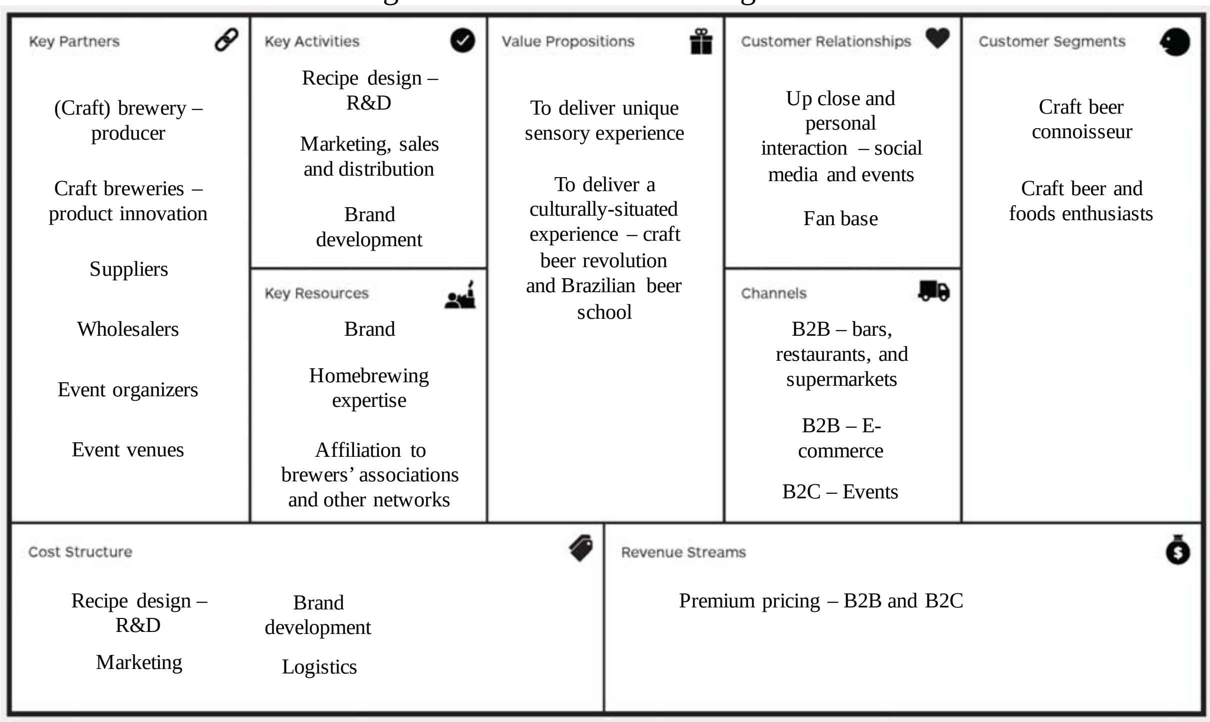
On the other hand, these contract breweries managed to reduce their transaction costs associated with uncertainty and opportunism by choosing a slightly more formal linkage mechanism: they increased mutual commitment by investing in a particular asset (i.e., a fermenter) of their production partners, therefore also increasing the predictability of the access to production facilities. In any case, the informal linkage mechanism does not contribute to the reduction of transaction costs associated with risk – i.e., those which relate to the measures the contract brewery takes in order to minimize the risk of short supply, caused by either a contract violation or unavailability of excess production capacity.

In contrast with the Shareholder configuration, in the Transitional model the decision of whether or not to outsource is the result of weighing the bureaucratic costs of executing the activity against the benefits. These companies intend to acquire the resources to produce their own beers so as to reduce the uncertainty associated with their outsourcing process. The difference among these companies lies in how much they wish to grow. For instance, while Dead Dog intends to open a brewpub, Hocus Pocus and Oceânica wish to have their own brewery. As stated, Jeffrey and Trópica already do.

This study's basic proposition (i.e., contract breweries may be understood as project-based organizations and they are sustainable only if they are able to gather the necessary resources to become a brick-and-mortar brewery in the medium term) partially resonates with these companies. They do not perceive contract breweries as project-based organizations, since after the recipe is created the production process is the same. That is, the production process should not be interpreted as *"a temporary endeavor undertaken to create a unique product, service or result"* (PROJECT MANAGEMENT INSTITUTE, 2012). However, the challenges described during the interviews (e.g., mature, concentrated market; low excess production capacity; lack of experience and confidence on the part of conventional breweries; high production costs) are overwhelming. Therefore, in order to survive in the long term, contract breweries should either change into a Shareholder model, or become a brick-and-mortar brewery, or develop a business model which more efficiently reduces uncertainty

(MILLER; SHAMSIE, 1996; JONES, 2010) and promotes substantial changes in both their cost and revenue structures.

