An exploratory study of the challenges and opportunities facing the craft beer industry in central South Africa

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ABSTRACT

Craft beer has become popular across the world, and in America have grown to over 20% of the total beer sales. However, the craft beer industry of South Africa is still in its infancy with an estimated market share of around two per cent of the total beer market. Even though the craft beer industry in South Africa is growing, there are only limited academic research on craft beer breweries in South Africa.

The primary objective of the study is to explore and describe the challenged and opportunities facing the craft beer breweries in central South Africa. The four secondary objectives help to achieve the primary objectives. The literature review of Chapter 2 provided the necessary background on the craft beer industry needed for the conduction of the empirical study.

This study follows a qualitative research method with a descriptive research approach. Semi-structured interviews were used to collect data from eight participants. These eight participants are owners of craft beer breweries in North West, Free State and Gauteng provinces.

Thematic analysis was used as the data analysis technique. Through the qualitative interview, a total of ten themes were identified, seven of which were challenges and three opportunities. The participants described several sub-themes and categories.

The study concluded with recommendations on how craft beer breweries can overcome some of the major challenges and exploit opportunities. The key recommendation is a business model for a craft beer brewery that address several of the main challenges. The study also made some recommendations for future studies, which can build on this study.

Keywords: Craft beer, craft beer brewery, challenges, opportunities, thematic analysis, qualitative research.

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LIST OF ABBREVIATIONS

SKU – Stock Keeping Unit

SAB – South African Breweries

ABInBev – Anheuser-Busch InBev

CBASA – Craft Brewers Association South Africa

CHAPTER 1: NATURE AND SCOPE OF THE STUDY

“*Beer, if drunk in moderation, softens the temper, cheers the spirit and promotes health”*. Thomas Jefferson, the third President of the United States

1.1 INTRODUCTION

Beer has been part of human history for thousands of years where civilisations used the ingredients available to them; this included herbs, spices, fruits and vegetables (Calagione, 2016:3). On the 23rd of April 1516, the *Reinigheitsgebot* was implemented, which stated that only barley, hops and water may be used to make beer, later yeast was added (Calagione, 2016:2). This recipe of barley, hops, water and yeast shaped beer as we know it today. In the last two decades, there was a surge in the production of craft beer that breaks the mould of the *Reinigheidgebot.*

The Brewers Association of America defines craft brewers as small, independent and traditional (Brewers Association, 2019a). The annual production must be less than 6 million barrels of beer, not more than 25% of the brewery can be controlled by a non-craft brewer, and the flavours of the beers must be derived from traditional or innovative ingredients and fermentation. There are four types of craft breweries: microbrewery, brewpubs, regional, and contact craft breweries (Smith, Farrish, McCarroll & Huseman, 2017:1).

This study explores the challenges and opportunities for craft beer breweries in central South Africa. There has been a worldwide increase in craft beer breweries in the last decade, with some countries seeing a growth of well over a 400% between 2009 and 2014 (Basso, Alcarde, & Portugal, 2016:113). The number of craft beer breweries in America has grown from 37 in 1985 to 4225 in 2015 and accounted for 21% of the beer sales (Gatrell, Reid, & Steiger, 2018:360). The number of craft breweries in South Africa has also grown significantly from just 22 craft beer breweries in 2008 (Rogerson & Collins, 2015a:248) to over 200 in 2017 (Crone, 2019). However, the rate of growth slowed down in 2018.

It is anticipated that the craft beer industry in South Africa will follow a similar trend as America (Nowers, Basson & Wallace, 2016:48). To help facilitate the growth of the craft beer market in South Africa, this study aimed to highlight the challenges of the craft beer industry in South Africa and provide possible solutions to these challenges. The main challenges of the craft beer industry are to distribute their beer at outlets and maintaining consistent quality beer. However, there are also opportunities such as expanding craft beer tourism and cooperation between craft beer breweries.

1.2 DEFINITIONS

This section will define some of the essential concepts used in the study

1.2.1 CRAFT BEER BREWERY

There are several definitions for craft beer breweries, and each country has its own definition.

1.2.1.1 American definition

"An American craft brewer is a small and independent brewer."(Brewers Association, 2019a). The brewers association expands on this definition by explaining what is meant by small and independent.

- ***Small – "****Annual production of 6 million barrels (7 041 000hl) of beer or less (approximately 3% of U.S. annual sales). Beer production is attributed to a brewer according to rules of alternation proprietorships."*
- ***Independent –*** *"Less than 25% of the craft brewery is owned or controlled (or equivalent economic interest) by a beverage alcohol industry member that is not itself a craft brewer.* (Brewers Association, 2019a)"

1.2.1.2 European definition

"*A brewery with yearly production up to 1000 hectolitres*" (The Brewers of Europe, 2018:30)

1.2.1.3 South African definition

The South African definition of craft beer consists of two components, independent and traditional (CBASA, 2019)

- **Independent – "***No partial ownership by a major international brewer with over 5% market share in SA."*
- **Traditional – "***At least 80% of production is beer derived from malted cereal grains."*

From these three definitions, it can be seen that there are two main components to the definition of craft beer breweries, the first is a small size and the second is independent of commercial breweries.

1.2.2 TYPES OF CRAFT BEER BREWERIES

Table 1-1 Types of craft beer breweries

Type of brewery	Definition
Microbrewery	A brewery that sells at least 75% of its beer off-site and produces less than 17 600 hectolitres of beer per year.
Brewpubs	A brewery that brews beer primarily for sale in a bar or restaurant. More than 25% of the beer is sold on-site
Contract brewing	A business that hires another brewery to produce its beer
Regional breweries	A brewery that produces between 15 000 and 6 million barrels of beer per year

Source: Adapted from Ascher (2012:7-8)

1.2.3 COMMERCIAL BREWERY

In this study, a commercial brewery refers to large breweries such as SAB and Brandhouse

1.3 PROBLEM STATEMENT

Commercial breweries dominate the South African beer market. SAB dominates the beer market in South Africa with between 80% and 95% of the beer market share (Rogerson & Collins, 2015a:244; Russell & Van Walbeek, 2016:556). Taking into account imported beers and other mega breweries, craft beer has a meagre market share in South Africa.

Commercial breweries enjoy a significant advantage through economies of scale, not only in terms of production but also in terms of marketing and distribution (Madsen & Wu, 2016:52). Craft beer breweries cannot directly compete with commercial breweries due to significantly lower production, marketing and distribution cost per unit of commercial breweries.

The majority of beer sales is in the form of American pale lagers. This is mostly due to commercial breweries focusing on producing lager, which has a longer shelf life than stouts and ales. The longer shelf life of lagers allowed expanding breweries to distribute their beers over longer distances (Howard, 2014:2)

Craft beer has gained popularity globally by targeting a different, rising market of beer drinkers who want a variety of high quality, unique tasting beer that is not commercially produced (Aquilani, Laureti, Poponi & Secondi, 2015:216). Craft beer breweries do not compete directly with commercial breweries. Craft breweries brew a variety of high quality, unique beer that can target the needs of the growing new class of beer drinkers.

Even though the craft beer industry in South Africa is growing (Rogerson & Collins, 2015a:248), there is limited academic research on craft beer breweries in South Africa (Sidubi, 2017:ii; Ramorula, 2018:60). To supplement the lack of academic research and to facilitate the growth of the craft beer industry in South Africa, this study aims to explore the challenges craft breweries face in South Africa as well as the opportunities to expand their market share.

1.4 RESEARCH OBJECTIVES

This study has one primary objective and four secondary objectives that will help to achieve the primary objective

1.4.1 PRIMARY OBJECTIVE

The primary objective of this study is to explore and describe the challenges and opportunities craft beer breweries face in central South Africa.

1.4.2 SECONDARY OBJECTIVE

To achieve the primary objective, the following secondary objectives need to be addressed:

- To obtain insight into the craft beer industry not only in South Africa but also globally through a literature study.
- To explore and describe the challenges, craft beer breweries in central South Africa face that create obstacles for new entrepreneurs.
- To explore and describe the opportunities craft beer breweries in central South Africa can benefit from.
- To make recommendations on how to tackle the challenges and exploit the opportunities facing the craft beer industry in central South Africa.

1.5 THE SCOPE OF THE STUDY

The scope of the study is divided between the field of study, industry and geographical demarcation.

1.5.1 FIELD OF STUDY

This study primarily focuses on two subject disciplines. The first discipline is business management. Craft beer breweries need to manage the challenges within the industry.

The second discipline is entrepreneurship. The craft beer industry is relatively new and fast-growing, which creates opportunities for entrepreneurs.

1.5.2 INDUSTRY

This study focused on the craft beer industry, which is a sub-industry of the beer and alcohol industry. In South Africa, craft beer consists of about 1% of the beer market (Eyssen, 2015:11). This leaves room for significant growth if compared to America where in 2015 craft beer had a market share of 12.2% in terms of volume and 21% in terms of total sales (Gatrell *et al.*, 2018). The discrepancy between the market share in terms of volume and total sales is due to the higher price of craft beer compared to commercial beer. Due to the small size of craft beer breweries, it will fall in the SMME sector.

1.5.3 GEOGRAPHICAL DEMARCATION

Due to time and financial constraints, the sampling was limited to Central South Africa, which for this study will include North-West, Free State, and Gauteng. According to the website Craftbru which list the craft beer breweries in South Africa there are seven craft beer breweries in Free State (Craftbru, 2019b), 24 in Gauteng (Craftbru, 2019c), and eight in North West (Craftbru, 2019d) That gives a population of 39 breweries for the three provinces.

1.6 RESEARCH METHODOLOGY

This study followed a qualitative research approach. The research was conducted in two phases. First, a literature review was compiled to give the necessary background and familiarise the reader with the craft beer industry, and the challenges craft beer breweries face globally. The second phase was an empirical study that investigated the unique challenges of craft beer breweries in South Africa as well as possible solutions to these challenges.

1.6.1 LITERATURE REVIEW

The purpose of a literature review is to familiarise the reader with the craft beer industry. The literature review started by giving a history of beer brewing. It is essential to understand the roots for beer brewing because, in essence, the craft beer industry is call back to the roots of beer brewing before beer was homogenised and industrialised. The literature review continued to define the craft beer industry within the broader beer industry and comparing the craft beer industry of South Africa with the international craft beer industry. The purpose of this was to give background about the craft beer industry and to compare international trends with the trends of the craft beer industry in South Africa.

In addition to the craft beer industry, the literature review also elaborated on the challenges within key elements of general management. These elements include business operations, target market, marketing, distribution channels, and regulations.

Google, Google Scholar, and EbscoHost were used to search for information. Sources include:

- Journals and written publications
- Dissertations, mini-dissertations, and other papers on the subject
- Books
- News articles
- Internet articles
- Internet websites

1.6.2 EMPIRICAL STUDY

This study followed a qualitative research approach, using semi-structured interviews to gather data. From the literature review, interview questions were identified. During the interview probing by the interviewer is allowed, to ask additional questions where more information on a specific question is needed. The transcribed interviews were analysed using a thematic analysis technique to identify codes which were sorted into themes.

1.6.2.1 Research approach

The interviews used a semi-structured interview schedule that allowed for probing and discussion to gather additional information where necessary. The interviews were transcribed from which codes were identified. The codes were organised and grouped in themes, sub-themes, and categories.

The interviews investigated the challenges facing each craft beer brewery as well as opportunities within the craft beer industry. The interviews also looked at the future of the craft beer industry.

1.6.2.2 Study population and sample

The unit of analysis for this study was the owner of craft beer breweries. Initially, the unit of analysis was restricted to only include owner-managers who also brew the beer for the brewery. The thought behind this was to align the unit of analysis with the American craft beer definition, but with further investigation into the craft beer breweries of South Africa, it was found that many of the craft beer breweries instead employ brewers who are responsible for the brewing of the beer. The owner can then focus on the management aspects of the brewery. At breweries, where the owner is not responsible for brewing, the brewer was included in the interview in order to supplement the interview with their unique insights.

According to Craftbru (2019e), there are 150 craft beer breweries in South Africa. This study only focused on three provinces, North West, Free State, and Gauteng, which have a total of 39 craft breweries. Due to financial and time constraints, a convenience sampling method was used based on the availability of interviewees and travelling distance for the researcher.

The breweries from which owner-managers were interviewed also needed to comply with the following criteria:

- The brewery must sell craft beer commercially to the private sector. This includes supplying beer to restaurants or pubs, liquor stores or selling beer online, or at markets.
- The brewery must sell beer for more than one year
- The brewery must be a registered business and comply with all relevant regulations and laws
- For the purpose of this study, the study area was limited to North West, Free State, and Gauteng.

1.6.2.3 Collection of data

In this study, two types of data were collected. First, a literature review was done to gather background information on the different concepts of the study and historical data from previous studies about craft beer breweries. The historical data was not only from South Africa but also internationally. This was used to compare the data found in this study with other studies of the craft beer industry in South Africa, as well as to compare the craft beer industry in South Africa with those of other countries.

Secondly, semi-structured interviews were held with the owners of craft beer breweries. The questions were open-ended and allowed for probing by the researcher. The interviews were done either face to face or through Skype with the owner and the brewer when the owner was not responsible for the brewing. The interviews were recorded and transcribed after the interview. The transcribed interviews were used for analysis.

1.6.2.4 Analysing the data

Bryman and Bell (2014:342) indicated that the three most frequently used data analysis strategies are analytic induction, grounded theory, and thematic analysis. This study followed the thematic analysis technique. Bryman and Bell (2014:350) define thematic analysis as a flexible method that does not follow a specific philosophical orientation.

Braun and Clarke (2006:87) suggest that there are six phases in the thematic analysis method. Table 1-2 summarises the phases of thematic analysis.

Table 1-2 Phases of thematic analysis

Phase	Description of the process
Familiarising yourself with the data	Verbal data need to be transcribed first. Then read and re-read the data while noting down initial ideas
Generating initial codes	Systematically code interesting features of the data and collect data relevant to each code
Searching for themes	Sort codes in potential themes and gather all relevant data for each theme
Reviewing themes	Check if the themes work in relation to the coded extracts and the entire data set, then make a thematic map of the analysis
Defining and naming themes	Refine the specifics of each theme. Name and define each theme
Producing the report	Produce a scholarly report of the analysis by selecting vivid, compelling extract examples that relate to the research question and the literature

Source: Braun and Clarke, (2006:87)

From Table 1-2 is clear that there is an emphasis on the coding process in thematic coding. There are three phases or types of coding that are used open coding, axial coding, and selective coding (Bryman & Bell, 2014:346). Open coding is used in phase 2, axial coding in phase 3, and selective coding in phase 4 of thematic analysis.

To support the data obtained from the thematic analysis, the Atlas.ti software was used. The advantage of using Atlas.ti is that it gives easy access to codes and themes, and helps to sort the data (Beaulaurier, Seff & Newman, 2008:237).

1.7 LIMITATIONS OF THE STUDY

The most significant limitation of this study was the geographical demarcation. By focusing only on Central South Africa, this study may not be representative of the greater South Africa. Especially if it is taken into consideration that the Western Cape is the province with the most craft beer breweries with 70 breweries (Craftbru, 2019g), which are almost half of the craft breweries in South Africa.

Another limitation is that the craft beer industry of South Africa has not matured yet especially in terms of the supply chain and the maturity of the beer culture in South Africa

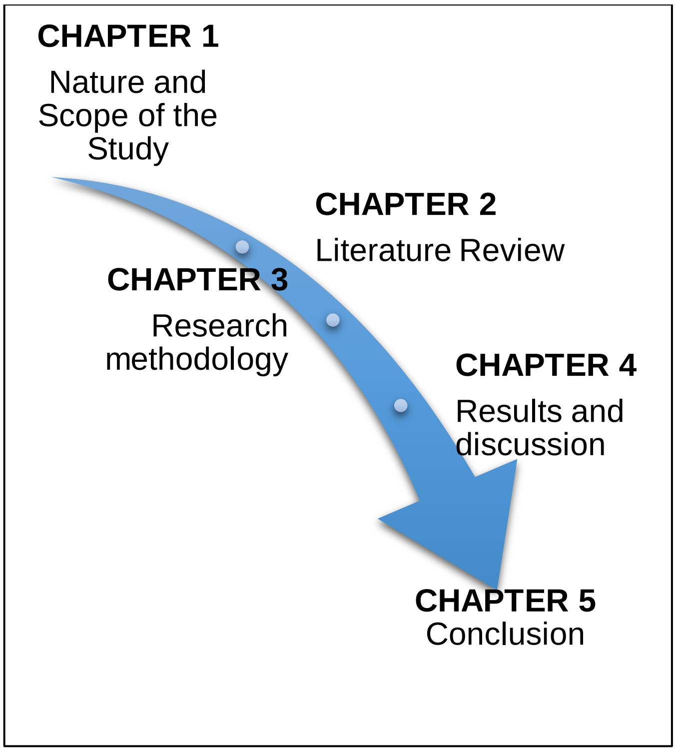
1.8 THE LAYOUT OF THE STUDY

The research paper consists of five chapters. Refer to Figure 1-1 for a graphical representation of the chapter layout

Chapter 1 – Is to orientate the reader and consists of an introduction, problem statement, objectives and scope of the study, research methodology and limitations of the study

Chapter 2 – Examines key concepts and provides the background to the nature of the study. This section reviews existing literature on the craft beer industry.

Figure 1-1 Chapter layout



Source: Created by the researcher

Chapter 3 – Discusses the methodology that is used in the study and describes the research model, data collection and analysis.

Chapter 4 – Gives the results obtained from the study and discuss the results.

Chapter 5 – Provides a summary of the research findings and make conclusions about the research problem. Recommendations are made based on the empirical research as well as the literature review.

CHAPTER 2: LITERATURE REVIEW

The literature review section aims to give background information on the concepts that are important to address the primary objective of the study successfully. To successfully address the primary objective, the literature review will have an in-depth review of the available literature on the craft beer industry, both in South Africa and globally.

2.1 A HISTORICAL OVERVIEW OF BEER

With 200 billion litres of beer sold per year, beer is the most consumed alcoholic beverage in the world (Albanese, Ciriminna, Meneguzzo, & Pagliaro, 2018:5). In South Africa, beer is also the most popular alcoholic beverage. On average, 54% of household income spent on alcoholic beverages is contributed to beer. Even in Western Cape, the heartland of the wine industry, 37% of alcoholic beverage spending is contributed to beer compared to 33% contributed to wine (Stats SA, 2017). The popularity of beer is matched with its rich and long-standing history stretching at least 8000 years.

2.1.1 THE ORIGIN OF BEER

Historical evidence indicates that brewing dates back to 6000 B.C. in ancient Babylonia, where a piece of pottery was found, indicating workers stirring or skimming a brewing vat (Willaert, 2007:442). In Mesopotamia, archaeologists found the oldest known beer recipe on a clay tablet dating back to also 6000 B.C. and the earliest evidence of beer production in Europe dates back to 3000 B.C. (Poelmans & Swinnen, 2011:4).

2.1.2 THE BATTLE BETWEEN BEER AND WINE

The stereotypes of beer being a more “manly” drink (or for worker class) compared to wine being more sophisticated is also rooted in the history of beer and wine. Ancient Greeks and the Roman Empire believed that wine is a civilised drink compared to beer being uncivilised or drank by barbarians (Poelmans & Swinnen, 2011:5). Nelson (2003:116) concluded that the Greeks and Romans' attitude towards beer was based on ideology rather than a dislike of beer. They condemned beer mostly on the fact that it was the preferred drink of other cultures in the area. Nelson's conclusion is based on various ancient text contradicting each other in their description of beer. Where some texts describe beer as a foul-smelling, harmful liquid made from rotten cereals, a divine punishment, others describe it as good-tasting, nice-smelling, nutritious, healthy and a divine gift.

Regardless of the characteristics of beer at the time, the Romans successfully spread their wine culture across large parts of ancient Europe. However, after the fifth century, Germanic tribes were able to retake large parts of the Western Roman Empire, bringing back a beer-drinking culture. Even during Rome rule, the Germanic tribes continued drinking large quantities of beer. This was mostly due to the strength of the Germanic tribes and the difficulty of producing or obtaining wine in the area (Poelmans & Swinnen, 2011:6).

2.1.3 MONASTERY BREWERIES

Throughout the middle ages, monasteries played a crucial role in the development of brewing. Monasteries were the first breweries resembling commercial brewing of beer (Poelmans & Swinnen, 2011:7). Initially, monks made beer for themselves, pilgrims and the poor, but later they were allowed to sell beer in monastery pubs. Beer was mostly made in colder areas where it was challenging to grow grapes and produce wine. Some of the monks drank extraordinary amounts of beer, and there is evidence that some monks drank as much as five litres of beer per day. According to Poelmans and Swinnen (2011:8) and (Rabin & Forget, 2014:x), there are several reasons why monks drank so much beer, which include:

- During the middle ages, water was polluted, so they preferred beer over water.
- The beer was used for medical and spiritual purposes
- The average meals were frugal at the time, and beer provided additional nutrition.

- Monks were required to fast regularly, and although beer contained alcohol, it was considered a liquid similar to water and thus was allowed.
- Beer was seen as a social lubricant, and during the Middle Ages, any remotely social occasion called for a drink.

2.1.4 THE DISCOVERY OF HOPS

The discovery of hops around 800 A.D. in Germany was one of the essential innovations in brewing beer. Not only did the bitterness of hops balance the sweetness of the malt, but also acted as a much-needed preserving agent for beer (Behre, 1999:42). The preserving factor of hops allowed for the export of beer.