Figure 15 – Transitional configuration.



Source: Prepared by the author.

As Shareholder contract breweries, in order to deliver their value proposition, Transitional companies also rely on intangible resources (e.g., brand, homebrewing expertise, and affiliation to brewers' associations and networks of collaborating breweries). However, the informal strategic alliance with their production partners includes sales and distribution among their key activities, in addition to brand development, marketing, and recipe design.

Although differently positioned, these companies are developing strong brands among craft beer connoisseurs and enthusiasts, thus resulting in up close and personal customer relationships. The behavior of these companies' customers is also easily observed in several craft beer events.

Transitional contract breweries use the three-tier system (contract brewery to wholesaler to retailer to consumer), the two-tier system (contract brewery acting as wholesaler to retailer to consumer), or directly to the consumer, especially in craft beer events and product launches. Since these contract breweries are in charge of negotiating with suppliers as well as distribution, suppliers and wholesalers are among their key partners.

Lastly, Transitional contract breweries differ from their Shareholder counterparts mainly in their cost and revenue structures: on the one hand, their logistics costs include those associated with transportation and storage; on the other, they operate with low margins so as to not overprice their products.

5.3 Bandwagoner configuration

Another business model was identified during the interviews, i.e., a contract brewery which is distinguished by not creating its own recipes. In other words, the company simply puts its brand on another company's beer, a practice also known as white label. Common among bars and restaurants, which sell a given brewery's beer as if it were their own creation, there is at least one contract brewery which operates the same way, whose name I opted not to disclose. I called this the Bandwagoner configuration (see Figure 16).

It is not a brewery *per se*, in the sense that it does not even design its own recipes. This opportunity-seeker specializes in a single step of the industry's value chain, e.g., distribution channel or point of sale. For instance, the company may sell its beers on the beach, a point of sale particularly appealing in a city like Rio de Janeiro. Contract breweries rely primarily on their brands. Accordingly, the Bandwagoner associates its brand with famous people and places, hoping to benefit from the craft beer segment phenomenon.

Since this business model also relies on a verbal or implicit contract, how the company manages resource dependence and controls the access to scarce resources in order to reduce uncertainty (MILLER; SHAMSIE, 1996) is a major concern as well.

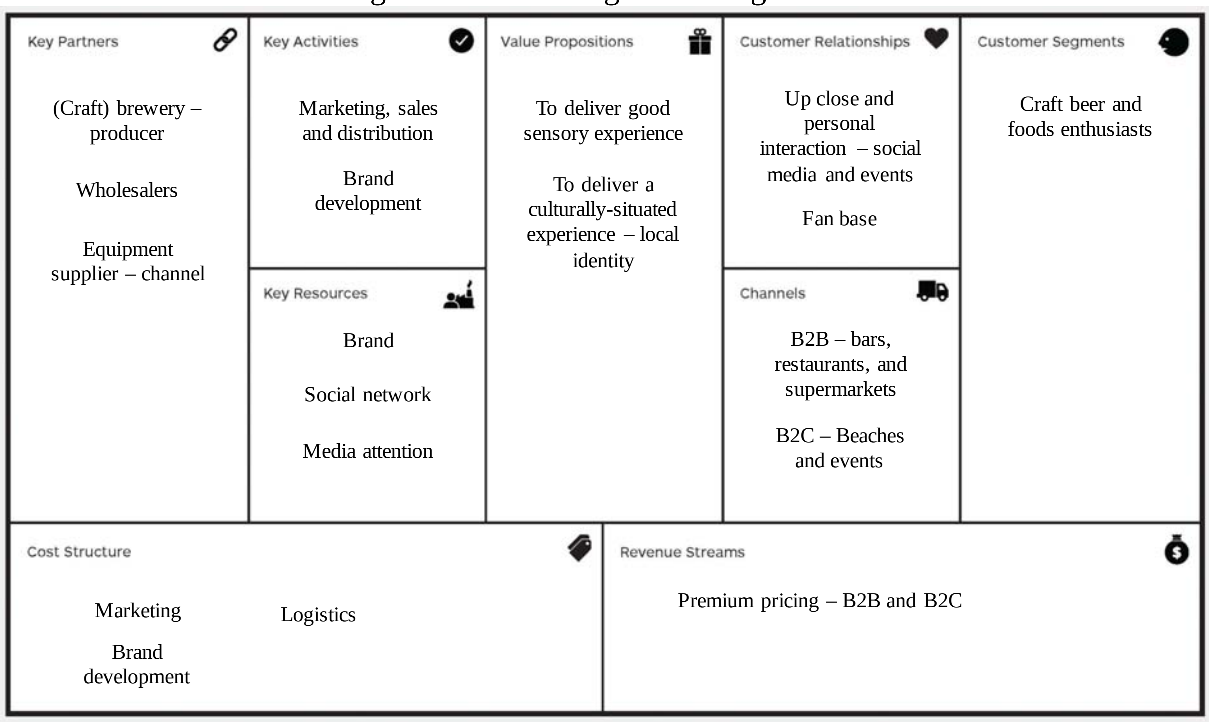
Whether the Bandwagoner intends to own brewing facilities or simply move on to another business opportunity is unclear. Either way, it may be perceived as a temporary business model, as eventually the news about the company not having a single recipe will be widespread, hence disappointing craft beer enthusiasts and customers alike. As Edgar (1998, p. 18-19) stated, *"many entrepreneurs are waking up to the cold reality that you can't just put a clever name on a package […] and expect to be successful. There are many important details to getting each concept right"*.

This business model's nine building blocks (OSTERWALDER; PIGNEUR, 2010) are described in Figure 16. The value proposition of Bandwagoner contract breweries differs from those of the previous configurations, since they aim to deliver a *good* sensory experience, as opposed to a *unique* sensory experience. For that purpose, Bandwagoner companies rely on intangible resources (e.g., brand – with special focus on local identity –,

social network, and media attention). Nonetheless, as Transitional contract breweries, the informal strategic alliance with their production partners includes sales and distribution among their key activities, in addition to brand development and marketing.

Craft beer connoisseurs are not among these companies' customer segments, although their brands are recognized among craft beer and foods enthusiasts, thus also resulting in up close and personal customer relationships. The behavior of these companies' customers could also be observed in several craft beer events.

Figure 16 – Bandwagoner configuration.



Source: Prepared by the author.

As Transitional contract breweries, Bandwagoner companies use the three-tier system (contract brewery to wholesaler to retailer to consumer), the two-tier system (contract brewery acting as wholesaler to retailer to consumer), or directly to the consumer in craft beer events. These contract breweries are responsible for negotiating with suppliers as well as distribution, which explains why suppliers and wholesalers are among their key partners.

As far as their cost and revenue structures are concerned, their logistics costs comprise those associated with transportation and storage, while they operate with low margins so as to not overprice their products.

5.4 Conclusions

The three different configurations (i.e., Shareholder, Transitional, and Bandwagoner) are summarized in Table 7.

Table 7 – Configuration of contract breweries.

		Shareholder	Transitional	Bandwagoner
External focus	**Control**	Formal strategic alliance (minority ownership)	Informal strategic alliance (long-term contract)	Informal strategic alliance (long-term contract)
	Expectations	Intention to remain a contract brewery	Intention to eventually own physical facilities	Unclear intentions
	Goals	Focus on brand development and product innovation (e.g., new products usually launched in thematic events)	Focus on brand development and product innovation (e.g., new products usually launched in thematic events)	Focus on brand development and service innovation (e.g., points of sale)
Internal focus	**Time**	Process orientation (production) with extensive use of product development projects (innovation); Company receives royalties on every beer sold	Process orientation (production) with extensive use of product development projects (innovation); Company buys every batch	Process orientation; Company buys every batch
	Task	Does not participate in the production cycle; Production partner is responsible for sales and distribution	Actively participates in the production cycle; Responsibility for sales and distribution	Does not participate in the production cycle; Responsibility for sales and distribution
	Team	Stable stakeholder network; Systematic collaboration with outside partners	Comparatively unstable stakeholder network; Sporadic collaboration with outside partners	Comparatively unstable stakeholder network; No collaboration with outside partners

Source: Prepared by the author.