Despite the benefits of using hops in the brewing of beer, it took several centuries to be widely accepted. This was mostly due to gruit, a mixture of herbs used to flavour beer and to preserve the beer. According to Mosher (2017:16), gruit was used for taxation of beer. By law, brewers had to buy gruit from local authorities. The gruit from each region was unique and distinguishable from gruit used by other regions. The recipe for gruit was a secret, and it was ground up and mixed with grains to make it difficult to counterfeit. The gruit always contained bog myrtle, also known as sweet gale. Before the discovery of hops, sweet gale was used as the main additive to beer (Behre, 1999:36).

2.1.5 TAVERNS, THE FIRST COMMERCIAL BREWERIES

Even though the Black Plague of the mid 14th century was a tragic event, the aftermath gave rise to considerable economic growth. Real wages in the 15th century doubled compared to the 14th century. People had more disposable income and were scared of drinking water due to diseases it carried, all of which increased the demand for beer (Rabin & Forget, 2014:xi).

These factors created the ideal conditions for full-time commercial brewing. Taverns became an integral part of society. Not only did taverns provide lodging for an increased number of travelling merchants, but also provided food, drink and storage place. Taverns became an important meeting place and trading hub. The increase in commercial brewing also resulted in the end of monastery breweries. This was mostly due to local rulers preferring private breweries because they paid taxes, whereas monastery breweries were exempted from taxes (Poelmans & Swinnen, 2011:11).

2.1.6 EARLY REGULATION AND TAXATION

With the increase of commercial brewing and the establishment of a brewing industry, governments implemented taxes and regulations for beer brewing (Poelmans & Swinnen, 2011:10). On 23 April 1516, two Bavarian dukes created the Purity Law ("*Reinheitsgebot*"), which states that only barley, hops, and water may be used for brewing beer (Calagione, 2016:3). The purity law did not allow for other herbs and inorganic ingredients to be added to the beer. Later in 1553 and 1616 salt, juniper berries and caraway was added to the allowed substances (Meussdoerffer, 2009:26). The Reinheitsgebot was initially only implemented for the state of Bavaria, but later it extended to the whole of Germany. In 1919 the Reinheitsgebot became federal law in Germany, and in 1988, the law was repealed (Poelmans & Swinnen, 2011:11).

2.1.7 THE DISCOVERY OF YEAST

Yeast is one of the key ingredients responsible for the fermentation of beer, but it was not until the mid-17th century that scientists learned that yeasts were behind the fermentation process (Basso *et al.*, 2016:113). Originally spontaneous fermentation, where the malt mixture was exposed to the ambient air to introduce wild yeast, was used in the brewing of beer. Later it was found that by using a small amount of mature beer as a starter for a fresh beer mixture improved the brewing process. Now, brewers use pure yeast cultures to start the brewing process (Basso *et al.*, 2016:113).

Yeasts are not only responsible for the production of alcohol, but also the quality taste and aroma of the beer (Pires, Teixeira, Brányik, & Vicente, 2014). During the fermentation process, the metabolism of yeast produces a complex mixture of higher alcohols, esters, and vicinal diketones. The balance of these components gives each type of beer a unique taste and aroma. Two main types of yeasts are used to brew beer, which results in the two main types of beer lagers and ales (Wunderlich & Back, 2009:6). *Saccharomyces cerevisiae,* which is a top-fermenting yeast used for ales and *Saccharomyces pastorianus,* which is a bottom-fermenting yeast used for lagers (Basso *et al.*, 2016:113).

2.1.8 INNOVATIONS LEADING TO THE COMMERCIALISATION OF BEER

During the eighteenth and nineteenth century, several important scientific discoveries had a significant impact on the production of beer. These discoveries include a better understanding of the role yeast play in the fermentation of beer, improvements of the steam engine, the invention of refrigeration, and bottling of beer in glass bottles and later metal cans (Poelmans & Swinnen, 2011:13). Refrigeration and bottling of beer allowed for the storage and transport of beer. During the first quarter of the 19^{th}-century scientist agreed that yeasts are living organisms and they discovered several strains of different yeasts. Brewers identified that the fermentation of beer could be divided into two phases, primary and secondary fermentation (Rabin & Forget, 2014:xv). During primary fermentation, saccharines are converted to alcohol and carbon dioxide. Whereas during secondary fermentation impurities were removed to ripen the beer.

2.1.9 THE RISE OF LAGERS

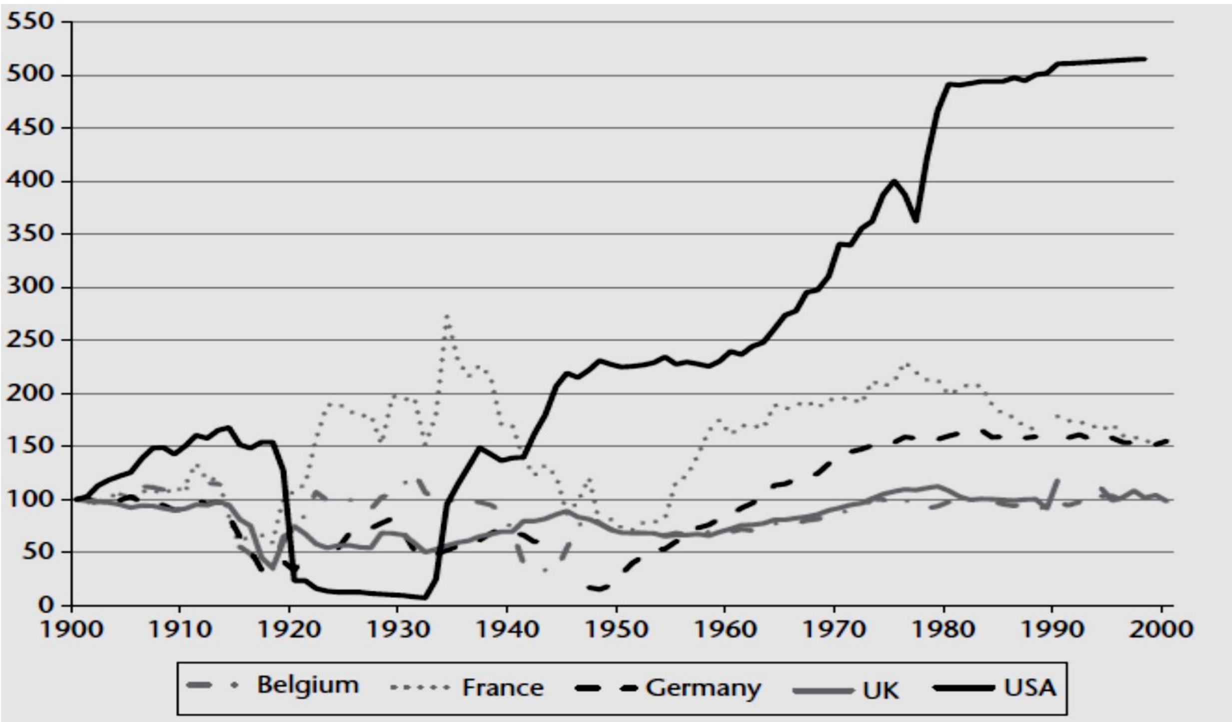
The knowledge of the two phases of fermentation led to the discovery of the lagering process where slow-acting yeast and low-temperature storage over several weeks was used to control the activity and suspension of the yeast (Poelmans & Swinnen, 2011:14). Even though a form of lager was produced for several centuries in Germany before the discovery of lagering the now lager beer was clearer and brighter. Lager which is a German term translates to “storage”, referring not only to the ageing or storage of the beer but also to lager beer having a longer shelf life. This made lager more suitable for export (Hornsey, 2003:604).

During the 1880s, the focus of beer moved from top-fermenting beers (ales) for bottom-fermenting beers (lagers) (Poelmans & Swinnen, 2011:15). The invention of refrigeration and steam engines helped to spread the dominance of lager beer. Firstly the refrigeration allowed for the production of lager throughout the year. The primary fermentation temperature of lagers is much lower than that of ales. Lagers ferment at 6-12°C compared to 17-22°C for ales (Meussdoerffer, 2009:28). Steam engines allowed for more complicated brewing machinery and lower transport cost with the use of trains and steamboats.

2.1.10 THE SHIFT TO AMERICAN PALE LAGERS

The 20th century was a turbulent time for beer production. Although there was tremendous growth in the second half of the 20th century, especially in America, the first half of the 20th century saw decreases due to the first and Second World War and prohibition in America. Poelmans and Swinnen (2011:19) illustrated (Figure 2-1) this decline and growth of beer production perfectly by using 1900 as the base year with a value of 100.

Figure 2-1 The changes in beer production between 1900 and 2000, with 1900 as a base year of 100



Source: (Poelmans & Swinnen, 2011:19)

From Figure 2-1, it can be seen that the two world wars had a significant effect on the beer production of European countries, with only a slight effect on America. The Prohibition laws in America that stretched from 1919 to 1933 made it illegal to produce alcoholic beverages with more than 0.5% alcohol (Poelmans & Swinnen, 2011:20). After the prohibition, American breweries had two new challenges, the Great Depression and drought. Due to the shortage of barley and low discretionary income of the population, brewers were forced to stretch recipes by substituting barley with other grain such as corn and rice (Rabin & Forget, 2014:xvi).

The new American lager was lighter than similar German beers. Without alternatives, Americans quickly embraced the new style of beer. With further grain restrictions during the Second World War, breweries continued to brew lighter lagers, and it gained the majority market share. By the 1980s German brewers brewed light versions of their beers to compete with American lagers and English pubs sold American lagers (Rabin & Forget, 2014:xvii). By the end of the 20th century, lagers cemented itself as the dominant commercial beer.

2.2 THE RISE OF THE CRAFT BEER INDUSTRY

"Nothing quenches the thirst like a Wheat Beer or sharpens the appetite like an India Pale Ale. Nothing goes as well with seafood as a Dry Porter or Stout or accompanies chocolate like an Imperial Stout. Nothing soothes like a Barley Wine. These are just a few of the speciality styles of beer."

Michael Jackson, the Beer Hunter, 1942-2007

2.2.1 INTRODUCTION

During the mid-1980s there was a renewed interest in older styles of beer such as stout, porter, bitters, and pale ales. The increase in the interest of older styles of beer was labelled as the microbrewery movement. Even though lagers remains the most popular commercial beer, craft breweries established a profitable niche market with their diversity of different styles of beer.

The term craft brewery originated in the USA (Maier, 2013:136). Although craft brewery is a relatively new term, the concept is not. As discussed in the previous section, throughout history, beer was mostly brewed in local, which supplied the local community. It was not until the late 19th century when breweries started to industrialised and started to export beer in large quantities. In the 1870s, America had over 3000 small breweries of which the largest breweries produced about 12 000 barrels of beer a year (Warner, 2010:32-33). After 1870 the number of brewers started to diminish and were taken over by larger industrial breweries. By 1979 there were only 44 breweries left in the USA, and out of these 44 breweries, 42 were macro breweries and two craft breweries (Elzinga, Tremblay, & Tremblay, 2015:245). These 42 macro breweries controlled 97.4% of the market. The remaining 2.6% was imported beer.

2.2.2 CRAFT BEER IN AMERICA

According to Elzinga *et al.* (2015:243), Fritz Maytag pioneered the craft beer industry. After he took over the ownership of Anchor Steam Beer Company in 1965, he innovated the company by challenging the homogeneous output of the beer industry. Maytag brewed the first American Indian Pale Ale and American barley wine. He also brought back some traditional beers such as porter, American wheat beer, and spiced holiday beer (Bradford, 2012). Bradford (2012) continued to indicate that Maytag was one of the first brewers to brew an archaeological beer named Ninkasi based on a 4000-year old Sumerian brew. Even though Ninkasi was not commercially successful; it was ground-breaking at the time. Later Dogfish Head Craft Brewery brewed Midas Touch. This craft beer was reverse-engineered from a 2700-year-old beer of which the remnants were found in drinking bowls excavated from the king of Phrygia’s tomb (Calagione, 2016:4). Midas Tough was brewed from barley, honey, saffron, and white Muscat grapes.

Between 1979 and 2012 the number of craft breweries increased to over 2 300 and their market share increased to 6.4%. Ascher (2012:6) and Murray and O'Neill (2012:901) indicated that although the volume of beer produced has decreased between 1990 and 2010, the craft beer industry saw an increase in production. In 2016 the craft breweries had a 10% increase in sales compared to 0.2% for the beer industry as a whole (Smith *et al.*, 2017:1). The number of craft beer breweries continued to increase, and by 2015 there were 4225 breweries in America and craft beer obtained 12.2% of beer sales by volume and 21% of sales (Gatrell, Reid, & Steiger, 2017:2).

It is interesting to note that although there was significant growth in the sales of craft beer in America, the average size of craft beer breweries became smaller over time and not bigger. The average craft beer production of craft breweries decreased from 5 000 barrels in 2000 to less than 700 in 2015. This decrease is partly due to craft breweries minimising start-up capital by using 1-3 barrel brewing systems, compared to the seven and 15 barrel systems that were typically used by microbreweries (Smith *et al.*, 2017:4). The increase in the number of breweries and smaller breweries are in line with the spirit of the craft beer industry. Craft beer drinkers want a variety of unique beers.

2.2.3 CRAFT BEER IN EUROPE

It was not only America that saw an increase in the craft beer industry. The Czech Republic's craft beer industry grew from one microbrewery in 1990 to 170 in 2013 and saw the highest rate of growth in the world between 2010 and 2013 (Maier, 2013:137 & 140). Slovakia saw an increase of microbreweries from 7 in 2008 to 26 in 2013 (Savov, Tóth, Lančarič, & Prístavka, 2014:74). Basso *et al.* (2016:113) indicated that Spain, Norway, Sweden, Czech Republic, Slovakia, Slovenia, Italy, France, United Kingdom, and Switzerland had a significant increase of microbreweries between 2009 and 2014. Spain had an astonishing relative growth of 1062% during this time.

The Brewers of Europe (2018) gives statistics of the beer industry of Europe. These statistics were used to calculate the growth of the number of craft beer breweries in Europe as well as the growth in beer consumption. The statistics can be seen in Table 2-1. Only countries with complete data for both 2011 and 2017 was used.

Table 2-1 Statistics on the number of craft beer breweries and beer consumption in Europe

Country	Number of craft breweries			Beer consumption		
	2011	2017	Growth	2011	2017	Growth
Austria	97	129	33%	9105	8984	-1,3%
Bulgaria	5	13	160%	5100	5400	5,9%
Czech Republic	90	402	347%	15503	15518	0,1%
Estonia	3	40	1233%	1020	905	-11,3%
France	373	1000	168%	20000	21500	7,5%
Germany	659	824	25%	87655	83582	-4,6%
Greece	7	30	329%	4092	3801	-7,1%
Hungary	20	60	200%	6249	6757	8,1%
Italy	336	693	106%	17715	19268	8,8%
Luxembourg	4	29	625%	325	321	-1,2%
Portugal	1	115	11400%	5320	5251	-1,3%
Romania	2	31	1450%	17000	16110	-5,2%
Slovenia	20	64	220%	1672	1608	-3,8%
Spain	70	502	617%	35233	39572	12,3%
Sweden	49	332	578%	4796	4408	-8,1%
United Kingdom	898	2378	165%	44844	44051	-1,8%
Norway	26	128	392%	2534	2631	3,8%
Switzerland	313	818	161%	4626	4623	-0,1%
Turkey	5	9	80%	9149	9151	0,0%
Total	**2978**	**7597**	**155%**	**291938**	**293441**	**0,5%**

Source: (The Brewers of Europe, 2018:9) and (The Brewers of Europe, 2018:23)

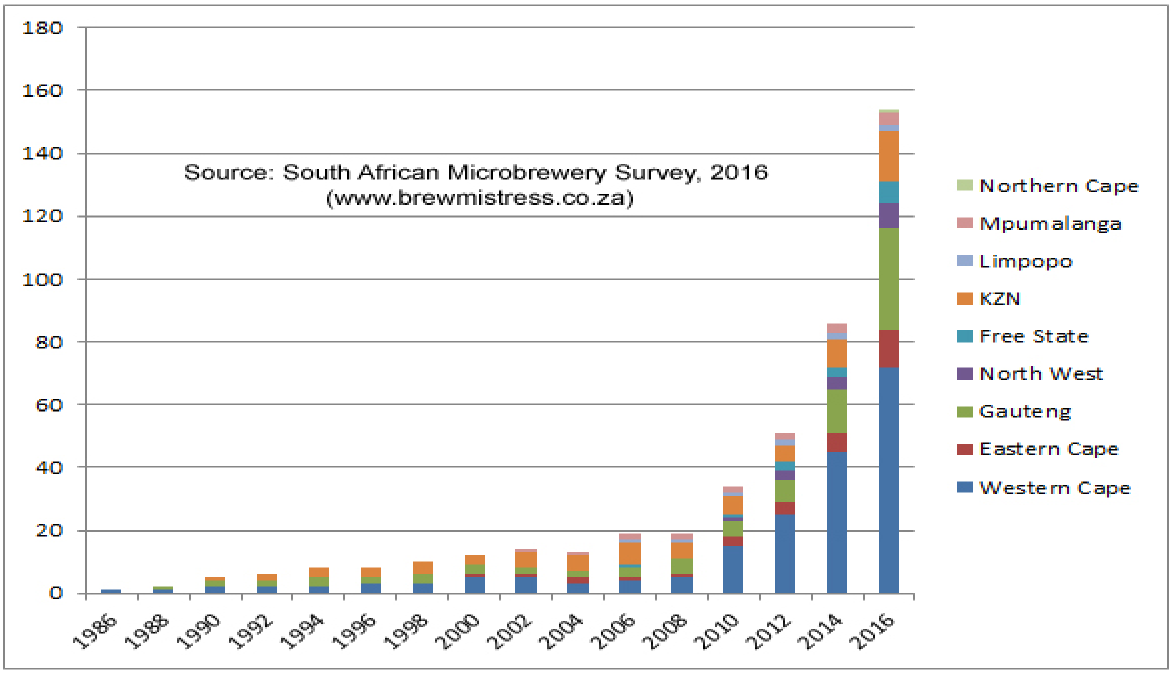
The data from Table 2-1 does not directly reflect on the growth of the craft beer industry in Europe. The data is limited because it does not differentiate between the consumption of mass-produced beer and the consumption of craft beer, but some assumption can be drawn from the data. Over the eight years, the total consumption of beer only grew by about 0.5%, which is similar to the growth in the American beer market. In contrast, the number of craft beer breweries grew by 155%. This growth does not necessarily indicate that the sales and consumption of craft beer grew as well, but with such a significant increase, it can be assumed that the craft beer industry grew as well.

2.2.4 CRAFT BEER IN SOUTH AFRICA

In South Africa, craft beer consists of about 1% of the beer market (Eyssen, 2015:11) compared to SAB Miller, which had an 88% market share in South Africa in 2011 (Ascher, 2012:20). This low market share leaves room for significant growth if compared to America where craft beer shared 12.2% of beer sales by volume and 21% of sales of the market in 2015 (Gatrell *et al.*, 2017:2).

South Africa follows a similar trend to America. According to Rogerson and Collins (2015a:248) between 2008 and 2014, the number of breweries in South Africa increased from 22 to 105. They also added that there were 54 craft beer festivals in 2014. Figure 2-2 is a graphical representation of the number of craft beer breweries in South Africa from one of the various websites that organise craft brewers in South Africa.