A key challenge for contract breweries' sustainability lies in the availability of excess production capacity in the industry. In the "red ocean" (KIM; MAUBORGNE, 2015) beer industry, excess capacity has been hardly available lately. Such degree of uncertainty may result in high stock levels or short supply. Therefore, in order to reduce this instability, building a steady, formal relationship with at least one production partner is crucial for the contract brewery. Only then can it minimize resource dependence and reduce transaction costs, and therefore concentrate on its core competencies such as brand development (PFEFFER; SALANCIK, 1978; JONES, 2010). What is more, as stated earlier, contract breweries are under conditions of high density and low centrality, thus adopting a subordinate role, which means they are unable to individually respond to various pressures in the environment, including stakeholder pressures (ROWLEY, 1997).

Conversely, contract breweries stand out for their flexibility in allowing themselves to evolve into new forms. An organization's strategy is in a constant state of flux, in response to changes in the environment (DEMIL; LECOCQ, 2010). Thus, organizational design should also continually evolve into new forms, so that the company stays ahead of the competition (JONES, 2010). Instead of individually trying to do the new in old ways, collectively contract breweries are able to initiate small changes that can produce large effects. Some of these companies are not only developing their own businesses. Through collaboration and the appreciation that even competition is really part of the same system of organizations, contract breweries can create *"a new sense of identity for themselves and the system as a whole"* (MORGAN, 2006, p. 250). In the long run, as Morgan (2006) puts it, sustainability means survival with, never survival against, the system in which they are operating. For instance, a product innovation by Dead Dog prompted its production partner, Antuérpia, to invest in new equipment, which in turn enabled Hocus Pocus to innovate and launch a new product.

DaSilva and Trkman (2014) argue that three steps should be taken in order to survive in the long term:

> In order to outperform competitors in the long run, strategists must consider three important steps. First, they need to not only choose the right combination of resources […] but also the most efficient transactions […] at a particular time. Second, they must be able to renew their distinctiveness as competition threatens, through the constant development and nurturing of dynamic capabilities. Third, they must be able to redefine their business model in a quick and effective manner in accordance with the strategy and the contingencies presented along the road (DASILVA; TRKMAN, 2014, p. 386).

In conclusion, Shareholder contract breweries, which do not intend to own physical production facilities whatsoever and, therefore, make use of outsourcing as a significant organizational cornerstone, minimize resource dependence through a particular interorganizational strategy. According to this strategy, the Shareholder contract brewery and its production partner negotiate a formal strategic alliance (minority ownership) and combine complementary resources in order to develop new business opportunities. Such formal linkage mechanism also helps reduce transaction costs associated with uncertainty, opportunistic behavior, and risk. When uncertainty reduces, so do bureaucratic costs concerning the outsourcing process. Furthermore, Shareholder companies tend to be more profitable, since their prices may be more competitive as their strategic alliance grows more formal. As discussed earlier, informal production partners charge very high prices, which, in addition to wholesalers' high margins, drives the contract brewery's margins downwards. In a nutshell, the main challenge for the potential Shareholder is to find a production partner interested in designing an interorganizational strategy based upon minority ownership.

In turn, Transitional contract breweries, which do intend to own physical production facilities in the future, may have difficulty minimizing resource dependence. Their interorganizational strategy relies on an informal strategic alliance (long-term contract), even though a shared asset (a fermenter) makes the linkage mechanism slightly more formal. Nonetheless, as a result of this informal linkage mechanism, transaction costs associated with uncertainty, opportunistic behavior, and risk are higher in comparison with Shareholder companies. When uncertainty raises, so do bureaucratic costs concerning the outsourcing process. Moreover, Transitional companies' prices may not be as competitive as if they had a more formal strategic alliance. Again, informal production partners charge very high prices, which, in addition to wholesalers' high margins, drives the contract brewery's margins downwards. In a few words, the main challenge for the Transitional contract brewery is to find an optimal combination of the business model's building blocks so as to have a competitive price, until it is able to acquire the resources to produce its own beers.

Finally, Bandwagoner contract breweries, whose intentions are unclear, may have difficulty minimizing resource dependence. As their Transitional counterparts, their interorganizational strategy is based upon an informal strategic alliance (long-term contract) made slightly more formal through a shared asset (a fermenter). In this business model, transaction costs associated with uncertainty, opportunistic behavior, and risk are higher in comparison with Shareholder companies. In this case, bureaucratic costs regarding the outsourcing process also raise when uncertainty do. In addition, for the aforementioned

reasons, Bandwagoner companies’ prices may not be as competitive as if they had a more formal strategic alliance. The main challenge for the Bandwagoner contract brewery is to go beyond the white label practice. Otherwise, the many difficulties with which a contract brewery must deal may force the company to jump off the craft beer bandwagon.

6 CONCLUDING REMARKS

This research attempted to answer *how contract breweries changed from a temporary, transitional business model into a permanent form of organizing*. Contract breweries' main challenges are closely related to their interdependencies with a production partner as well as their interorganizational strategy. Though other ties in their stakeholder networks may be almost as challenging (e.g., suppliers and wholesalers), as long as they manage to build a steady, reliable relationship with an established brewery, they should be able to concentrate on their core competencies, whether they intend to remain a contract brewery or not in the future. That is, whether or not they intend to avoid "excessive" growth so as not to jeopardize their artisanal, local appeal. Furthermore, I proposed an initial typology of contract breweries composed of three different configurations (i.e., Shareholder, Transitional, and Bandwagoner), discussed in the previous section.

The Brazilian craft beer segment could benefit from additional research, starting with studies on other business models in the field, especially the contract brewery's production partner. What is more, a longitudinal research might focus on the evolution of the system as a whole. Collectively these companies are helping transform a 70 billion-real[8] industry (BOUÇAS, 2015; ZOBARAN, 2015; ASSOCIAÇÃO BRASILEIRA DA INDÚSTRIA DA CERVEJA, 2014). Actually, by building interdependent relations even with competitors (production partners do brew their own beers) and through massive use of collaboration with outside partners, contract breweries are contributing to what Morgan (2006, p. 279) called capitalism's *"enormous resiliency in its ability to self-organize into elaborate new forms"*. Several actors may benefit from a better understanding on how the system evolves, especially in times of economic recession.

Owing to its characteristics, contract brewing suggests additional avenues for research. The first one regards craft beer consumer behavior and brand loyalty. On the one hand, the craft beer revolution is anchored on diversity as a reaction to mass-production and, therefore, craft beer drinkers value diversity over repetition, which might suggest that consumers tend to switch from one brand to another indiscriminately. On the other hand, consumers have a very emotional connection with beer, which have led some brands to become true icons among craft beer drinkers, who not only consume a number of the brand's accessories but also proudly exhibit their logos tattooed to their bodies.

[8] In US dollars, 21.4 billion.

The second one refers to other craft products. Key elements such as small scale, high quality, collaboration, and diversity as a reaction to mass-production resonate with other craft products (e.g., soft drinks, distilled beverages, cheese). Such segments may benefit from research on how the configurations described herein could be applied to other businesses or as an option to meet demand peaks.

Furthermore, additional research might address two peculiarities of contract breweries: the first concerns the aforementioned local appeal and the possible expansion to other markets (i.e., other geographical areas). In short, how should contract breweries grow and obtain access to other markets without affecting the sense of exclusivity of local consumers? The second peculiarity relates to vertical integration, to which one interviewee referred. How can contract breweries vertically integrate backwards into raw materials production and outsource the brewing process at the same time?

Lastly, the proposed typology of contract breweries needs further development. For instance, since, in comparison with resource dependence theory, transaction cost theory allows better predictions with regard to interorganizational strategies, it might illuminate the development of an approach to predicting under which circumstances a particular interorganizational strategy should be chosen in the craft beer industry. This approach should be able to quantitatively assess the minimum volume which would make it cheaper to produce rather than outsource production.

As much as it may benefit from further development, this initial attempt will hopefully be useful not only for fellow researchers, but also for the entrepreneurs who are contemplating taking the step from homebrewing to professional brewing.

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APPENDIX A - Framework of themes explored in the semi-structured interviews

Description

1. Describe a contract brewery.
2. What are your main interactions (e.g., production partners, suppliers, wholesalers, event organizers)?
3. How are production partners chosen?
4. Is there any contract model?
5. Which contract model is used more often?
6. What is the difference between contract brewing and outsourcing?
7. What are your main difficulties in the relationship with each stakeholder?

Design

8. Are contract breweries project-based organizations?
9. Is contract brewing a transitory business model to be changed after the construction or acquisition of brick-and-mortar facilities?

Motivation

10. Why did you choose contract brewing?
11. Is contract brewing a reflection of your lifestyle?
12. Have you ever worked in the beer industry?
13. How long do you intend to run this business?
14. Do you plan to develop the business so that it is acquired by one of the majors in the future?
15. Do you intend to provide craft beer-related services in the future (e.g., consulting)?
16. Do you agree with the statement "there is no contract brewery, only contract brewer"?

Production

17. What is the role of the gypsy brewery during the production cycle?
18. How does the choice of a production partner affect the production of your recipes?
19. Is each production cycle managed as a project? Or just collaborations?