Figure 2-2 Craft beer breweries in South Africa by province between 1988 and 2016



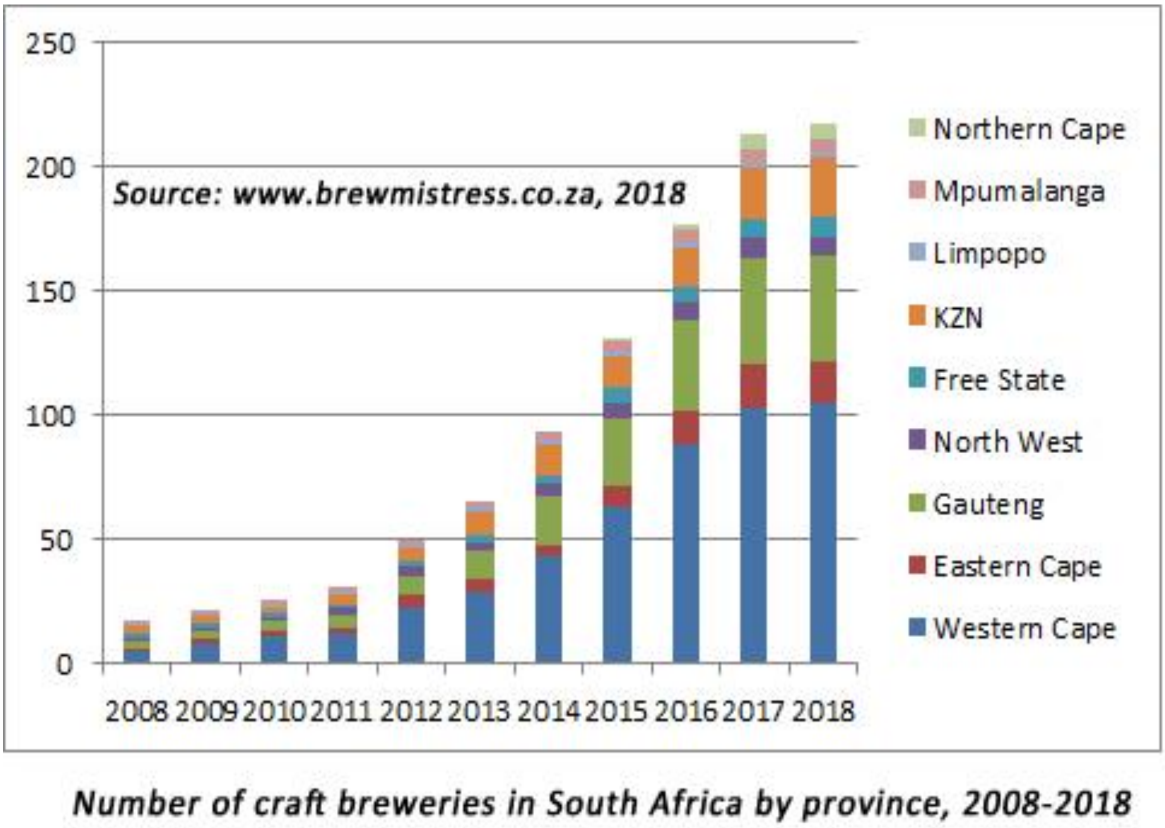
Source: (Brewmistress, 2017)

This graph clearly shows the accelerated growth of the craft beer industry since 2010. Nowers *et al.* (2016:49) give a possible reason for the high amount of craft breweries in the Cape Town area as well as the broader Western Cape area; they found that 68.5 % of breweries are found within 5 km from a wine cellar and 32.9% within 1 km. At the time of the study, there were 75 microbreweries in the Western Cape area, up from less than 35 in 2014

2.2.5 GROWTH PHASES OF THE CRAFT BEER INDUSTRY

The growth of the craft beer industry can be divided into three phases; tremendous growth, Shakeout, and resurgent growth (Nowers *et al.*, 2016:48). Looking at the updated statistics of the craft beer industry of South Africa provided by The Brewmistress blog (Figure 2-3) the different phases can be seen.

Figure 2-3 The number of craft beer breweries in South Africa 2008 - 2018



Source: (Crone, 2019)

The first phase is associated with tremendous growth, where many new craft beer breweries open. Between 2014 and 2016 the number of craft beer breweries in South Africa almost doubled and by 2017 there were over 200 craft beer breweries. The second phase is the shake-up phase. During this phase, the growth rate of new breweries decreases and less successful breweries close down. From Figure 2-3, it can be seen that the South African craft beer industry is entering this phase. Many breweries are closing down or changing ownership, and during 2018, the growth rate was less than 2% (Crone, 2018b; Crone, 2019).

The craft beer industry is becoming more mature; craft beer breweries cannot promote their beer as high quality anymore because high-quality beers are expected. 2018 was the first indication that the South African craft beer industry is entering the shakeout phase. The Craftbru website, where craft breweries can list the brewery indicates that there are 150 craft beer breweries in South Africa (Craftbru, 2019e). The website can not necessarily be taken as an absolute number of the craft breweries in South Africa. Assuming that the majority of breweries would pay a small annual fee (Craftbru, 2019a) as part of their marketing strategy, this web site should provide a relatively accurate representation of the number of craft breweries. Comparing the number of breweries provided by the two websites, there was a decrease of over 50 breweries thus far in 2019. This is a further indication that the craft beer industry is in the shakeout phase. It is not known whether the craft beer industry of South Africa will follow the same trend and enter the resurgent growth phase or not.

2.3 CHALLENGES OF THE CRAFT BEER BREWERIES

"I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts, and beer."
Abraham Lincoln, the 16th President of the United States

2.3.1 INTRODUCTION

The craft beer industry started as a break away from commercial beer, and craft beer consumers expect not only high-quality beers but also unique beers that were crafted.

The word craft has a strong connection with something being unique and handmade with skill (Alleyne, 2011; Troxler, 2015:72; Bick & Sidubi, 2018:5). In that lays one of the biggest challenges of craft beer breweries. How do craft beer breweries grow in a competitive market while maintaining an image of handmade and uniqueness? From previous research and online articles on craft beer breweries in South Africa, five main challenges have been identified.

1. Supply chain management, both on the supply (Ramorula, 2018:49) and the distribution side (Watne & Hakala, 2013:65; Crone, 2018a)
2. Quality control (Ramorula, 2018:46)
3. Marketing (Sidubi, 2017:51; Crone, 2018a)
4. Regulations and taxation (Sidubi, 2017:15)
5. Competition from mega breweries (Verhaal, Hoskins, & Lundmark, 2017:2533)

These challenges are not an exhaustive list of the challenges facing craft beer breweries in South Africa. However, these challenges challenge the core of the craft beer identity. Other challenges include; capital funding, cost reduction, lack of skills, and the poor economic state in South Africa (Sidubi, 2017)

2.3.2 SUPPLY CHAIN MANAGEMENT

Heizer, Render, Munson, and Sachan (2017:482) defines supply chain management as “the coordination of all supply chain activities involved in enhancing customer value.” They continue to state that supply chain management starts with raw materials and ends with a satisfied customer. From this definition, the sourcing of raw materials and the distribution of beer to customers is relevant to craft beer breweries. Both of these elements of supply chain management hold significant challenges for craft beer breweries.

2.3.2.1 Sourcing raw materials

Beer has four main ingredients or raw materials; malted barley, hops, yeasts, and water (Wunderlich & Back, 2009:3; Ascher, 2012:2). This section focuses on the supply of malted barley as a significant challenge for craft beer breweries in South

Africa. According to the Department of Agriculture Forestry and Fisheries (2017:7), almost all the barley produced in South Africa is sold to ABInBev, the parent company of SAB. The barley producers have a guaranteed marked and fixed-price contract with ABInBev. The Department of Agriculture Forestry and Fisheries (2017:7), continued to indicate that generally, the demand for barley exceeds the supply of barley. Between 2007 and 2016 supply of barley exceeded demand only in 2011 and 2015.

To source barley, craft beer breweries must either buy barley from SAB's malting plant or import malted barley at an increased cost. The monopoly ABInBev and SAB hold on the barley market put craft beer breweries between a rock and a hard place. Ramorula (2018:49) indicated that the quality of locally supplied barley is inferior and may negatively impact the quality of the craft beer produced. Due to the additional cost of importing malted barley, smaller craft beer breweries have to rely on ABInBev and SAB for their barley supply. Bigger craft beer breweries with a higher demand for barley and more resources can negotiate better prices with international suppliers.

2.3.2.2 Distributing beer

The distribution of beer is not only a challenge for craft beer breweries but also mega breweries (Madsen & Wu, 2016:35). Beer has a low weight-value ratio, which increases the impact of transportation cost. Madsen and Wu (2016:35) continued to argue that economies of scale in distribution was one of the driving forces for the industrialisation and globalisation of the beer industry. Large breweries also developed their distribution systems to supply their beer. Securing a distribution channel is one of the critical challenges of craft beer breweries (Watne & Hakala, 2013:65). Ramorula (2018:36) found that the majority of their respondents had poor accessibility to craft beer. Only a fraction of the respondents indicated that they generally had good accessibility to craft beer. Craft beer breweries have three distribution strategies they can follow (Di Matteo & Cavuta, 2016:351). Firstly they can use a distributor to supply outlets. Secondly the craft beer brewery can directly supply outlets, and lastly, the craft beer brewery can sell directly to customers usually in a brewpub. Each of these distribution strategies has its challenges.

Two of the significant distribution challenges are due to mega-breweries. ABInBev is known to pressure distributors not to promote or drop the beers of other breweries (Howard, 2014:10). SAB, on the other hand, own the majority of beer taps installed in outlets in South Africa (Crone, 2018a). The biggest challenge for breweries which aim to sell beer at restaurants and bars is the shortage and competition for beer taps. Due to SAB owning the majority of beer taps, outlets have limited autonomy in deciding which beers to sell on tap. The high cost of installing new beer taps exacerbates the problem. There is only a limited number of outlets that own a significant number of beer taps (Crone, 2018a). To address this problem, some of the bigger craft beer distributors and breweries install and maintain beer taps (Sidubi, 2017:53; Crone, 2018a). An additional challenge for craft beer breweries distributing to restaurants and bars is the mark-up restaurants put on craft beer. Eyssen (2015:11) indicates that some restaurants sell craft beer two to three times the price craft beer breweries sell the beer to the restaurants. Troxler (2015:44) found that the high price of craft beer is an inhibitor for craft beer sales and some South African customers believe that restaurants charge too much for craft beers. In addition to the shortage and competition for beer taps, using a distributor poses some additional challenges.

According to the National Beer Wholesalers Association (2019) in America, the number of beer distributors decreased from 4595 in 1980 to about 3000 in 2018. During the same period, the number of breweries increased significantly, resulting in an increase in the number of stock-keeping units (SKUs) each distributor holds. In 2016 the average SKUs for distributors was 1025 compared to 190 in 1996. Although this data is a reflection on distributors in America, it can be assumed that there was a similar increase in SKU's for distributors in South Africa with the rise of the craft beer industry even though it might not be to the same extent. With the increasing number of SKUs distributors hold, the challenge for craft beer breweries which use distributors is to differentiate themselves within a sea of other beers and brands (Laney, 2016). To overcome this challenge, some craft beer breweries form strategic partnerships with distributors (Ramorula, 2018:44).

The last distribution strategy is for craft beer breweries to sell beer directly to customers. This section focuses on brewpubs as a subsection of craft beer breweries. This decision is based on brewpub's focusing on selling beer onsite, usually in an onsite restaurant (Ascher, 2012:7). Greg Casey, the owner of Afro Caribbean Brewing Company and Banana Jam Café, said that if a craft beer brewery wants to be successful and make money they need to open a brewpub (Crone, 2018a). Greg Casey's directed his comments towards the Craft beer industry of South Africa. Brewpubs can avoid the distribution challenges discussed above by selling beer directly to customers (Howard, 2014:13). The challenges surrounding the other two distribution strategies are focused on feathering their beers in outlets, whereas for brewpubs, the challenges are focused on attracting customers to the brewpub.

Craft beer breweries have, on average, a higher operating cost per unit compared to mega breweries (Kubule, Zogla, Ikaunieks, & Rosa, 2016:285). According to Wells (2015:13), craft beer breweries can offset the higher operating cost by staying localised and thus reducing transport and storage cost. To take advantage of economies of scale, mega-breweries need multiple brewing plants to reduce transportation cost. The localised or "small is beautiful" nature of the craft beer industry is not only a response to globalisation but also to reduce transportation costs and to move away from the standardisation of mass-produced beer (Albanese *et al.*, 2018:6)

Brewpubs are in a unique position to capitalise on successful marketing and branding to attract customers. This unique position will be discussed in the section on the marketing challenges craft beer breweries face. The critical challenge for brewpubs is its location. Craft beer breweries require a micro-manufacturing licence to brew beer, but unfortunately, these licences are mostly restricted to industrial zones (Crone, 2018a). Crone (2018a) continues by noting that industrial zones are usually far from residential areas and not necessarily an area a customer wants to take the family. This is a regulation challenge which will be discussed in more depth in the section on regulation and taxation challenges.

2.3.3 QUALITY CONTROL

Producing high-quality beers is one of the central distinguishing factors of the craft beer industry (Ascher, 2012:42). The perception of high quality is one of the factors that is used to justify the higher price of craft beer. Even though quality is a challenge for most industries and businesses, craft beer breweries have an additional challenge in that quality assurance is not only crucial for individual breweries, but also the industry as a whole. If a new craft beer drinker has a bad experience with a craft beer they tend to not only blame the brewery that made the beer, but the craft beer industry as a whole (Mathias, Huyghe, Frid, & Galloway, 2017:26).

The concern for the craft beer industry of South Africa is that Ramorula (2018:34) found that the majority of respondents indicated that the quality of craft beer is inconsistent or poorer than other beers. Only 5.3% of the respondents indicated that the quality of craft beer is better than other beers. The inconsistent quality of craft beer in South Africa may be one of the factors which contributed to the craft beer industry of South Africa entering the shake-up phase as discussed in Section 2.2.5. This claim is supported by Elzinga *et al.* (2015:252) who stated that the shake-up phase of the craft beer industry in America between 1998 and 2000 was the result of poor-quality beers produced by breweries which rushed to enter the market.

In America, craft beer breweries cooperate to help each other increase the overall quality of craft beer in the industry. The cooperation includes the sharing of knowledge, raw materials, and buying and selling of equipment breweries outgrown by expanding (Mathias *et al.*, 2017:36). The craft beer industry has a perception that “a rising tide lifts all boats.” and low-quality beer has the risk of lowering the tide. Sidubi (2017:55) indicated that in South Africa, there is also a sense of cooperation in the craft beer industry. The cooperation is in the form of networking, collaboration, and teamwork.

2.3.4 MARKETING

The American Marketing Association (2013) defines marketing as “Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.” This definition indicates that marketing is more than just advertising or sales. According to Lamb, Hair, McDaniel, Boshoff, Terblanche, Elliott, and Klopper (2015:516), a marketing strategy includes; the target market, positioning, and the marketing mix, which include the product, distribution, marketing communication, and price. Due to the broadness of marketing, this section will only focus on selected marketing challenges facing craft beer breweries.

This section starts by addressing marketing for mega-breweries. This sub-section indicates the importance of marketing in the beer industry. After the stage is set, the focus returns to the craft beer industry with sub-sections on differentiation, building a brand, and building a beer culture.

2.3.4.1 Marketing for mega breweries

Effective marketing is essential in the beer industry. Madsen and Wu (2016:48) found that for a 100% increase in revenue, a 78% increase in marketing is needed and the distribution cost increases by 90%. This finding indicates that economies of scale in terms of marketing is a stronger driver than economies of scale in distribution for mega-breweries. The elasticity of marketing, which is significantly below one explains why the seven largest breweries spent on average 16% of net revenue on marketing (Madsen & Wu, 2016:47). Banda, Matumba, and Mondliwa (2015:22) found that the marketing cost of SAB is approximately 1% and for Brandhouse 4% of the total cost of beer, compared to 10% for craft beer.

2.3.4.2 Marketing for craft breweries

Where mega-breweries can effectively use television and radio form marketing reaching their nation market, the same is not true for most craft beer breweries which generally have a local market (Madsen & Wu, 2016:42). Troxler (2015:76) found through interviews with craft beer customers that the most effective method for advertising craft beer is word-of-mouth. The interviewees indicated that they would likely try craft beers friends and family recommended to them. Another source of advertising related to word-of-mouth is online reviews. Verhaal *et al.* (2017:2547) found that the review scores for craft beer are significantly higher than mass-produced beer and even “crafty” beers. Clemons, Gao, and Hitt (2006:4) found in their preliminary results that even though higher review scores do not correlate to higher sales, but rather to the rate of growth in sales.

Lee, Seltzer, and Callison (2017:4) highlights that advertising on social media is an effective method to reach millennials, which is the primary target market for craft beer breweries. Granese (2012) indicates that 41% of millennials have previously interacted with craft beer breweries on social media in the past and 70% of them are interested in following their favourite craft beer brewery. Granese (2012) also found that traditional advertising is not adequate for reaching millennials; less than 10% of their respondents indicated that they learned about a new craft beer through advertising.

2.3.4.3 Differentiation

The early success of the craft beer industry was partly due to craft beer breweries differentiating itself from the homogenised lager beer Produced by commercial breweries (Elzinga *et al.*, 2015:255). Elzinga *et al.* (2015:255) continued by indicating that the homogenised beer of commercial breweries did not only open the door for craft beer breweries but also imported beers. Craft beer and imported beer brought alternative types of beer to the market and enjoyed increasing market share due to the differentiation. According to Botes (2015:96) with a wide variety of different beers, even non-traditional beer drinkers can find an enjoyable beer that is appealing to their taste.

Troxler (2015:60) found that customers purchase craft beer because it offers more variety compared to mainstream beers. Through an online survey sent to all the craft beer breweries in South Africa by Lucy Corne form The Brewmistress blog, it was indicated by the respondents that pale lagers are the top sellers for 34.8% of the breweries, pale ales for 20%, and 11% indicated that IPA's are their top-selling beers (Crone, 2019). This is an indication that the craft beer market in South Africa is becoming more mature. Craft beer drinkers are moving away from the familiar lager beers, which dominated the market for over 100 years through SAB.

Brewpubs differentiate itself from other types of breweries by giving customers a truly unique experience (Welch, 1997:175). Not only do brewpubs brew craft beer, but it also has a complete food menu and generally displays the brewing kettles and equipment. This all adds to create a unique experience for customers. According to Troxler (2015:47), food pairing with beer is an enabler for craft beer breweries

2.3.4.4 Target market

According to (Ascher, 2012:29), the growth in the craft beer market is associated with the millennial generation (21-30 age group). The perception is that the millennial generation is more likely to experiment with new beer tastes. Warner (2010:44) expands on the demographics of craft beer drinkers by indicating that they are generally younger, affluent and well educated. In a more recent study Long, Velikova, Dodd, and Scott-Halsell (2018:10) reiterated the target market for craft beer by finding that 38.9% of respondents were between 21 and 30 years old, 78.3% had a university degree and 37.1% earned over $100 000 a year. These respondents were all craft beer drinkers surveyed at a craft beer festival.

2.3.4.5 Building a brand

A big challenge for craft beer breweries is to stand-out from the hundreds of other craft beer breweries (Hall, 2018). To stand out from other craft beer breweries, they need to build a strong brand that consumers can recognise. One way craft beer breweries can build a strong brand is to build the brand around a local identity Gatrell *et al.* (2018:9) indicate that craft beer breweries can successfully build a brand around a local identity. Examples of craft beer breweries building a brand based on a local identity include the Great Lakes Brewing Company, Falls City Brewing Company, and Goodwood Brewing Company.

In South Africa Mitchell's Brewery branded their beers based on the local identity of Knysna. Their Forester's lager is a favourite with lumberjacks that work in the local forests (Bick & Sidubi, 2018:2). On the other hand, their Bosun's Pale Ale pays homage to shipwreck stories where captains failed to listen to the bosun or "right-hand man". The objective of Michell's Brewery was to form a personal connection between the brewery and the local customers (Bick & Sidubi, 2018:2). Bick and Sidubi (2018:6) highlight that Mitchell's Brewery reinforced their commitment to the local community by donating 50c for every bottle or draught of Forester's Lager sold to aid the rebuilding of Knysna after the 2016 Knysna fires.

2.3.4.6 Building a beer culture

Crone (2018a) indicates that building a beer culture in South Africa as one of the main challenges facing the craft beer industry. Even though South Africa has the eighth biggest beer market in the world (Botes, 2015:94) and beer is the most popular alcoholic drink in South Africa (Stats SA, 2017). Crone (2018a) points out that beer is still seen as inferior to wine and lager is the dominant type of beer sold. The challenge for craft beer breweries is to build a beer culture where craft beer can be listed alongside wine on restaurant menus, and beer consumers are willing to experiment with different types of beers. On a positive note, Crone (2019) found through surveying craft beer breweries in South Africa that although lager is still the most popular style of beer at 38.8%, pale ales were second-most popular with 20% and IPA's third with 11%, showing that the craft beer industry of South Africa is maturing.

2.3.5 REGULATION AND TAXATION

Regulation and taxation are challenges for the craft beer industry. According to (Elzinga *et al.*, 2015:257) regulations inhibit the growth of the craft beer industry, and as regulations of the craft beer industry are reduced, the growth of the industry improves. Howard (2018:1) indicated that in America, excise taxes, zoning laws and distribution restrictions are regulatory barriers that impede the growth of the craft beer industry. Banda *et al.* (2015:12) address two regulations impacting craft beer breweries in South Africa. The first is the National Liquor Act 59 of 2003, and the second is regulations relating to vertical integration of the beer supply chain. Crone (2018a) added that the zoning restriction associated with micro-manufacturing licences is a challenge for craft beer breweries.

The National Liquor Act gives guidance for licences regarding the manufacturing and distribution of alcohol. The retail of alcohol is regulated on the provincial level (Banda *et al.*, 2015:13). During the drafting of the Act, it was proposed to separate the alcohol industry into three tiers, manufacturing, distribution and retail. The proposal would have prohibited firms from holding licences for more than one-tier, but the current iteration of the act does not have such a prohibition. The three-tier separation of the supply chain of alcohol is not a novel concept. Almost every state in America adopted the three-tier system after the repeal of prohibition (Pellegrin Jr, 2019:191). The rationale behind the three-tier system is to address the problem of a “tied house”, revering to when a brewery also owns a retailer. A tied house has historically led to monopolies in the alcohol industry.

Regulations addressing the three-tier system is complex. Banda *et al.* (2015:21 & 24) argue that SAB’s extensive distribution network possess a barrier to entry for craft beer breweries. As a distributor SAB supply refrigerators to retailers on loan and install beer taps, however, they restrict the use of the equipment to their products. As discussed previously in section 2.3.2.2 on distribution challenges, it was discussed that craft beer breweries do struggle to obtain beer tap space. Even though implementing a three-tier system might address SAB’s domination in the distribution of beer, there is a different side to the discussion. In America craft beer breweries, especially brewpubs, have challenges due to the three-tier system. Pellegrin Jr (2019:212) argues that the three-tier system gives an unfair advantage to distributers, and it primarily affects small breweries that cannot overcome the legal barriers. This argument indicates that implementing a three-tier system in South Africa will not solve the problem of SAB as a dominant distributor.

Brewpubs operate as both a manufacturer and a retailer simultaneously, under the three-tier system this is not allowed. In America, brewpubs were legalised through legislation giving then a limited exemption from the three-tier laws allowing them to sell beer directly to customers (Welch, 1997:176). However, there are several restrictions to the exemption ranging from limiting production to where and to whom they can sell beer. Brewpubs were first legalised in 1983 when California became the first state to allow beer production and retail to be vertically integrated (Welch, 1997:175). The legalisation and restrictions of brewpubs are legislated on the state level rather than federally. Brown (2015:55) indicates that there are continuous changes to regulations regarding craft beer breweries some positive and some negative.

It is not only America that has restrictions impacting brewpubs, but in South Africa, brewpubs also have to overcome regulatory challenges. Crone (2018a) indicates that the micro-manufacturing licence needed by craft beer breweries is generally only issued to premises in industrial areas. This limitation has a significant impact on brewpubs. In contrast to other craft beer breweries which sell to restaurants and bars, brewpubs need customers to come to the premises. As Crone (2018a) indicates, customers do not necessarily want to bring their family to an industrial zone for an afternoon outing.

Excise tax is a tax on the alcohol content of beer. In South Africa, the excise tax on beer is about R1.74 per can of beer (South African Government news agency, 2019). This value is not an absolute value for the excise tax on beer because the tax is based on the percentage of alcohol in the beer. Excise tax is based on one litre of pure alcohol in beer (Russell & Van Walbeek, 2016:8). In America, the excise tax for breweries was reduced from $9/barrel to $7/barrel for the first 60 000 barrels if the total annual production is less than 2 million barrels (Elzinga *et al.*, 2015:244). Brown (2015:55) indicates that in Michigan, a further excise tax reduction is proposed decreasing the tax to $3.50 per barrel for the first 60 000 barrels. Even though craft breweries in South Africa requested the National Treasury for an excise tax reduction, there is currently no such reduction (Banda *et al.*, 2015:12).

2.3.6 COMPETITION

With about a 150 craft beer breweries competing for a limited market share, it is expected that there are high levels of competition between craft beer breweries. Although the competition between craft beer breweries poses a significant challenge, this section will instead focus on competition from commercial breweries. Even though there is some evidence that mega breweries supported craft beer breweries in the past. For example, SAB mentored new craft beer brewers, sponsored beer festivals, and hosted beer competitions (Bick & Sidubi, 2018:4). However, Swaminathan (2001:1171) indicates that as a niche market such as the craft beer industry grows, so does competition from the generalist market, in this case, Commercial breweries, increases. For this section, the focus will be on commercial breweries competing directly with craft beer breweries in the craft beer section, rather than commercial breweries competing from within the generalist market against the craft beer industry.

Howard (2018:2) indicates that commercial breweries follow two strategies to compete in the craft beer industry. The first strategy is to launch its own “craft” beer (Elzinga *et al.*, 2015:256). The second strategy is to acquire existing craft beer breweries. These strategies are known as craftwashing, and the beers are known as either “faux” or “crafty” beers (Ferguson, 2014). Ferguson (2014) continues by noting that some customers support the craft beer industry not only because of taste but also to support small independent breweries. Commercial breweries try to deceive customers either by promoting its “crafty” beers under a different brand or by not disclosing acquisitions of craft breweries. Howard (2018:8) indicates that about 30% of the shelf space dedicated for craft beer contains either crafty beers or craft beers from craft breweries with significant ties to commercial breweries.

To combat this deception in America, the Brewers Association launched a seal to identify independent craft beers (Boulder, 2017). The seal can be seen in Figure 2-4. This seal allows customers to distinguish between craft beers that are produced by independent craft beer breweries with ones that are produced by breweries controlled by commercial breweries. The seal is available for any craft beer brewery that meets the Brewers Association’s definition for craft beer breweries free of charge. The use of the seal is not restricted to craft breweries that are a member of the Brewers Association.

Although the entry of mega-breweries in the craft beer sector adds to competition and poses a significant challenge, it may have positive side effects for the craft beer industry. Verhaal *et al.* (2017:2540) indicate that crafty beers from commercial breweries aided the craft beer industry by introducing beers with different tastes and flavours to consumers of commercial beers. This exposure to different beers leads to some loyal customers of the commercial beer market to try craft beers. This finding has led to Verhaal *et al.* (2017:2548) recommending that market-centre firms should avoid mimicking well-established niche markets.

Figure 2-4 The Brewers Association's seal for independent breweries

Source: (Boulder, 2017)

2.3.7 SUMMARY

These five challenges identified that impact craft beer breweries are not unique to craft beer breweries alone. The majority of small businesses, as well as large businesses, will have challenges related to supply chain management, quality control, marketing, regulation and taxation, and competition in some form or another. However, this does not diminish the challenges faced by craft beer breweries and need to be investigated further to ensure the growth and sustainability of the industry.

The majority of the challenges faced by craft beer breweries is at least partially due to the dominance of commercial breweries. May it be the control of the supply chain by commercial breweries or the aggressive marketing campaigns. Craft beer breweries need to address these challenges and find solutions or workarounds. The next section will discuss the opportunities craft beer breweries can utilise to overcome these challenges.

2.4 OPPORTUNITIES IN THE CRAFT BEER INDUSTRY

"Give me a woman who loves beer and I will conquer the world."
- Kaiser Wilhelm, The last King of Prussia

2.4.1 INTRODUCTION

This section will look at some of the opportunities for the craft beer industry that was found throughout the literature. These opportunities include craft beer tourism, cooperation between craft beer breweries and the wineification of beer. This is not an extensive list of all the opportunities for craft beer breweries. However, these opportunities will serve as a base for the study.

2.4.2 CRAFT BEER TOURISM

According to Rogerson and Collins (2015a:243), beer tourism consists of the following; brewery tours, beer museums and exhibits, and special events such as beer festivals and beer tours. Craft beer tourism is an extension of culinary tourism, where one of the motivations to travel is to experience local food and drink (Rogerson, 2016:2). McMullin, Bradley, and Maples (2019:43) indicated that craft beer drinkers want to buy locally produced products and support the local community. Alonso, Sakellarios, and Bressan (2017:8) found that some craft beer breweries in Europe believe that craft beer tourism should complement local tourism and partner with local food producers and accommodation providers.

2.4.2.1 Craft beer trails

For craft beer trails to be successful, it is vital to form partnerships with local accommodation providers and touring companies due to the concern of craft beer drinkers driving under the influence of alcohol (Slocum, 2016:6). To address this concern Slocum (2016:13) investigated whether accommodation providers and bus or tour companies would support or promote brewery tours and found that there was support from both these tourism sectors although the support from the accommodation sector was stronger than the tour bus industry.

One of the best examples of successful craft beer tours is the beer trail in Bend, Oregon. Even though Bend is a small town with a population of only 82 000 it has got 14 craft breweries in the town. The breweries are walking distance from each other and tourist that participate in the beer trail receives a beer trail passport where they receive a stamp for each brewery that they visit and sample a beer. If they collect 11 stamps, they can receive a prize form the Bend Visitor Centre (Howlett, 2013:33). This beer trail of Bend is an example of how a town can take advantage of several craft breweries near each other to attract tourists.

Howlett (2013:31) argues for developing beer tourism. The beer industry needs to learn from the wine industry, which has already developed a thriving wine tourism industry. South Africa is known for its wine tourism in the Western Cape province (Rogerson, 2016:1). Even though the first craft beer trail in South Africa was launched in October 2002 in the KwaZulu-Natal province where tourists visit five craft beer breweries and two commercial breweries (Rogerson & Collins, 2015a:251). The majority of the craft beer trails in South Africa are in Cape Town. These trails are focused on international tourists as an alternative to the wine routes in the area (Rogerson & Collins, 2015a:252). One example of a craft brewery trail in Cape Town is the five-day craft beer tour, which includes accommodation at a boutique hotel, visiting local craft breweries and a beer cruise on a yacht. This tour is offered by Ker & Downey Africa known for its safari tours throughout Africa (Rogerson & Collins, 2015a:252), which links back to Slocum (2016) who found that accommodation providers and tour companies are willing to support craft beer tourism.

2.4.2.2 Beer festivals

The largest beer festival in the world is Octoberfest in Munich, with over 6 million visitors (Rogerson & Collins, 2015b:79). One of the most notable craft beer festivals is the Great American Beer Fest, which features over 600 different craft breweries across America. The CraftBru website, which lists the craft breweries and craft beer events in South Africa, indicates that they have 108 unique beer festivals in their database, which was started in 2013 (CraftBru, 2019f). This indicates that craft beer festivals are popular in South Africa. Rogerson and Collins (2015b:81) found that in 2014 there were 54 craft beer festivals in South Africa. They also found that the two-thirds of the beer festivals were located in metropolitan areas such as Cape Town, Johannesburg, Pretoria, Durban, and Ekurhuleni. Rogerson and Collins (2015b:84) also found that at the craft beer festival in Clarens 88% of the attendees were from out of town of which 58% stayed for at least one night. This indicates that craft beer festivals can boost local tourism economies.

2.4.3 COOPERATION AMONG CRAFT BEER BREWERIES

Lee *et al.* (2017:10) indicate that there is a high level of cooperation between craft brewers. Rather than competing with each other craft beer brewers want the whole industry to thrive. There is a believe among craft beer brewers that a rising tide lifts all boats, where brewers that produce low quality beer risks lowering the tide and brewers that produce high-quality beer have the potential to rise the tide (Mathias *et al.*, 2017:39). Cooperation is one of the factors that contribute to the success of craft beer breweries (Tomski & Menderak, 2019:18).

Mathias *et al.* (2017:21) found several ways in which craft beer breweries cooperate, which is listed below:

- Share or sell raw materials at cost to each other.
- Share information or give advice related to brewing operations.
- Help each other with distribution
- Collaboration brews
- Help each other with the regulation process and collective bargaining to change regulations
- Help each other to solve problems
- Craft beer guilds to share information

2.4.3.1 Brewers associations

A brewers association is an extension of the cooperation and act as a portal for craft beer breweries to interact with each other and share information. The Brewers Association of America aims *“to promote and protect American craft brewers, their beers and the community of brewing enthusiasts”* (Brewers Association, 2019b). The brewers association of America list six functions or services they provide for its members:

1. They advocate for a level playing field for craft beer brewers in terms of regulation and back state-level beer guilds.
2. They have an independent craft brewer’s seal, which brings clarity and transparency regarding whether a brewery is independent of commercial breweries.
3. They provide a resource hub for best-practice guidance regarding safety, diversity, and sustainability.
4. They promote the cooperative spirit of the craft beer industry by bringing brewers together through the craft brewer’s conference, share information through the New Brewer journal, and host a forum.
5. They invest in research and build relationships with raw material suppliers.
6. They assist to increase the quality of craft beer by providing educational resources.

Similar to the brewers association of America, South Africa also have a brewers association called Craft Brewers Association South Africa (CBASA), which was established in 2017 (CBASA, 2019). The CBASA has similar objectives as the brewers association of America, which is listed below:

- Grow the market share of craft beer
- Help small brewers
- Create passionate beer drinkers
- Educational resource
- Lobby public and private stakeholders
- Empower entrepreneurs
- Educate previously disadvantaged groups about craft beer

From these two brewers associations, it can be seen that there is a strong focus on education, creating a community and collective bargaining for regulatory changes.

2.4.4 WINEIFICATION OF BEER

In section 2.1.2, it was shown that the comparison between beer and wine goes back centuries. With wine being considered a more high-class product compared to beer being a workers-class product. Craft beer is starting to bridge that divide. Warner (2010:44) indicates that there is an overlap between the demographics of wine and craft beer drinkers, both are affluent and well educated with many craft beer drinkers also drink wine, which is generally not the case for traditional beer drinkers. According to Alleyne (2011:111), beer has similar undertones as wine such as fruits, berries, and chocolate, which may partially explain the overlap between craft beer and wine drinkers.

Wineification of beer is a move to educate consumers about the qualities of different styles of beer. The goal is to encourage consumers to buy craft beer based on different styles of beer rather than based on a specific brand (Mathias *et al.*, 2017:24). Craft brewers refer to this change in consumer behaviour as wineification because generally wine drinker order wine based on specific varieties of wine such as Merlot or Chardonnay. Crowell (2015:1) argues that wineification is happening naturally as craft beer is reaching a more premium level. Even though wineification is good for the craft beer industry as a whole, individual craft breweries will need strong branding to stand out from other breweries.

2.4.5 SUMMARY

From these opportunities, it can be seen that craft beer breweries can learn a lot from the wine industry. The wine industry has a well-developed tourism industry with wine routes that the craft beer industry can mimic as well as well-developed variants of wine that consumers can identify. For the future of the craft beer industry craft brewers need to work together to address challenges and learn from the lessons already learnt in the wine industry.

CHAPTER 3: RESEARCH METHODOLOGY

"He was a wise man who invented beer."
- Plato, Classical Greek philosopher

3.1 INTRODUCTION

This study aimed to explore the challenges and opportunities for craft beer breweries in central South Africa. The limited number of academic research on craft beer breweries in South Africa (Sidubi, 2017:ii; Ramorula, 2018:60) influenced several of the decisions regarding the research design of this study. It was decided to conduct a qualitative study in order to explore the challenges and opportunities for craft beer breweries and to get a more in-depth view of these challenges and opportunities. Bryman and Bell (2014:31) indicate that qualitative research has an inductive approach, which is more suited for generating theories rather than proving it.

This chapter will discuss how data was collected and how the data was analysed after it was collected.

3.2 RESEARCH APPROACH

The study followed a qualitative description approach. Neergaard, Olesen, Andersen, and Sondergaard (2009:53) indicate the qualitative description uses a straight and rich description of the statements from participants and during the reporting of the date the researcher stay close to the date. According to McCombes (2019), a descriptive research approach is useful for studies where there is limited information about the topic. Due to the explorative nature of the study and the limited academic research available on the craft beer industry in South Africa, a qualitative description approach is ideal.

3.3 DATA COLLECTION

In this study, two types of data were collected. First, a literature review was done to gather background information on the craft beer industry, including the challenges and opportunities related to craft beer breweries. The literature review does not only look at craft beer breweries in South Africa but also in America and Europe. Where applicable comparisons were drawn between craft beer breweries in South Africa and craft beer breweries form other countries. The Information found through the literature review was used to guide the researcher during the interviews with participants with probing questions aimed to gather additional information or to provide clarity.

Secondly, semi-structured interviews were held with eight owners of craft beer breweries in central South Africa. The questions were open-ended and allowed for probing by the researcher. An example of the interview schedule can be seen in Appendix A. The interview schedule only contained five questions, one of which were demographic. Due to the limited number of question, probing was done on the main challenges and opportunities identified through the literature review. Before each of the interviews, a letter of informed consent was sent to the interviewees. The letter of consent can be seen in Appendix B. Six of the interview were done at the craft brewery itself and included a tour of the brewery. The remaining two interviews were done over Skype. With two of the interviews that were done at the breweries, a brewer or an assistant brewer was also present for the interview. The interviews ranged from between 30 and 70 minutes, with an average duration of 45 minutes. The face to face interviews was recorded using a digital voice recorder, and the Skype interviews were recorded using the Skype record function.

3.3.1 POPULATION AND SAMPLING

The population for this study was the owners of craft beer breweries in central South Africa. For this study, central South Africa include the provinces of North-West, Free State and Gauteng. The Craftbru website, which lists the craft breweries in South Africa, was used to calculate the population size. A breakdown of the population size was done in section 1.5.3. There is a total of 39 breweries listed on the website.

However, some of the breweries closed down recently reducing the population size. To contact the breweries the contact details of the breweries were obtained from the Craftbru website. The craft breweries were contacted by telephone and availability for an interview were requested. Due to scheduling problems and time constraints, several of the breweries were not available for an interview. Only one of the breweries contacted were not interested in participating in the study.

3.4 DATA ANALYSIS

Bryman and Bell (2014:342) indicated that the three most frequently used data analysis strategies are analytic induction, grounded theory, and thematic analysis. This study followed the thematic analysis technique. Bryman and Bell (2014:350) define thematic analysis as a flexible method that does not follow a specific philosophical orientation.

Braun and Clarke (2006:77) stated that thematic analysis is a widely used qualitative analytic method, yet it is poorly demarcated and rarely acknowledged. In their study, they aimed to write a teaching and research tool that discuss the theory and methods for thematic analysis.

Braun and Clarke (2006:87) suggest that there are six phases in thematic analysis. Table 3-1 summarises the phases of thematic analysis.

Table 3-1 Phases of thematic analysis

Phase	Description of the process
Familiarising yourself with the data	Verbal data need to be transcribed first. Then read and re-read the data while noting down initial ideas
Generating initial codes	Systematically code interesting features of the data and collect data relevant to each code
Searching for themes	Sort codes in potential themes and gather all relevant data for each theme
Reviewing themes	Check if the themes work in relation to the coded extracts and the entire data set, then make a thematic map of the analysis
Defining and naming themes	Refine the specifics of each theme. Name and define each theme
Producing the report	Produce a scholarly report of the analysis by selecting vivid, compelling extract examples that relate to the research question and the literature

Source: (Braun &Clarke, 2006:87)

3.4.1 TRANSCRIBING THE INTERVIEWS

From Table 3-1, it can be seen that transcribing the interviews is one of the key phases of thematic analysis. The interviews were transcribed using the voice typing function of Google docs. After the initial transcribing of the interviews, the accuracy of the transcription was re-checked against the recording. Due to time constraints, it was decided to do only simple transcriptions following the rules set out by Dresing and Schmieder (2015:28), which is listed below. Appendix C provides an example of one of the transcribed interviews.

1. Transcribe literally, do not summarise the interview.
2. Transcribe informal contractions such as “gonna” into standard language, in this case “going to”.
3. Maintain the sentence structure despite possible syntactic errors.
4. Stutters or repeated words are omitted, except when used for emphasis.

5. Punctuation is smoothed for better legibility.
6. Pauses are indicated by (…).
7. Affirmative utterances such as “Uh-huh” are not transcribed.
8. Emphasised words are capitalised.
9. There is a blank line between each speaker.
10. Emotional utterances such as laughter are transcribed in brackets, for example, (laughing)
11. Incomprehensible sections are indicated by (inc.)
12. The participant's speech is marked by “P:” and the interviewer by “I:”

3.4.2 CODING

Phases 2 to 5 of thematic analysis is related to the coding of the transcriptions. To do the coding Atlas.ti version, eight was used. According to Friese, Soratto, and Pires (2018:12.) Atlas.ti allows the researcher to store and manage all the data collected during the research project in one place (Beaulaurier *et al.*, 2008:237).

Saldaña (2015:4) indicates that a code is a word or a short phrase that the researcher attributes a section of the data. The amount of coded generated depends to some extent whether the researcher does lump or split coding. Lump coding refers to giving a single code that captures the essence of a section, where split coding refers to splitting the section into smaller sections (Saldaña, 2015:23). For this study, the researcher employed a lump coding philosophy. Saldaña (2015:3) explains 32 different methods of coding in the manual. This study mostly used the descriptive coding method, which Saldaña (2015:88) explains, is suitable for almost all qualitative studies and particularly for a researcher still learning how to code. Descriptive codes describe the date using a word or a short phrase, usually a noun.

After the initial coding was completed the codes were organised into ten themes, 31 sub-themes and 31 categories. These three levels of organisation were used as a guideline. However, it was not always possible or a true reflection of the date to use all three levels of organisation. The complete list of the codes will be made available on request. The final phase of thematic analysis is producing the report. To ensure the quality of the dissertation the study followed the checklist of 15 criteria for proper thematic analysis prescribed by (Braun & Clarke, 2006:96), Table 3-2 is a list of the steps

Table 3-2 A 15 point checklist of criteria for proper thematic analysis

Process	No	Criteria
Transcription	1	The data have been transcribed to an appropriate level of detail, and the transcripts have been checked against the tapes for "accuracy".
Coding	2	Each data item has been given equal attention in the coding process.
	3	Themes have not been generated from a few vivid examples (an anecdotal approach), but instead, the coding process has been thorough, inclusive and comprehensive.
	4	All relevant extracts for each theme have been collected.
	5	Themes have been checked against each other and back to the original data set.
	6	Themes are internally coherent, consistent, and distinctive.
Analysis	7	Data have been analysed, rather than just paraphrased or described.
	8	Analysis and data match each other. The extracts illustrate the analytic claims.
	9	Analysis tells a convincing and well-organised story about the data and topic
	10	A good balance between analytic narrative and illustrative extracts is provided
Overall	11	Enough time has been allocated to complete all phases of the analysis adequately, without rushing a phase or giving it a once-over.
Written report	12	The assumptions about, and specific approach to, thematic analysis are clearly explained.
	13	There is a good fit between what you claim you do, and what you show you have done. The described method and reported analysis are consistent.
	14	The language and concepts used in the report are consistent with the epistemological position of the analysis.
	15	The researcher is positioned as active in the research process: themes do not just emerge

Source: (Braun & Clarke, 2006:96)

3.4.3 TRUSTWORTHINESS

According to Bryman and Bell (2014:44), trustworthiness is used to assess qualitative research and consists of four criteria; credibility, transferability, dependability, and confirmability.

3.4.3.1 Credibility

Credibility was ensured by first sending the interview schedule to the participant at least one day before the interview. During the interviews, the participants were asked whether they have additional information to add. After the interviews, the interview was transcribed verbatim and rechecked for accuracy. During the coding process, peers were consulted.

3.4.3.2 Transferability

Transferability was ensured by reaching saturation of the main themes by the sixth interview. Transferability was further increased by interviewing the owners of craft beer breweries directly. The study also has a research methodology stipulating each step taken during the research process.

3.4.3.3 Dependability

Dependability is ensured by triangulation of the data through a literature review supporting the data obtained. The literature review looked at research from various countries, not just in the study area.

3.4.3.4 Confirmability

Confirmability was ensured by consulting the supervisor of the study as well as an expert on qualitative research.

CHAPTER 4: RESULTS AND DISCUSSION

"In a study, scientists report that drinking beer can be good for the liver. I'm sorry, did I say 'scientists'? I meant Irish people."
Tina Fey, Comedian

This chapter discusses the results from the semi-structured interviews held with owners of craft beer breweries. The chapter starts with providing demographic information about the participants of the study. Many of the challenges are related to the type of brewery. After the section on demographic information, the various themes related to the challenges facing craft beer breweries will be discussed. After challenges, the themes regarding opportunities will be discussed.

4.1 DEMOGRAPHIC INFORMATION

This study is focused on the challenges and opportunities of the craft beer breweries rather than the owners themselves. Due to the focus of the study, the demographic information focuses more on the breweries than the participant. To distinguish between the various participants of the study, a code is given to the participants based on the type of brewery. These codes are listed below:

- BP = brewpub
- CB = contact brewery
- MB = microbrewery
- RB= regional brewery

The demographic information is summarised in Table 4-1.

Half of the participant started with home brewing before they opened a craft beer brewery.

"I suppose it started by accident or by chance I previously worked in the film industry, but I was homebrewing for about eight years, just as a hobby." – BP3

"So basically you know where we are now it is actually a hobby which got out of hand a bit" – MB1

Gatrell *et al.* (2017:2) argue that the craft beer industry benefits from the creativity, experimentation and innovation from the homebrewing movement. Their argument is supported by the number of the craft beer breweries that started with homebrewing.

Table 4-1 Demographic information about the participants

Participant	Type of brewery	Province	Year opened	Capacity (Batch)	Past brewing experience
MB1	Microbrewery	Gauteng	2007	250ℓ	Homebrewing
BP1	Brewpub	Free State	2015	1000ℓ	Homebrewing
BP2	Brewpub	Free State	2016	300ℓ	Homebrewing
BP3	Brewpub	North West	2019	280ℓ	Homebrewing
BP4	Brewpub	North West	2017	1000ℓ	Worked for SAB
BP5	Brewpub	Gauteng	2018	200ℓ	Non
RB1	Regional brewery	Gauteng	2016	45000ℓ	Worked for SAB
CB1	Contact brewery	Gauteng	2016	4000ℓ per month*	Non

***** The batch size is dependant on the brewery that brews their beer**.**

Even though not all of the participants started with home brewing, they had other motivations to start a craft beer brewery. One of the participants worked for SAB and wanted to stay in the beer industry.

"*Essentially the Brewery started by myself being employed with SABMiller in Africa … I looked at alternative opportunities to create something for myself. And having been in the beer industry for that long time, I thought it would be fairly appropriate to actually start a craft brewer"* – BP4

Other participants saw business opportunities in the craft beer industry.

“I was in the beer business with SAB … I am a strategist by profession, so I came back, I saw the beer industry, the Craft Beer industry growing ... in early 2015 we decided to build the brewery a small Brewery, smaller than we got now. The dream became bigger and bigger until we built what became [Redacted].” – RB1

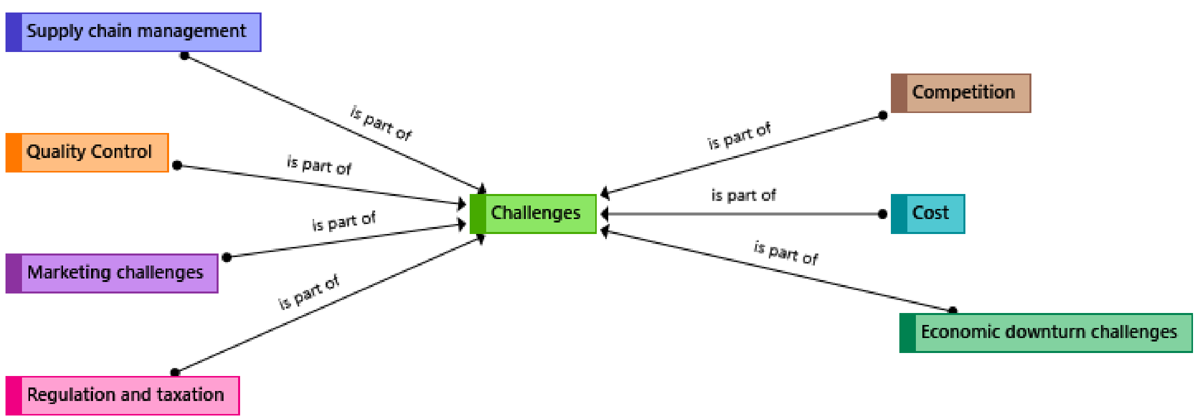
“It is actually quite an interesting story. So I did my masters at Tuks in engineering management, and one of the modules we did was entrepreneurship and new ventures, and as part of that, we had to investigate, a business case of some sorts. I looked at the opportunities for starting a craft brewery ... I obviously saw that opportunity, saying there is a gap to start a brewery here.” – CB1

It does not matter what the motivation of the participants was to open their craft beer brewery, whether it was to start a business out of their hobby or to exploit an opportunity. There are some significant challenges in the craft beer industry to consider. The following section will explore these challenges facing the craft beer industry.

4.2 CHALLENGES

Through the interviews conducted, the participants described several challenges facing the craft beer industry. These challenges were categorised into seven themes, which are illustrated in Figure 4-1

Figure 4-1 The challenges facing the craft beer industry

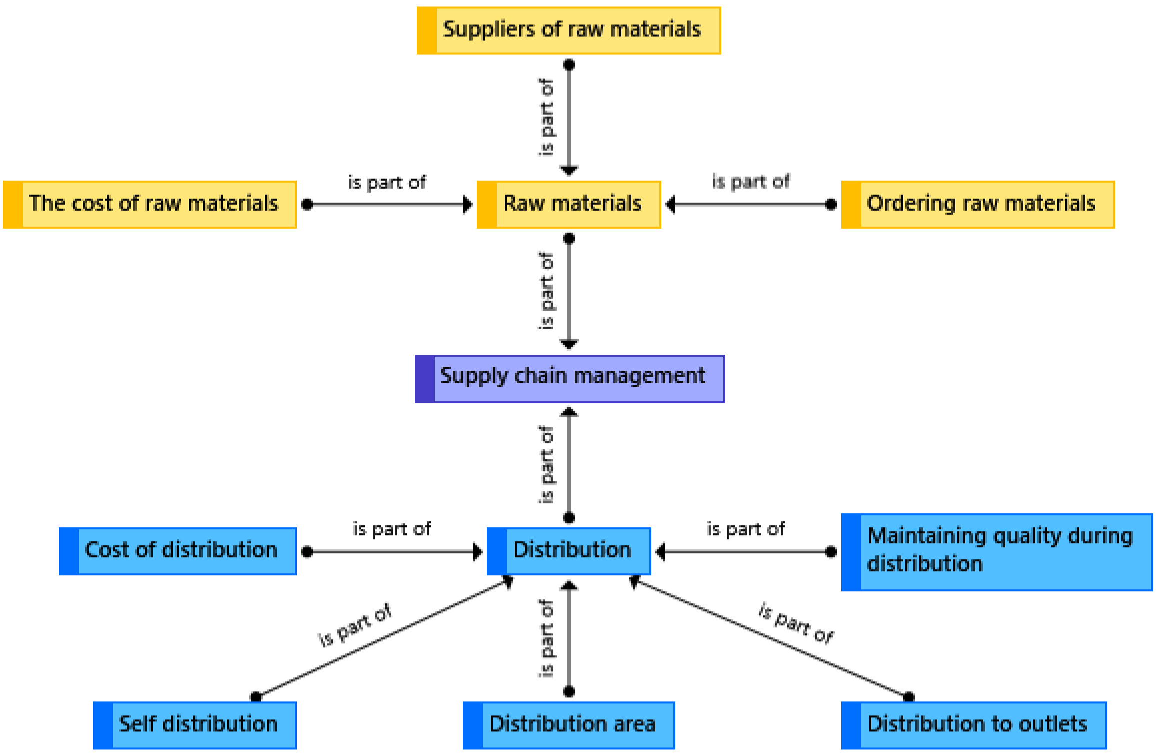


Source: Created by the researcher in Atlas.ti

4.2.1 SUPPLY CHAIN MANAGEMENT

The challenges of supply chain management can be divided into two sub-themes, distribution and supplying raw materials. Figure 4-2 illustrates the theme of supply chain management and the two sub-themes and the categories associated with each sub-theme.

Figure 4-2 The challenges of supply chain management



Source: Created by the researcher in Atlas.ti

4.2.1.1 Sourcing raw materials

The challenges regarding the sourcing of raw materials can be divided into three categories; the cost associated with sourcing raw materials, challenges regarding the ordering of raw materials, and the suppliers of raw materials.

4.2.1.1.1 Suppliers of raw materials

One of the key challenges regarding the sourcing of raw materials is the limited number of local suppliers

"And then suppliers. There is very limited number of suppliers. Both with your raw products as well as your equipment in South Africa" – BP2

Another participant indicated that not only is the number of local suppliers limited, but they also have a limited variety of local raw materials.

"Yes, so the sourcing raw materials in South Africa is very limited ... So there are only two suppliers that I know of that we can use for malt, one is SA Breweries, the other one is Walts Malts in Cape Town … But they mostly do base malts, so the speciality malts all come from overseas" – BP3

"We do not have a very wide variety of South African hops, there are some hops, they are decent quality, we can use them, but they do limit you to certain styles of beer" – BP3

The quality of local raw materials is also a concern for craft beer breweries.

"Yes, we only use imported malt. Pale malt as well as your speciality malt. In essence, just because of the quality. You get better yields, it is more expensive, but you get better yields and the better quality that comes out of it." – BP4

Ramorula (2018:49) also found in his study that the quality of locally sourced malt is a concern. The impact of low-quality raw materials will be discussed in more detail in the section on the challenges of quality control. Due to the low quality and lack of variety of local raw materials, many of the participants indicated that they import hops and malted barley from importers. One of the participants that were in the craft beer industry from 2007 indicated that in the early days, there was a lack of suppliers that imported raw materials.

"I mean in the early days I struggled to get the raw materials which needed to be imported because there was nobody who was marketing the raw materials. Until sometime that somebody in Joburg stood up ... He was the only one for a number of years, and then things started exploding ... So there was challenges, but it is not a challenge anymore. It is straight forward." – MB1

Even though using suppliers that import raw materials helps to overcome the challenge of low-quality raw materials and the lack of variety of hops and malted barley, it does bring some additional challenges. Using imported raw materials increases the cost.

4.2.1.1.2 The cost of raw materials

All of the participants indicated that they use imported hops and malted barley. However, imported raw materials are more expensive than local raw materials.

"The speciality malts all come from overseas. So it is quite expensive compared to what you pay for South African-based malts" – BP3

It is not only the imported malts and hops that are expensive. One of the participants indicated that yeast is very expensive.

"Yeasts I mean yeasts is staggeringly expensive in this country and (...) generally the craft brewers do not have the experience or the expertise (...) the chemical background to be able to manage yeasts and to keep it alive" – RB1

One of the reasons that the cost of raw materials is so high is the small amounts the craft beer breweries by at a time. The lack of scale when it comes to purchasing raw materials is one of the reasons why craft beer cost significantly more than commercial beer.

"Craft Beer comes along you make it at the small-scale, so it is much more expensive to make, and you end up being 50 to a 100% more expensive than your

mainstream beers … the reason why we cannot willy-nilly drop prices is our procurement cost are obviously much more expensive. So if you think we order a couple of million bottles a year SAB Heineken order hundreds of millions, billions of bottles. So their procurement channels are so much more developed, so their cost of sourcing raw materials is so much cheaper." – RB1

4.2.1.1.3 Ordering raw materials

The small size of craft beer breweries does not only bring challenges regarding the cost of raw materials but also challenges in ordering raw materials.

"We also very small so you know for example one of the brewing salts we use (...) you know I mean we use a 100 grams in a brew. You know the minimum order size to import it for our suppliers is five tons. So we have to source it out of the country from other guys, and even then we have to buy you know 3-year supply or else you have to go to the small craft brewing suppliers who will break it down for you but charge you enormous sums of money for it you know." – RB1

The statement from the participant indicates that some of the raw materials need to be ordered in large batches to be economical. Another participant described that orders have to be placed in advance, which can be challenging for new craft beer breweries.

"The suppliers as (...), they got to buy it in bulk, and they have got too especially with hops there is a year in advance order process that they use. So they have to plan their orders according to the orders that craft brewers give them ... Most craft brewers except for the big ones have only been established for less than three years. So you do not have a history … it is very difficult to pre-plan and give guys orders." – BP4

The statements made by the participants regarding the challenges of sourcing raw materials describes that the majority of the challenges is due to the small size of the craft beer breweries as well as the size of the craft beer industry as a whole. Due to the small size of craft beer breweries and the resulting small order size, the cost of raw materials increases. The other cause of the challenges is the size of the industries supporting the craft beer industry. As the craft beer industry grows, so will the supporting industries. With more developed supporting industries, competition should decrease the prices and availability of raw materials. As already indicated the supply network of raw materials has already increased from the earlier stages of the craft beer industry. However, more development is needed to reduce the cost of raw materials.

4.2.1.2 Distribution

Distribution is an essential aspect of any craft beer brewery because the brewery needs to be able to sell the beer they produce and is one of the leading challenges craft beer breweries face.

"I would say that distribution is probably the biggest challenge" – BP3

Through the interviews, it was found that the challenges related to distribution can be divided into five main categories, as indicated in Figure 4-2. The five categories of distribution challenges have significant overlap between each other and are interrelated, which makes it challenging to discuss each category separately while maintaining the flow of the discussion. To overcome this challenge, some aspects of a specific category are discussed in another category. This section starts with discussing the challenge regarding the cost of distribution.

4.2.1.2.1 Cost of distribution

The majority of the participants indicated that they mostly distribute their beer themselves due to the low margins of using a distributor.

"Currently we are doing it on our own ... There are some people interested in distribution, but yet again there are costs involved ... if I give it to a distributor I basically have to give it to him at such a low margin because he wants his cut as

well, and the restaurant wants its cut. That you basically make no money out of it." – BP1

As described by the participant, the profit margin for using a distributor is too low for small craft beer industries. The larger craft beer breweries can use a distributor because even though the profit margin is low, they sell higher volumes making it still profitable as described by participant RB1, who is a regional brewery with a daily capacity more than the combined monthly capacity of all the other participants combined.

"When I go and see you as the owner of a liquor store is distributed amongst a whole lot of brands. So you get into the call costs of a couple of Rands a call as supposed to two hours of your time driving to wherever going to meet somebody and sell a case of beer where you probably only making R60 on it anyway. It is a volume game. Beer is essentially a volume game. The gin and the rum and the spirits business is different when you are selling something at R300 a bottle it is very different to selling it at R10 a bottle." – RB1

This quote also highlights another challenge facing small craft beer breweries. Small craft breweries sell low volumes at a time, which increases the cost and time investment to distribute their beer.

4.2.1.2.2 The challenge of self-distribution

As noted already, the majority of the participants indicated that they do not use a distributor and instead distribute their beer themselves. However, self-distribution brings its challenges such as logistical challenges and maintaining point of sales equipment in outlets. The challenge of maintaining point of sales equipment are discussed in the challenges of distributing to outlets category. In regards to logistical challenges, the participants pointed out various elements of logistics that they find challenging.

“The challenge that we typically sit we have is fluctuations ... Some of our clients … you will know exactly when they ordering and how much they ordering because it is exactly the same every week. There are other clients where they will not order for three or four weeks and then have three booming weeks in a row will be dead quiet again for a month. So there is a lot of fluctuations, and that makes the planning cycle around your deliveries in the distribution exceptionally tricky ... making those deliveries ad-hock and really not doing it as profitable as you can.” – CB1

From this statement, two logistical challenges can be identified. Firstly inconsistent orders, which influence not only distribution but also the production of beer. Beer takes about two weeks to brew, and craft beer does not have a long shelf life. The challenges of managing the shelf life of craft beer are discussed in one of the next section. The second logistical challenge is managing delivery routes and the frequency of delivery. The same participant described how they solved the challenge.

“So we have gone over to the setup where just in terms of planning. We have got certain days in the week that we run certain routes, which mean that if you are in the Pretoria East area, for example, you have to get your order in on a Wednesday so that you can have deliveries on a Thursday.” – CB1

So craft breweries can reduce distribution costs by setting up delivery routes with specific delivery dates. The other challenge of self-distribution is the size of the orders and the distance between outlets.

“Then because you are a small place if you find someone that will take a couple of kegs here and someone on the other side of town and with another couple of kegs there your logistic (…) problems of trying to supply them is quite difficult” – BP5

To overcome the challenge of the distance between outlets and to reduce the distribution cost, most of the craft breweries restrict their distribution area.

4.2.1.2.3 Distribution area

Many of the participants indicated that they focus on supplying their local community, which draws back to the idea of what an authentic craft beer brewery is. Even participant RB1, which is one of the largest craft beer breweries in South Africa indicated that the most successful model for craft beer breweries is to focus on their local area.

"In my book, one of the most successful models in the industry is, in fact, the brewery in Hermanus Old Harbour Brewing where 95% of their beer is sold within Hermanus ... In keg in 42 outlets within a 20 km radius of the Brewery. Very small team less than ten people ... Very successful model no distribution costs, small little warehouse not very expensive not in the greatest part of town but its fine." – RB1

Some of the participants indicated that they reduced their distribution area to mitigate some of the distribution challenges.

"In time you decide you know let shrink our footprint go for the local market and (…) try to make you know some good sales locally." – MB1

One of the other participants indicated that the way to grow the craft beer industry is for each craft brewery to focus on their local area and grow the craft beer market within the area.

"What we would see happening is rather instead of trying to go search for every single craft drinker in the country rather convert people in your own area to start supporting your brand … a lot of the South African set up we keep trying to compete for the same pie that we slice into thinner and thinner slices. If the industry really wants to be competitive, you have to grow the pie, and you cannot do that on a national level." – CB1

From this section, it can be seen that especially the smaller craft beer breweries reduce their supply area to decrease distribution costs and the complexity of distribution over a large. By focusing on the local community, craft beer breweries can expand their market share within the community. A local craft beer brewery becomes part of the community and forms a relationship with the community and build loyalty.

4.2.1.2.4 Distribution to outlets

Distributing to outlets is a significant challenge for craft beer breweries. One of the main challenges regarding distribution to outlets is accessibility. Outlets have only a limited number of beer taps, and more often than not, the beer taps are controlled by SAB.

> *"They (SAB) would do this in some bars and restaurants where they would put taps in for free, and the bar owner just has to pay for the beer. Now if I would like to do that you know it will cost anything between 20 to 40K just to get a 2 to 4 tap system installed."* – BP1

The statement of the participant describes that due to the cost of installing beer taps, most smaller craft beer breweries struggle to get access to tap space in a bar or restaurant. Larger craft beer breweries and SAB for that matter can afford to install beer tap in outlets that they want to distribute their beer. However, due to the cost of installing beer taps, they mostly restrict the use of the beer taps to their beers. It is possible to overcome the challenge of limited beer tap space by supplying bottles of beer. However, selling craft beer in bottles is not ideal.

> *"Bottles competition is really just about fridge space, but we do not really focus on on-consumption for bottles. Simply because they become very, very expensive. The on-consumption model requires the outlet owner to price your product two or three times higher than they pay for it ... And I am sorry, but R60 for a 340ml Craft Beer is a lot of money ... Whereas on draught you can get that right so on-con bottles your biggest challenge is price to be able to get that down as far as you can … You can compete with price a lot more aggressive even if you are a contact Brewery because you produce kegs at a much cheaper price."* – CB1

It is not only the lower profit margin and relatively higher retail price of beer in bottles that make it unattractive for craft beer brewery, but also many consumers prefer beer on tap rather than in bottles.

“I would rather drink and no-name brand in a draught, than a Castle LITE bottle.” – CB1

As already indicated the challenge with selling beer in kegs at outlets is limited beer tap space. Some of the craft beer breweries install beer taps at outlets. However, the cost of installing beer taps is very high.

*“Point-of-sale equipment is d**n expensive, and it takes a long time to recoup that type of capital outlay”* – BP2

Another challenge related to distribution to outlets is distributing to chain retailers. Distributing to large chain retailers is very challenging for craft beer breweries. Over the last year, several craft breweries closed down because they started to distribute to chain retailers.

“It is not as easy to distribute on a commercial scale (referring to chain retailers). Supply and demand is quite crucial. If you can't supply the demand then your business will definitely falter ... to be able to supply the demand the capital investment you need to make is so high that somebody on our scale, for example, would not even consider it because it is just too high, the time it will take you to make back your investment is too long. So without naming names, I know of at least three breweries within my direct vicinity who closed down over the past year because they started distributing. And they could not regain their initial capital investment. So expanding too fast is a problem because there are no, there are no backing for small breweries” – BP3

The statement from the participant describes craft breweries, which closed down while distributing to chain retailers were due to the capital investment needed to produce the vast quantities of beer needed to supply the chain retailers. As already noted, the profit margin of distribution beer is low, which increases the time it takes to regain the capital investment of expanding the brewery. Participant PB1, who distribute to chain retailers added that recently the chain retailers reduced the number of different craft beers they sell.

"It is not that easy, and distributing to the big guys is very complex. Also in the last year, you must understand Pick n Pay, Checkers and Tops have all deranged. So they have taken a lot of, you know the times are off 80 to a 100, 200 craft beers on the shelves are gone. They kind of said we will take the top 10 beers, or they will take to top 20 beers. And so a lot of guys have lost that" – RB1

Taken into consideration, that chain retailers have deranged recently. A lot of the craft beer breweries that supplied the chain retailers lost their contracts. It would be nearly impossible for any business to say afloat if they lose such an essential client without an alternative distribution point. Craft breweries, which invested heavily to distribute to chain retailers and lost their contracts would have very few options available to sell their excess capacity. Without the additional sales, they cannot recoup their initial capital investment and would have to either close down or sell some of their assets. With the current downturn of the craft beer market, there is no market to sell their equipment, and they will have to close down. Apart from the recent derangement of chain retailers participant RB1 also highlighted additional challenges regarding distribution to retailers.

"Once you get into the supermarkets, there is a whole host of costs that come with it. So great to have Pick n Pay as your client … you get to sell a lot of beer, but it comes with a (...) another whole dimension of costs. So, for example, you see our food safety system there and now to A get certified at that level and then B to maintain your production facility at that level of food safety ... It adds a whole layer of costs and complexity to do business." – RB1

It is clear from the participant's statement that it would be extremely challenging for a smaller craft beer brewery to supply chain retailers. The additional staff, regulations and capital investment adds significant risk to the sustainability of a craft beer brewery.

4.2.1.2.5 Maintaining quality while distributing

There are two sides to controlling the quality of craft beer. The first is to ensure good quality beer and the second is to maintain the quality of the beer from when it leaves the brewery to when the consumer drinks the beer. The challenges related to controlling the quality of the craft beer while producing it are discussed in the next theme. This section discusses the challenges of maintaining the quality of the beer during distribution. There are two components to maintain the quality of the beer while distributing it. First maintaining the cold chain of the beer and second managing the short shelf life of craft beer. Unlike SAB beers, craft beer is still alive. Craft breweries generally do not pasteurise or filter their beer. This means that craft beer is sensitive to temperature fluctuations and have a significantly shorter shelf live compared to commercial beer.

"The challenge with distribution is in our case specifically, because we do not pasteurise or filter. So what you have, you have residue yeast left in the beer and as soon as you do not keep it in the cold chain … it will actually get protein breakdown in your beer which will affect the quality and the taste profile of the beer. So our beer has to be kept in a cold chain at all times." – BP4

Craft breweries are aware of the importance of maintaining the cold chain. However, this is not always the case for outlets.

"A lot of liquor stores store the beer warm, and the beer goes off much quicker. Those kinds of challenges" - RB1

If an outlet does not store craft beer properly, the beer can go off, and if a consumer drinks the off beer they will have a bad experience, and it will negatively impact the reputation of the craft brewery.

"So if you do not pasteurise and you do not use any stabilisers or preservatives, your shelf life becomes very short, and that is a big challenge ... Because you never sure how people would treat your beer. And then if the beer goes off, it will do a lot of damage to your brand. So shelf-life is a huge concern." – BP2

There is an effort by craft breweries to educate outlets on how to treat craft beer.

"Just general education of the other role-players in the industry. So that the people selling your beer to the public understand that you have to look after the beer. It is not pasteurised; there are no preservatives in it." – CB1

In these sections, on the distribution challenges, it is clear that distribution is a significant challenge for craft beer breweries. To summarise the core challenges, craft beer breweries face in terms of distribution is gaining access to outlets for distribution and the costs associated with distribution. To overcome these challenges, many craft breweries follow the brewpub model where they have a taproom or a restaurant connected to the brewery. It was already discussed in section 2.3.2.2 that Crone (2018a) indicated that in order to be successful craft breweries need to follow the brewpub model. The brewpub model not only increases the profit margin for craft breweries but also addresses the majority of the challenges related to distribution. Two of the participants indicated that selling their beer in their taproom or restaurant increases their margins.

"So one of the solutions there would be a taproom where you can sell for retail prices. Then you actually have a larger mark-up on a smaller quantity. – BP2

Five of the eight participants interviewed followed the brewpub model. The contact brewery that was interviewed also indicated that they opened a taproom to address distribution challenges.

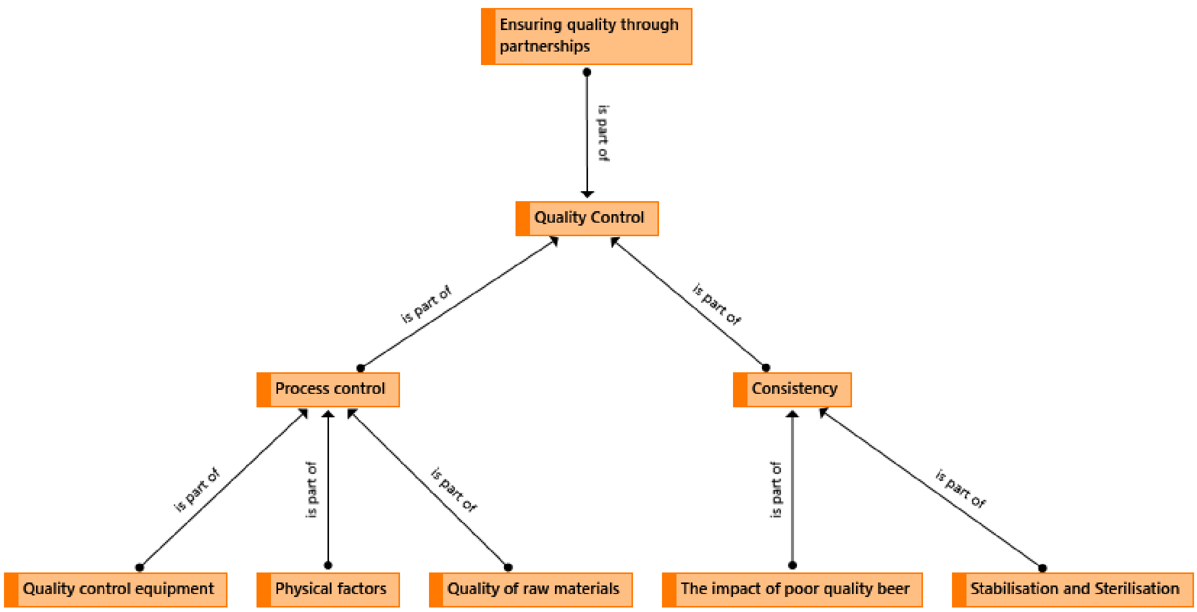
"We have opened ours (referring to their taproom) in February this year, specifically to target that. So get a nice venue with a good restaurant, put it up and from there sell your beer directly to the public. You are able to generate the extra margin." – CB1

4.2.2 QUALITY CONTROL

Quality is a critical aspect of craft beer. As already discussed in section 2.3.3 craft beer differentiate form commercial beer by producing high-quality beer. The quality control theme is divided into two main sub-themes, which is illustrated in Figure 4-3.

Ensuring the quality of the product and controlling the brewing process. There a minor sub-theme, ensuring quality through partnerships, which addresses the quality control for the contact brewery. A contact brewery has different quality control challenges than other models of craft beer breweries due to them not brewing their beer. Due to the quality control of contact breweries being separate from the other participants, this section will start with the sub-theme of ensuring quality through partnerships.

Figure 4-3 The challenges of quality control



Source: Created by the researcher in Atlas.ti

4.2.2.1 Ensuring quality through partnerships

The challenge for contact breweries is that they do not brew their beer and thus do not have direct control over the quality of the beer produced. However, they still need to ensure that they sell high-quality craft beer to their consumers. Crone (2019) indicates that contact breweries do not have staying power. They open and close at alarming speeds. The contact brewery that was interviewed is in operation from 2016, indicating that they are relatively successful. They overcame the distribution challenges by opening a taproom. To overcome quality control challenges, they form strategic partnerships with the breweries that brew their beer.

"So for us, it is all about the partnerships we create. We obviously hand-picked the breweries that we work with for very specific purposes. We do not believe in a one-size-fits-all kind of brewery … the stout because it is a more almost a German kind of style, we doing with [Redacted] in Pretoria because they got a dark beers and German's beer background, so there is a lot of skill there and their brewery set up to be able to do it. Our IPA we doing with [Redacted] is one of the guys involved with African hops so he has access to the freshest hops the whole time. He is also an ex Canadian, and the IPA style is obviously very very big in North America as a whole so who better to brew your IPA for you than a guy that has been drinking it since 18 years old. And then our lagers we do with [Redacted] (...) That is a contract brewery in Roodepoort that is owned and operated and ex-SAB brewmaster. She was one of SABs leading brewmasters and development people when he came to stuff like Castle LITE ensuring quality on stuff like Black Label's for example, so she has got a hell of a lot lager related skills. So for us, it is all about making sure that partnership is right and it fits for exactly the beer type. When you do that it is obviously the professional signature if you like of the brewmaster that goes with that beer. So then there is a lot of pride for them in the beer as well. To put that into perspective one of our earlier craft, or one of our earlier manufacturing facilities that we make use of was a one-size-fits-all setup, and he just brewed for the sake of making money, and it showed in the beer. We had a lot of quality issues because he just did not pay attention to it. The sense of pride was missing from it. Almost the artistic side of craft." – CB1

The statement for the participant describes the importance of selecting breweries with the necessary skills and expertise to brew high quality-beers for contact breweries. Contact breweries need to ensure that the brewery that brews beer for them take the necessary care to deliver high-quality beer. Participant CB1 took this a step further by selecting specialist breweries to brew specific types of beer to increase the quality of their beer.

4.2.2.2 Process control

Referring to Figure 4-3, process control consists of three categories — quality control equipment, controlling the physical factors, and controlling the quality of raw materials.

4.2.2.2.1 Quality control equipment

The main challenge for the majority of craft beer breweries is that they do not have the necessary process control equipment.

“There is not much a person brewing on a scale we do can do, you can invest in digital appliances that can help you do quality control, but it is also quite expensive. And for a Brewery like ours, it is (...) not really worth the investment for me. “– BP3

Only one of the participants indicated that they have proper quality control equipment, and that was the regional brewery. Due to their size, they could afford the cost of quality control equipment. Additionally, due to their size, they need automation and process control. Even though they have quality control equipment, quality control is still a challenge.

“You know when we are brewing you touch, taste, and test 12 times a day. Our fermentation is tasted at least once a day sometimes twice a day and out there bottling now there are a host of quality checks being done all day long. Whether they lab tests, whether they are tests that our operators are doing, because you only have to make one mistake and you will have infected beer. So yeah you (...) quality is a big issue and in fact one of the things that have been a hindrance apart from price.”
– RB1

The small craft breweries take pride in the fact that they do not use process control equipment.

"I always tell the people that I still brew other companies they have got a lot of controlling equipment they have got operators. So I still brew" – MB1

"So we are still quite primitive, we still do everything by hand from start to finish. And apart from the fact that investing in the equipment to regulate it, is very expensive. I personally prefer doing it this way, because it is still craft brewing, in the homebrewer sense of the word. And it is still done in the traditional way." – BP3

Some participants believe that craft beer should be handmade. The more control equipment a brewery uses the less craft they are.

"There is also (...) there is also a notion of (...) you know what is craft brewing actually about, you know most crafts are considered to be handmade stuff. So the more appliances you start using to brew your beer and control what you doing, the less craft you actually using" – BP3

4.2.2.2.2 Physical factors

Through the interviews, the participants indicated that three main factors need to be controlled during the brewing process. Firstly controlling the temperature of craft beer is not only crucial during distribution as already discussed in the previous section, but also during the brewing process.

"So there is a lot of environmental impact on, for example, temperature fluctuations you know power interruptions, all those things that could have an impact on the craft brewer. I think it takes some effort to make sure that you get the right quality every time." – BP1

"Huge challenges. Quality control is super difficult, especially the way we brew, because we do not have anything automated. We overshoot temperatures now and again. We undershoot temperatures." – BP2

During the brewing process, it is crucial to maintain the temperature within a certain range. The yeasts need a specific range for optimal fermentation and differ for each type of beer. Secondly, it is essential to work clean. Brewing beer is a biological process, and contamination with bacteria or wild yeast can have an extremely negative effect on the quality of beer.

"Yes, look sterilisation is of utmost importance so as far as quality control goes." – BP3

"But if you are not pasteurising if you are not filtering if you are not maintaining the checks and balances ... All around us, there are bugs that are our worst enemies. And they are in SAB breweries, and they are in all of those big breweries. But they have teams of people, scores of people that are controlling those things." – RB1

It was not only these participants that indicated the importance of working clean. Almost all of the participants highlighted the importance of working clean during the brewing process as one of the challenges of quality control. The third and last factor was indicated by only one of the participants, and that is oxygen.

"Oxygen and beer they do not mix very well, and it's probably one of the biggest issues that a smaller brewery would have is oxygen" – BP5

According to Mastanjević, Krstanović, Lukinac, Jukić, Vulin, and Mastanjević (2018:4), oxygen causes the deterioration of the aroma and flavour compounds of beer, which impact the quality of the beer.

4.2.2.2.3 Quality of raw materials

The last category of process control is controlling the quality of raw materials. It was already indicated in the challenges of sourcing raw materials that obtaining high-quality raw materials is essential for craft breweries. Low-quality raw materials have a lower yield and influence the final quality of the beer.

“Quality control on your hop side yes you need to go out and find the best quality otherwise if you buy old hops it is just stale and cheesy and not great” – BP5

Craft breweries need to ensure that the raw materials are consistently high-quality. The bigger craft breweries can do testing on the raw materials to ensure that they use the right quality raw materials.

“I mean, we control quality all the time. From incoming raw materials, whether its barley whether it is hops, I mean we are testing, you have to.” – RB1

The smaller craft breweries do not have the equipment to test the quality of raw materials. They instead rely on their suppliers to ensure the quality of the raw materials they buy.

“Quality is key because you working with a (...) process that you control it is not a mechanised process it's not an automated process, so you need to make sure that every (...) every kilogram of raw materials and every litre of water or whatever goes into it, is the right quality and it is consistently the same. Therefore when you start playing around with different suppliers, you might get different qualities.” – BP4

To summarise the challenges related to controlling the brewing process. The main challenge for small craft breweries is that they do not have quality control equipment. The cost of quality control equipment is too high, and it diminishes the handcrafted nature of craft beer. Craft brewers need to control the brewing process by hand. Brewers need to select the correct quality raw materials and control the temperature of the brewing process. All these are challenges craft brewers need to overcome to ensure that they brew high-quality beer.

4.2.2.3 Consistency

The last sub-theme of the challenges of quality control is challenges related to the consistency of the beer. The sub-theme is divided into two categories, which can be seen in Figure 4-3.

4.2.2.3.1 The impact of poor quality beer

Craft beer is marketed as higher quality than commercial beer. However, craft beer breweries do not have the process control of commercial breweries. Brewing consistently high-quality beer is a significant challenge for all craft beer breweries.

"Because a quality beer is easy to make once. Anybody can do it, can you make it the second time and then a third and then a fourth. And so as your beers get more widespread and as you get into the grocery groups what your consumers are looking for not just quality he is looking for consistent quality and now you try to match SAB and it doesn't matter where you go in the country your Castle is a Castle is a Castle, They taste the same and they are consistent. You can buy them knowing that you not going to have to make a trip and take them back or send them back. It's you know you can buy them with impunity. So that's what we aim at, but that is a daily fight." – RB1

There are some of the breweries that produce poor quality beer, which is a significant challenge for the craft beer industry as a whole.

"If you are a craft beer lover you will find or have found that some of the breweries produce good beer (…) you do not always like to type of beer, which they brew but that is personal preference, but (…) Some of the craft breweries (…) they actually produce poor quality beer, time and again. So that is one of the challenges you know (…) getting to the point where everybody puts (…) good quality beer in the market." – MB1

As already noted in the literature review chapter, Ramorula (2018:34) found that consumers perceive craft beer as lower quality compared to commercial beer in South Africa. In the last year, many craft beer breweries closed down mostly due to low-quality craft beer in the market. As already discussed in the previous section, chain retailers deranged due to low-quality craft beer.

"But a year ago everybody was on the bandwagon, and there were 500 different beers at Hillcrest Tops for example. Pretty much probably you could guarantee 40%

*of them would be in a subpar drinking experience. And so there was a period when we had a negative backlash from the consumers. It is that I'm going to get a craft beer and then you would six home and two of them would be terrible. And so people got turned off by it. Because as money gets tight he just paid 40 bucks for a beer and it is s**t. You going to start saying (...) and we had the thing in restaurants you know where people would send the beer back, and then the waiters said well but it supposed to taste like that, it is craft. And it is not supposed to taste like that."* – RB1

The challenge for the remaining craft beer breweries is to increase the quality and consistency of their beer. The main challenge with poor quality craft beer in the market is that generally, consumers do not blame the brewery that produced the low-quality beer but rather the craft beer industry as a whole.

"One of the breweries [Redacted], they actually have got a very bad name because time and again they put beer onto the market, which is not up to standard (…) and somehow you know that will have to be addressed because it leaves a negative name, it leaves a negative perception of the Craft Beer industry. "Craft bier agh gemors bier" Let us rather you know stay with SAB beer or whatever you know industrial product" – MB1

The next category is stabilisation and sterilisation of craft beer.

4.2.2.3.2 Stabilisation and sterilisation

The majority of craft beer breweries do not filter or pasteurise their beers. The main reason why most craft beer breweries do not filter or pasteurise their beer is that they lose flavour and the complexity of the beer.

"Because the consumer when you talk beer expects it to be like SAB or Heineken even if it is more flavoured. if you're not pasteurising, if you not filtering to their level you introduce, in that attempt to introduce this unfiltered, unpasteurised fresh kind of crafty, full flavour thing you also introduce all of those risks with it." – RB1

The challenge with not filtering and pasteurising the beer is that it introduces risks that the beer may go off quicker. As already noted in the distribution challenges craft beer have a very short shelf live.

"So if you do not pasteurise and you do not use any stabilisers or preservatives, your shelf life becomes very short, and that is a big challenge because then you cannot supply to places that are not directly under your eyes, or under your control." – BP2

One of the participants indicated that a craft brewery in America overcomes the challenge of the short shelf life of craft beer by having a quality standard that their beer must be drunk within seven days after it leaves the brewery.

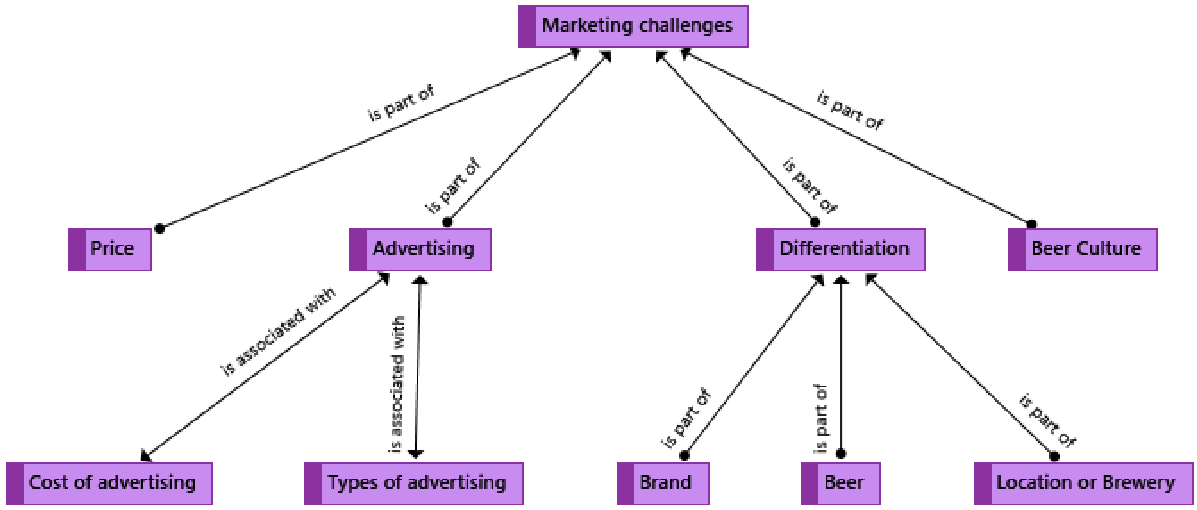
"So if you are not selling it quickly it is going to be problematic. In the States, a lot of the big craft breweries, Bell's Brewery in Michigan for example, their quality standards is from the time it leaves the brewery it must be drunk within seven days. Number one fresh beer is better number two it is unfiltered unpasteurized, fantastic beer. And they know that after seven days it is at risk, environmental risk and there is all of these other kinds of things." RB1

This approach will not be possible for most of the breweries currently in South Africa. However, as the craft beer industry in South Africa grows, and the consumption rate increases craft beer breweries should implement a similar standard. Especially in outlets close to the brewery where frequent deliveries will not increase the distribution cost significantly.

4.2.3 MARKETING CHALLENGES

Marketing challenges is one of the more prominent themes found in the study. There are six sub-themes that were identified, which is illustrated in Figure 4-4.

Figure 4-4 The marketing challenges



Source: Created by the researcher in Atlas.ti

4.2.3.1 Price

One of the main marketing challenges for craft beer breweries is the price of craft beer.

"I think the main challenges is price, to be honest." – RB1

Generally, craft beer is about double the price of commercial beer.

"We are priced anything between 60 to a 100 per cent more average a commercial beer" – BP3

Craft beer is more expensive than commercial beers due to the scale of craft breweries. Participant RB1 described the challenge of price due to the scale of the brewery in the statement below.

"So if you take your brewer cost, for example, divide it by one-and-a-half million or divide it by 15000 in my case or in the craft case divide it by a couple of hundred litres you have got a fixed overhead cost that is just so much greater" – RB1

The larger craft beer breweries aim to reduce the price of their craft beer to about 15 to 20 per cent premium rather than the current higher premium.

"I think you will find at the moment that the bigger breweries we are in a kind of mid-stream strategy where we moving from expensive speciality niche products, generally try to keep those going as well but at the same time develop a more affordable. Say within 15 to 20% more expensive on the shelf than say maybe the major players." – RB1

As already discussed in the section on distribution to chain retailers, the larger craft breweries can sell large volumes of craft beer to chain retailers. By following a higher volume lower margin strategy, larger craft beer breweries can reduce their prices. However, this strategy will not work for the majority of craft beer breweries which are significantly smaller.

Another challenge for craft beer breweries related the price of craft beer is managing the price of their beer at outlets

"Pubs charging 200% margins on craft beer it (...) does not help the industry as a whole. So we try and make sure that our customers actually get the right price to their consumers for craft beer" – BP4

The same participant indicated that they would not sell to an outlet that charge too high prices for craft beer.

"If I have to deal with an individual like that, I would actually take my beer. I would not sell to it. Because they are not helping you as a (...) brewer and they are not helping the end consumer of your product. All they doing is (...) they raping the margins on your product and as a brewer, I would not do it" – BP4

The challenge for craft beer breweries is to manage the selling price of their beer to keep craft beer attractive for consumers.

"You have to find a balance between a cheaper beer and a more specialised (...) more expensive beer" – BP3

The statement of the participant above describes two strategies on how craft breweries can overcome the price challenges of craft beer. The first is to reduce the price of craft beer. As described already the larger craft beer breweries follow this strategy. However, the smaller craft beer breweries struggle to significantly reduce the price of their beer due to their higher production cost per unit of beer. The smaller craft beer breweries can brew limited edition or speciality beers, which the consumers are willing to pay more for due to the scarcity or uniqueness of the beer.

"So a lot of the guys are pushing collapse, interesting beers, sort after beers, limited edition runs, anything that you can price more aggressively that the public will be willing to pay for because of its scarcity." – CB1

4.2.3.2 Advertising

The sub-theme advertising can be divided into two categories, types of advertising and the cost of advertising.

4.2.3.2.1 Cost of advertising

Even though it was indicated in the literature review that advertising is crucial in the beer industry and commercial breweries spend large amounts of money on advertising, advertising is generally too expensive for the majority of craft beer breweries.

"The cost of advertising is insane." – CB1

"Marketing (...) obviously budgets are always constraint being in a much smaller business we do not spend a lot of money, or we actually spend very little money above line" – BP4

Craft breweries cannot afford massive marketing campaigns on television, radio or billboards.

"Because we cannot afford it. We cannot afford a million rand billboards, I mean we cannot afford hundred million Rand TV platforms, and radio marketing campaign."
– RB1

The statements of the participants describe that above the line advertising is too expensive for them. Above the line, advertising refers to advertising activities that have a broad reach and do not target a specific group such as Television, radio, and print advertisements (Arora, 2018:13)

All of the craft beer breweries indicated that the cost of advertising is a challenge. To reduce the marketing costs, craft beer breweries focus on social media advertising and branding at outlets.

4.2.3.2.2 Types of advertising

The participants described a variety of different methods of advertising they use, which is summarised in Table 4-2.

Most of the participants indicated that they focus on social media for their advertising as well as word-of-mouth. These two forms of advertising are related to some extent. Consumers use social media to discuss craft beer they like with friends and family. Another popular form of advertisement is attending events and craft beer festivals. Almost all of the participants indicated that they attend craft beer festivals to interact with consumers and promote their brewery. The literature on craft beer advertising supports the data found in the study. The literature indicates that social media (Lee *et al.*, 2017:4) and word-of-mouth (Troxler, 2015:76) are popular and effective ways for craft beer breweries to advertise.

Table 4-2 Types of advertising craft breweries uses

Type of advertisement	Participant statement
Social media	*"So we primarily use social media. Instagram to a lesser extent we spent quite a bit on our Facebook advertising"* – BP4
Events and festivals	*"So we prefer to push stuff like events, product releases those kinds of things with our advertising"* – CB1
Branding at outlets	*"So we would go for stuff like light boxes and posters in the pubs that we want to focus on. Table talkers in restaurants"* – CB1
Giveaways	*"We do some giveaways"* – BP2
Competitions	*"So we normally try and link some form of a competition or something to the advertising"* - CB1
Website	*"The majority of the business I pick up is through our website."* – MB1
Word-of–mouth	*"We rely more on word-of-mouth"* – BP1

Even though the majority of the craft beer breweries focus on these types of advertisement, it is not to say that there are not challenges related to it. Although word-of-mouth is an effective way for a craft beer brewery to spread the word about the brewery, the craft beer brewery cannot control what the customer says. Craft beer breweries need to create a good experience for customers so that they talk positively about the brewery.

"Then also word-of-mouth which is consumers talking about your product and that also comes back to the fact that it is got to be quality, it is got to be a great experience for the consumer. Otherwise, you will not get that word of mouth activity going on in the market." – BP4

Social media advertising also has challenges. Craft beer breweries need to learn how to use social media effectively. One of the participants described that they do not use social media because they are not comfortable using it.

“You know I am still B.C. (laughing) so website it is as far we got. Facebook Twitter ja (…) my wife spend some time on Facebook, but we do not really use it for advertising” – MB1

Another participant described that they had to learn how to use social media effectively.

“I suppose we have learnt to work with the platform quite a bit” – CB1

Participant CB1 also described how they use competitions on social media where if a customer shares the post, they can win something.

“We normally try and link some form of a competition or something to the advertising. You know share this post and so on” – CB1

Another challenge with social media advertising is that almost all of the breweries use social media.

“The challenge with though is that it is a dime a dozen you know everybody got social media.” – BP3

With the majority of craft breweries using social media advertisement, the breweries need to be creative with their social media to stand out from all the other breweries.

To summarise the advertisement challenges. The main challenge for craft beer breweries regarding advertisement is the cost associated with it. Craft beer breweries cannot afford above the line advertisement. Due to this cost, most of the craft breweries rely on social media and word-of-mouth to advertise their brewery. Craft breweries need to have high-quality beer and create a good experience for customers to generate positive word-of-mouth. With social media, craft breweries need to learn how to effectively use social media and be creative with their advertisements.

4.2.3.3 Sales

Craft breweries need to sell a certain amount of beer each month to be viable.

"Okay we need to make x amount of beer if we do not do it (…) we are not making it. So (…) obviously whatever they make they want to sell, and there is a bit problem there." – MB1

The challenge many craft breweries face at the moment is that the sales went down over the last year or two. It was already indicated in the section on distribution to chain retailers that the chain retailers deranged, further reducing sales for some craft breweries.

"2016 was our best year So far, and we were hovering at about 1500 litres per month. … At this point of time, the market is very slow. We are currently hovering at about 500/700 litres a month, which is fine." – MB1

The reduced sales over the last year or two had a significant impact on the craft beer industry in South Africa. In the literature review as well as the interview conducted, it was indicated that several breweries closed down this year. This is partly due to the economic downturn in South Africa, which will be discussed in one of the next sections.

4.2.3.4 Differentiation

The challenge of differentiation consists of three categories: differentiation based on branding, the beer and the location or the brewery itself. The differentiation challenges each brewery faces is, to some extent, dependant on the type of brewery. For regional or contact breweries branding is more important because they focus on selling beer in outlets. For a brewpub differentiation based on their location is more important.

4.2.3.4.1 Brand

The challenge for craft breweries that distribute to outlets is for their beers to stand out from the other craft beers.

"You want to get in front of the consumer, but you also want to grow the brand to such a point where the label and the name is selling itself" – RB1

It is a considerable challenge for craft breweries to attract repeat customers through brand differentiation. The majority of craft beer consumers want to experiment with different craft beers rather than sticking with one brand.

"Not because people are going for our brand to say, they are going for the unique and individual beers" – CB1

The participant's statements describe that differentiation based on the beers they sell is a better strategy than brand differentiation.

4.2.3.4.2 Beer

As stated already above, craft beer drinkers want to experience new types of beer. Participant BP4 described that even if two breweries brew the same type of beer, the recipe is different and the beer tastes different.

"So every brewer, every craft brewery produces maybe a red ale, but the recipe may be different than the guy next door. So, in essence, you cannot compare, it is not apples to apples comparison, it is kind of a fruit vs a fruit." – BP4

Craft beer breweries find it challenging to get repeat customers, due to craft beer drinkers wanting to experience new beers rather than drinking the same craft beer every time.

“The people drink craft at the moment in South Africa because they are looking for something new, something interesting. But very seldom would they repeatedly go for the same new type of beer.” – CB1

Some of the craft beer breweries use the craft beer drinker’s need for new beers by brewing limited-edition beers. The limited-edition beer attracts customers and boosts sales.

“It is because it is a limited edition item that people are going for” – CB1

One of the participants that were interview indicated that they follow a beer differentiation strategy. Unlike other breweries which have four or five regular beers that they perfected and continuously brew. This brewery brews a new beer every time. They have between 14 and 16 regular types of beer that they play with. Every week they have new beers the consumers can experiment with.

“Normally a craft Brewer would experiment a bit and eventually settle down to four beers or five beers or six beers as main lines and … What we do is completely different. We brew something different almost each and every batch, … we have about 14/15/16 regular beers that we play with, and then we always do something new. … Whereas our brand is basically if you walk in and then you like what you taste have it now because next time you come there will be something else. … if you like, have it now otherwise next time you come we will not have it, so that helps for marketing again” – BP2

This strategy works for them. They are in a small town and only supply the town and their brewery. They do have some challenges with consistent quality because they do not have fixed recipes. However, due to their large variety of beers they have, their customers just try a different beer if they do not like a specific beer.

4.2.3.4.3 Location or brewery

Part of the success of a brewpub is that they combine their brewery with a restaurant or bar. Their location can help them differentiate from other craft breweries and attract customers. Having a good location can help craft breweries overcome the challenge of having repeat customers. A brewpub or a taproom attract customers with not only the beer they produce but also the food on their menu and the atmosphere in the restaurant.

"So get a nice venue with a good restaurant, put it up and from there sell your beer directly to the public. You are able to generate the extra margin" – CB1

The participant also described how a taproom or brewpub has the advantage of selling beer directly to customers. By selling beer directly to customers, the craft brewery eliminates the middle man, increasing their profit margin. A brewpub also allows the brewery to share profits with the restaurant where the craft brewery acts as an attractor for customers.

"They are very successful because they selling beer but then the profit is mixed in with the food and you know everything else that comes with it. In fact, the beer becomes an attractor" – RB1

Several of the participants also indicated that they have not only a craft brewery but also a craft distillery increasing the offering for customers.

"We have got a gin distillery running now we are busy installing quite a large whiskey and brandy still" – BP1

Many of the craft beer breweries that were visited for the study also offer craft gin to cater for a broader range of customers. Not everyone prefers to drink beer. By also offering other craft alcohol products, the brewpub can offer a unique experience even for customers who do not want to drink craft beer.

One of the main challenges for brewpubs is that they need not only quality beer but also a quality restaurant or venue.

"There is many guys that go out of business running restaurants as badly as running craft breweries badly, so you know. Do not combine both the wrongs and think it is going to just become a right. It will not" – RB1

From the statements of the various participants, it can be seen that differentiation is a challenge for craft beer breweries. The craft beer industry is based on providing high-quality beer and a variety of beer. Due to this, it is difficult for craft beer breweries to attract repeat customers. Brand differentiation is more critical for larger craft beer breweries that can supply chain retailers. On the other hand, brewing limited-edition beers allow craft breweries to increase sales and attract customers. Brewpubs and contact breweries with a taproom can differentiate based on their location to attract repeat customers. However, their challenge is to have great food and great beer to be successful.

4.2.3.5 Beer culture

As indicated in the literature review, beer is the most popular alcoholi9c drink in South Africa. However, the beer culture in South Africa is based on commercially produced lagers.

"Culture habits, we have been made used to drinking Lagers, light lagers in South Africa for very long time, so to change people's drinking habits is a huge challenge." – BP2

The challenge for craft beer breweries is to change the beer culture in South Africa from being dominated by lagers to a beer culture educated about the different types of beer styles.

"I guess the major challenge is the consumer. Very few consumers are fully au fait of the (...) With Craft Beer as such." – BP4

Almost all of the participants indicated that it is essential to educate beer drinkers about craft beer. One of the participants pointed out that by educating the consumers about craft beer, the market can change form a push market to a pull market.

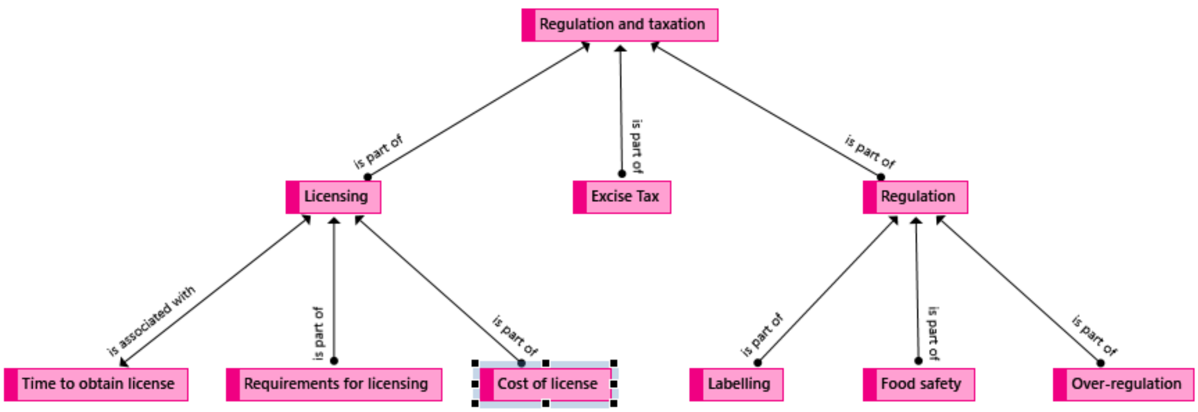
"I think that a big effort should be made on the marketing to people about what craft beer is and let them drive … consumerism is about the consumer, it's not about the craft industry deciding what people should have … they are supplying a need or a want that's coming externally from a consumer … it is not driven this way, it is pulled that way" – BP5

In summary, the beer culture is currently a challenge for craft beer breweries. However, through educating consumers about craft beer, the beer culture can be changed. Although it is a challenge to change the drinking habits of consumers, if successful, consumers will pull the craft beer market, allowing the craft beer market to grow substantially.

4.2.4 REGULATION AND TAXATION

The challenges of regulation and taxation are divided into three sub-themes, which are illustrated in Figure 4-5.

Figure 4-5 The challenges of regulation and taxation



Source: Created by the researcher in Atlas.ti

4.2.4.1 Licensing

All of the participants indicated that obtaining a brewing license is a significant challenge.

"Licensing is a major issue for craft brewers" – RB1

The sub-theme of licensing is divided into three categories, the time to obtain a license, the requirement for licensing, and the cost of licenses.

4.2.4.1.1 Time to obtain a license

The participants described that the time to obtain a brewing license was one of the biggest challenges they faced when they opened their brewery. It took them over a year to obtain their licences.

"It took us 14 months to get the licence" – BP5

"The process took about 18 months before we could actually officially sell beer" – BP4

"I will say two years in total to get all the licenses that you required" – BP1

It is not only the time it takes to obtain the license that is a challenge. It is that the license is directly linked to the location of the brewery. They have to either own or rent the property, while the license is being processed.

"You have to have a place before you can apply for a licence and you have to pay rent normally or pay the bank" – BP2

On top of paying rent, the brewery itself also has to be built before the brewing license can be approved.

"The liquor board will also not approve your licence until you have built your Brewer" – BP4

These challenges that the participants described related to the time it takes for a brewery to obtain a license require significant initial investment without getting any return on their investment.

4.2.4.1.2 Requirements for licensing

Some of the requirements for obtaining a license were already described in the section above. These include having a location secured and the brewery being build. There are some other requirements that the participants indicated. The most challenging requirement for the craft breweries, especially the brewpubs, is the zoning requirements. Crone (2018a) indicated that brewing licenses are only issued for premises in industrial areas. However, through the interviews with the participants, some contradictory information was found.

"They wanted to refuse my licence on the grounds of me being in a residential area or a business area, not in an industrial area." – BP2

This participant did succeed in opening the brewery in a business or commercial area. Other participants also indicated that the requirement is for the brewery to open in a commercial area.

"You have got to be commercially zoned" – BP4

One of the other participants described that they rezoned an agricultural area to a business zone.

"I own the property … on a farm … deemed agricultural areas so if you want to run a business on a farm, you actually have to classify it as a (…) or rezone it, … as a business zone." – BP1

This statement by the participant indicates that it is possible to rezone certain areas as commercial zones. The challenge for the brewpubs is that they need feet at their location to be a viable business model. One of the participants indicated that it does not make sense to open a small brewery in an industrial zone.

"A 300-litre Brewery in an industrial area would be senseless. You need to be (...) in a commercial area where there is feet, Where people regularly go. to put up (...) especially when you do the brewery, taproom thing, slash restaurant it would be senseless to be in an industrial area" – BP2

One of the participants indicated that the brewery also needs to send the beer for testing before they could obtain a license.

"you got to brew your beer, you got to send it to a lab (...) ... Then once the lab tests are done, they then send the lab results to the Department of Fisheries, Forestry and (...) Agriculture or something. You get that report goes with to the liquor board with your Brewery application." – BP4

The participants also described that there is uncertainty about the requirement for the licenses and that the requirements are different for each province.

"So the regulator themselves did not know exactly what was expected from them, so that was a challenge" – MB1

Even though participant MB1 opened their brewery in 2007 and it is expected that there would be some confusion around craft beer breweries. It was a new industry with only a few craft beer breweries across the country. However, some of the newer craft beer breweries also indicated that there was uncertainty from the regulators.

"I think in the beginning stages like now, where even your liquor authorities are not sure" – BP2

Which complicate the regulatory process, even more, is that there is a lack of uniformity across the provinces.

"Gauteng is particularly bad. Western Cape is a little better, Mpumalanga is ok, North West is probably the best. But it just depends, you know the liquor boards are dealing with" – RB1

One of the places it was picked up that there were differences between the provinces was with selling beer at the brewery.

"Then the licensing specifics in each province varies, and one that we particularly have difficulty with is that you cannot have an on-con and an off-con and a micro-production, or production facility on the same building" – BP4

This participant was the only one who indicated the restriction of different licenses during the interview.

4.2.4.1.3 Cost of license

Two of the participants indicated that the cost of obtaining the brewing license was a challenge. The first was participant MB1, which was the smallest of the craft breweries that were interviewed. They currently have a monthly capacity of 700 to 800 litres a month, which explain why the cost was a challenge.

"Okay that is a formality, but it cost you R10 000 a license" – MB1

The licence also needs to be renewed annually, adding to the cost.

"That license need to be renewed on a yearly basis" – MB1

The other participant had to rezone an agricultural area, increasing the cost.

"So all of those things (referring to the licenses and rezoning) you know its significant costs and an absolute pain to get it (…) through." - BP1

In summary, the main challenge for obtaining a brewing license is the time it takes and the requirement that the location must be secured. The result is that the brewery has to pay rent for over a year while they wait for the license. This increase the initial capital investment significantly.

4.2.4.2 Excise tax

Many of the participants indicated that excise tax on alcohol is a high cost. Excise tax is not a challenge per se, but it is an inhibitor for the craft beer industry.

"Excise tax is (...) it's quite a huge expense" – BP2

"It is actually ridiculous to expect a brand new industry to be taxed that heavily." – BP1

South Africa does not have an exemption or volume brakes for the craft beer industry. There were some attempts to exempt craft beer breweries form excise tax, but it was unsuccessful.

"We had some attempts in trying to exempt ourselves from excise duty, but that did not work" – BP1

The challenge with the high excise tax is that it increases the production cost significantly. One of the participants indicated that the excise tax is over 20% of their production cost.

"I mean in keg beer it is 25% of my cost. In bottled beers, it is slightly less because bottles are so expensive, but it is still upwards of 20, 22% of my cost, just the tax" – RB1

It should also be noted that this statement is for the regional brewery, which is significantly larger than the other breweries in the study. Due to scale, it can be assumed that the excise tax will be a higher portion of the production cost for the other smaller breweries.

4.2.4.3 Regulation

This sub-theme looks at some of the additional regulatory challenges craft beer breweries have. Although licensing is in a separate sub-theme, it technically falls under regulatory challenges. However, due to the size and importance of licensing as a challenge, it was decided to put it in a separate sub-theme. Some of the smaller craft beer breweries have described that they have challenges related to general business regulations such as labour legislation.

"South African labour laws is not very pro-employer, so people are very resistant, or (...) afraid to employ people because it is very difficult to get rid of people if they do not produce" – BP2

Even though labour regulations are a challenge, it is more a global business challenge and not unique to the craft beer industry. This section will instead look at some of the additional regulatory challenges of the craft beer industry.

The following two categories of regulation challenges, namely labelling and food safety, was only described by the participant RB1, the regional brewery. These regulation challenges are mostly due to the regional brewery supplying large chain retailers.

4.2.4.3.1 Labelling

Participant RB1 describes that the regulation related to the labelling of beer changed.

"Labelling legislation is just changed. You know to the point where (...) if it was not for digital printing that really comes to the fore in the last couple of years, most of us would not afford to be able to put labels on our bottles with current regulations." – RB1

Breweries have to rotate between seven different labels every three years.

"We rotate through the seven labels every three years." – RB1

The challenge is related to the cost of printing labels and the number of labels needed for an economical printing run.

"An economical printing run is about 50000 labels, and you have got to rotate that every three years, most craft brewers are not going through 50000 labels in three years" – RB1

The additional cast is a challenge for breweries that sell a lot of craft beer in bottles. However, six of the eight participants that were interviewed is either a brewpub or have a taproom where the majority of beer they sell is in kegs. So it is not a major challenge for them.

4.2.4.3.2 Food safety

Participant RB1 described that they need to maintain a strict food safety system to supply a large chain retailer.

"Great to have Pick n Pay as your client … you get to sell a lot of beer, but it comes with a (...) another whole dimension of costs … you see our food safety system there and now to A get certified at that level and then B to maintain your production facility at that level of food safety" – RB1

In the statement above the participant describes that food safety regulations add to the operating cost of the brewery.

4.2.4.3.3 Over-regulation

Several of the participants indicated that they feel that the craft beer sector is over-regulated in South Africa.

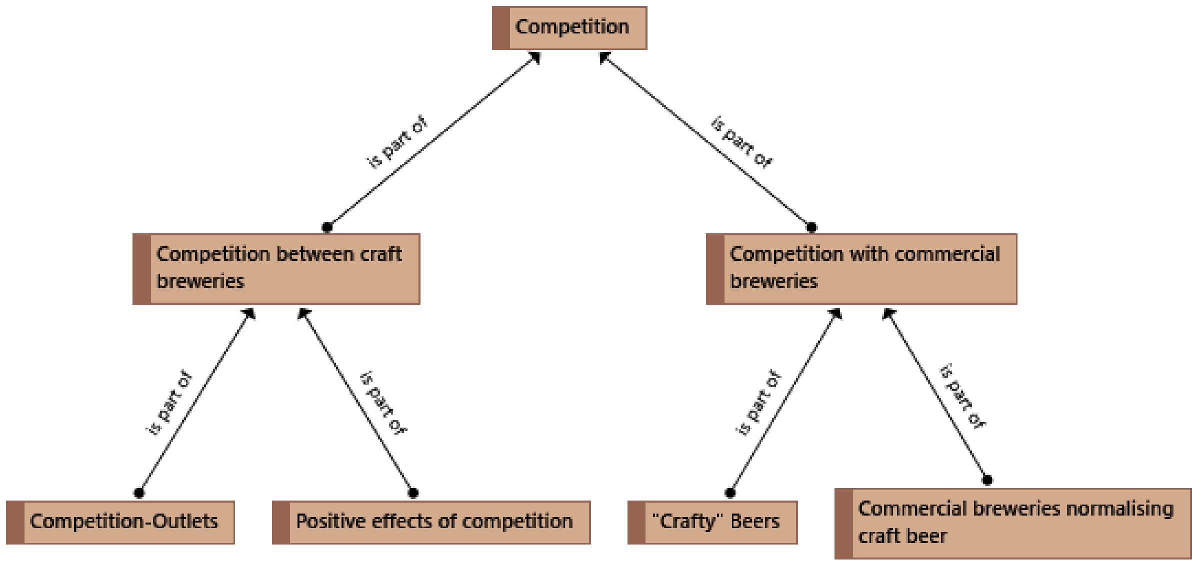
"South Africa seems to be fairly over-regulated, you know certain areas. You know it is a, it is (…) an issue because It pushes up your costs" – MB1

The craft beer industry has taken hands with commercial breweries to address the regulations in South Africa. This will be discussed in more detail in the section on cooperation.

4.2.5 COMPETITION

The competition challenges can be divided into two sub-themes, which are illustrated in Figure 4-6

Figure 4-6 Competition challenges



Source: Created by the researcher in Atlas.ti

In general, the participants did not see competition as a significant challenge. They see competition as part of doing business.

"Look the one thing of business whether you like it or not is that you are in competition with other people" – RB1

However, there are some elements of competition that the participants did indicate as challenges.

4.2.5.1 Competition between craft beer breweries

The majority of the participants indicated that they do not have challenges related to competition with other craft beer breweries. Most of the participants described other craft beer brewers as their friends.

"I see other craft brewers as buddies my confidants, and (...) so we are in the same team" – BP2

It should be noted that most of the participants that were interviewed were the only craft beer brewery in the town or city. The participant located in Gauteng did describe that there is competition in outlets.

4.2.5.1.1 Competition at outlets

The participants did describe that there is competition in outlets.

"When we go out in trade we compete with each other. I mean we complete quite aggressively for shelf space. And we complete very aggressively to get in front of the consumer" – RB1

The competition is mostly for shelf space and beer tap space. As discussed already, chain retailers have deranged recently increasing the competition amongst craft beer breweries for access to these broader markets. Only one of the participants described that they find competition with other craft breweries challenging.

"A big challenge for me personally is the (...) block that is put up, giving the access to places to supply our beer by the bigger Monopoly type companies the SAB's and [Redacted] (large craft beer breweries)" – BP5

The participant is referring to mostly access to beer tap space. Considering the cost of installing beer taps, it is understandable that the craft beer breweries installing taps would restrict the use of the taps. Part of the participant concern is understandable because some of the large craft beer breweries the participant is referring to is not independent craft beer breweries. Although these breweries market themselves as craft beer breweries, they do not meet the requirements of the South African craft beer brewery definition.

4.2.5.1.2 Positive effects of competition

Some of the participants did describe that healthy competition is necessary to increase the overall quality of the craft beer produced.

"Healthy competition is always good. ... Because competition keeps you on your toes and ensures you do better, try and do better than the guy next door to you." – BP4

Another participant indicated that the different craft beer breweries complement each other by providing a wider range of different craft beers for the consumers.

"So at the end of the day, it is more a situation of complimenting each other." – MB1

There is limited competition between different craft beer breweries. The competition is mostly seen as positive and necessary to increase the quality to the beer produced and grow the industry. There is some competition for access to outlets. However, this is understandable considering the cost of installing beer taps.

4.2.5.2 Competition with commercial breweries

The majority of the participants indicated that they do not try to compete directly with commercial breweries. The craft beer industry has its market, which is slightly different from the target market of commercial breweries. Craft beer breweries target consumers who want something different.

"As far as commercial beers, I do not even try to compete with them. I think the best way to compete with them is not to compete with them" – BP2

"The industrial guy's we do not see as competition. You know they are in a market of their own" – MB1

However, even though craft beer breweries do not try to compete with commercial breweries, commercial breweries do compete with craft beer breweries.

"The challenges with SAB they would really bully the Craft Beer guys out of bars and festivals. So, for example, they would request especially at big festivals that they have the monopoly there, and then they offer basically everything for free just to have the Monopoly" – BP1

The biggest challenge for craft beer breweries related to competition with commercial breweries is the commercial breweries that buy large craft beer breweries or market their beers as craft beer.

4.2.5.2.1 "Crafty" beers

The participants indicated that several of the larger well-known craft beer breweries had been bought by commercial breweries recently. For confidentiality reasons, it was decided not to name these breweries.

"They market some of their commercial beers as craft beers rebrand it with very sneaky in very sneaky ways to make it look like craft beer and try to convince the market that it is craft beer." – BP2

However, these breweries pose a significant challenge for independent craft beer breweries. The participants described that these breweries have several advantages.

"Heineken now that they got [Redacted] now that they got [Redacted]. You seeing a [Redacted], Using a growth of those brands because they getting it out more widely

and they got a bit more marketing money so they can put a bit more money into install campaigns and things" – RB1

The participant's statement describes that these breweries have marketing advantages. The participant also indicated that the breweries have price advantages.

"Ok, Heineken took the beer [Redacted] into their brewery change the recipe a little bit to make it more affordable and now it is made in 150000 batches, using the full might of Heineken's procurement and production network. And the cost associated with that, so they managed to be on shelf now a 500ml can at R13 selling price per can" – RB1

The participants have different responses to commercial breweries buying craft beer breweries. The participant with the regional brewery sees this as proof that it is possible to reduce the price of craft beer and follow a midstream strategy.

"What that does prove to all of us is that if you got that might and they also got the marketing money behind you can achieve those price points" – RB1

Another participant sees this as anticompetitive behaviour.

"I think that (...) the competition board should be involved in this because to me it is such a (...) monopolistic controlled, price manipulated, consumer [Redacted] story. To own [Redacted] and put out [Redacted] craft beer. That absolutely, to me. It fraudulent business practice." – BP5

The frustration of the participant is understandable. However, further regulation of the beer industry would not be ideal. Many of the participants already indicate that the industry is over-regulated. Learning from other countries facing the same problem. The solution seems to be informing the consumers about independent craft beer breweries. The Craft Brewers Association South Africa can launch an independent seal similar to what the Brewers Association of America did. The seal can be seen in Figure 2-4. If the consumers are informed whether a brewery is independent or not, the consumer can choose which brewery they want to support.

4.2.5.2.2 Commercial breweries normalising craft beer

One of the participants describes similar to what Verhaal *et al.* (2017:2540) that commercial breweries entering the craft beer sector have some advantages for the craft beer sector. Participant RB1 described two examples of commercial breweries producing “crafty” beers that ended up helping to grow the craft beer market.

“SAB launched Flying Fish, … they spent 300 million Rand telling the South African consumer that flavour in beer was cool ... There is no doubt that they opened a massive door for the craft industry which that is our speciality” – RB1

“SAB launched Carver’s Weiss. Now Weiss is very much a craft-style although in Germany it is a mainstream style, but here it is very much a (...) craft-style, so your big mainstream brewer came along and launched a Weiss. Okay, it was a big uproar for a while and then we suddenly all realised that all of our sales of all of our Weise’s were taking off because these guys spent an enormous amount of money telling the South African consumer about Weiss.” – RB1

These are just two examples of how commercial breweries entering the craft beer sector helps to grow the craft beer market. In the previous section, the participants also described how craft beer bought by commercial breweries spend more on marketing. These activities help to normalise and grow the craft beer industry

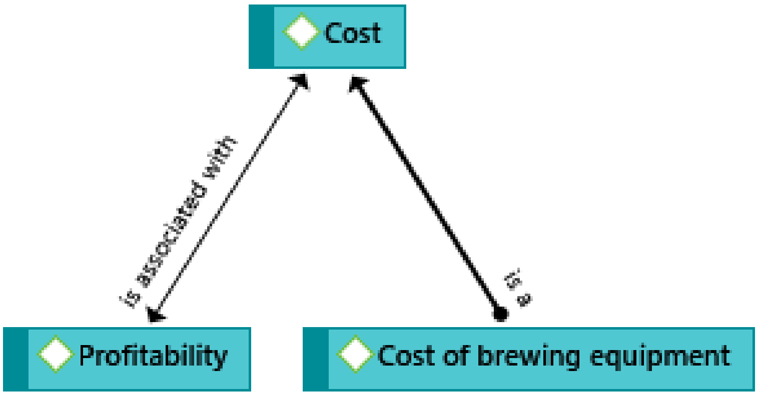
4.2.6 COST

Many of the previous themes contained categories related to cost challenges. These categories include:

- Cost of distribution
- Cost of raw materials
- Cost of quality control equipment
- Cost of advertising
- Cost of license

Although these categories could also be under the theme of cost challenges, it was decided to group the categories under the themes the cost is related too. However, there was more cost which justified a separate theme for costs. The two sub-themes of the cost challenges can be seen in Figure 4-7

Figure 4-7 Cost challenges



Source: Created by the researcher in Atlas.ti

The cost challenges that were discussed in previous sections mostly contribute to the production cost of the craft beer brewery. One of the main reasons the production cost of a craft brewery is so high is due to the scale of the brewery.

4.2.6.1 Profitability

Several of the participants interviewed indicated that their profitability is low. About half of the participants indicated that their brewery is only a part-time business for them, and they have alternative income.

"We make a few Rand here and there But it is not you know something we can live from" – MB1

"And still trying to make a living of it. So a lot of the craft breweries are basically doing this as a hobby and then employing you know a couple of people so you know at least the owner can pay the salary." – BP1

The participants describe a significant challenge for the craft beer industry as a whole. As stated already, many of the participants have additional income, mostly to cover their living expenses. The popularity of brewpubs is mostly due to the low profitability of craft beer breweries. The restaurant of the brewpub not only acts as a guaranteed outlet for the brewery but also supplement the income of the brewery. As indicated already in the section 4.2.3.4.3 the brewery can act as an attractor for the restaurant.

4.2.6.2 Cost of brewing equipment

Almost all of the participant indicated that the initial set-up cost of their brewery was high.

"Setup cost is extremely expensive" – BP2

"Financing is obviously a challenge a lot of it is quite expensive equipment" – BP5

There are several challenges related to the purchasing of brewery equipment. First, as already described in the section on the licensing requirements, the brewery must be installed before a brewing license can be obtained. This causes challenges in itself with financing the brewing equipment.

"The finance people want to see your licence before they finance the equipment. You cannot get the licence until you got the equipment" – BP5

The second challenge is that the majority of brewing equipment needs to be imported, and the exchange rate further increases the cost of brewing equipment.

"Seeing that most of the equipment is imported, that will tie into your rand-dollar (...) your exchange rate, but setup cost is extremely expensive" – BP2

The last challenge is that it is difficult to assess what size brewery to start with and often the brewery needs to be scaled-up as the brewery grows.

"It is very difficult to know when with the get-go what size brewery should set up because a lot of people start with 100 litres and then upgrade to 300 litres, you have to scrap most of your equipment and start again" – BP2

Most of the participants advised that new brewers have to start small and expand as the brewery grows. This is because, in addition to a larger brewery being more expensive, there are also inefficiencies in brewing small batches in a large brewery.

"If you buy an oversized Brewery … there is some logistical issues there with us well. … if you have for instance a bright beer tank that's oversized you gonna waste a lot of gas, so there is some wastage and issues here, Associated with that as well, And obviously, you are set up cost will be a lot more" – BP2

Due to recent brewery closures and breweries growing there is some second-hand equipment available in the market. Second-hand equipment can significantly reduce the initial start-up cost of a brewery. However, the participants have indicated that there are challenges with purchasing second-hand equipment. One of the participants indicated the challenges of buying second-hand equipment.

"The problem is also when you are ready to set up nobody is ready to sell. The moment you bought equipment that's Murphy's Law, Then you will find 20 of what you were looking for ... Also buying second-hand equipment, you never sure what you get … you will have to take somebody's word for the condition and the size, and get pictures, so it is not so easy. It is easy when you can see something physical or order it by size. So yes there is a market for second-hand equipment (...) for one-tenth of the normal price, so you will not get a lot of money back when you brought new equipment and then sell it second hand. You get nothing back" – BP2

In the statement above the participant describe three challenges with second-hand equipment. The first is timing issues. The equipment needed is not always available in the market when they need it. Secondly, there is uncertainty about the size and condition of the equipment. The last challenge is that it is challenging to sell equipment in the second-hand market. The returns are low, and the market is flooded at the moment.

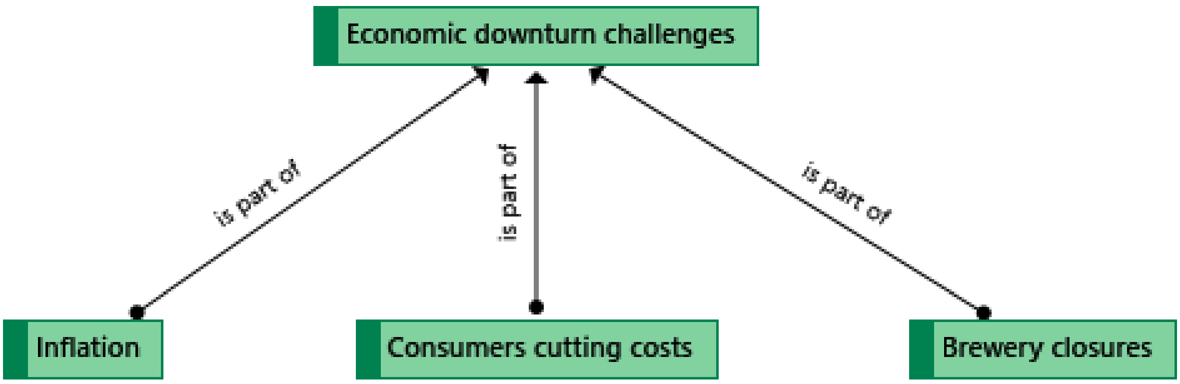
4.2.7 ECONOMIC DOWNTURN CHALLENGES

For the last couple of years, South Africa is going through an economic downturn.

"You have an economy that has gone south in the last few years as well" – RB1

The participants have indicated several challenges due to the economic downturn of South Africa. These challenges are illustrated in Figure 4-8.

Figure 4-8 Economic downturn challenges



Source: Created by the researcher in Atlas.ti

Figure 4-8 illustrates four challenges related to the economic downturn of South Africa.

4.2.7.1 Inflation

Plecher (2019) indicates that the inflation rate in South Africa is currently around 5%. However, the participants indicated that they could not adjust their prices according to inflation. If they do adjust prices for inflation, the price increase would not be attractive for consumers.

"We cannot work according to inflation. You know if everything goes up we cannot really go out like most other consumer products even by margin. You know for us to go up on a small margin does not really make a difference, so the margins we need

to increase onto to keep up with inflation is too high for a product to still be attractive to the average Joe" – BP3

Craft beer is already significantly more expensive compared to commercial beer, and with the economic downturn, fewer and fewer consumers can justify the additional cost of craft beer.

4.2.7.2 Consumers cutting cost

The participants describe craft beer as a luxury product and indicate that with the economic downturn, consumers are cutting cost and luxury products are one of the first things they cut.

"Currently, the economy is tough and (…), and you know (…) luxury products suffer most. Craft beer is luxury product so (…), so you know the craft beer industry suffers the most" – MB1

"So craft beer is a luxury item, unfortunately, and whenever people do not as much expendable income then luxury goods like that are going to struggle" – CB1

Some of the participants indicated that they have a reduction in sales due to the economic downturn.

"We have clearly seen it over the last one (…) two years that you know there are still sales, but it is less. The guy in [Redacted] told me (…) some time ago two men came into the pub, ordered one beer and drank from the one beer (…) so (laughing) still a craft beer supporter but no money" – MB1

The statement of the participant indicates that the economic downturn is affecting the craft beer industry. Several craft beer breweries have closed recently. The brewery closures are at least partly linked to the economic downturn of South Africa.

4.2.7.3 Brewery closures

Over the last year, the growth of the number of breweries has slowed down as indicated in Figure 2-3. Through the interviews; there are indications that the number of craft beer breweries have decreased in 2019. Several of the participants indicated that they are aware of multiple breweries which closed in 2019. One of the participants referred to the growth phases of the craft beer industry, as were discussed in section 2.2.5. The participant described that the South African craft beer industry is in a decline phase similar to what happened in America.

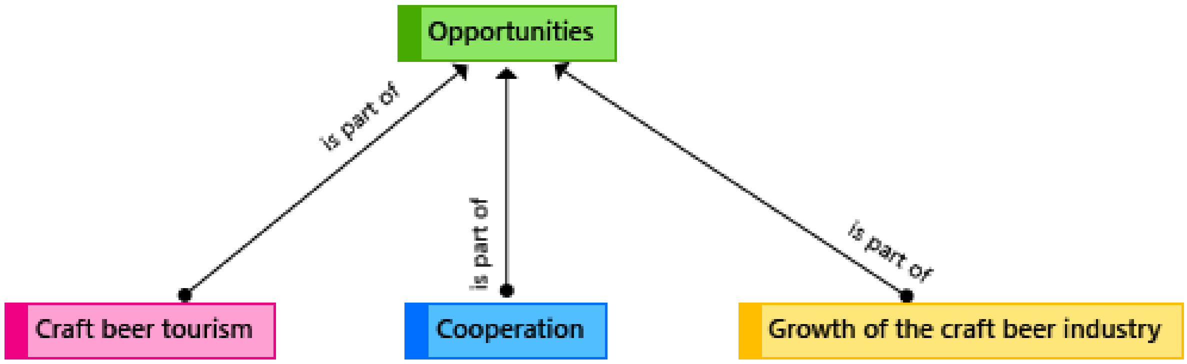
"Probably about 20 or 30 craft beer breweries closing down but I (…) this is a very similar trend what happened in the US where they saw a very similar drift but thereafter they (…) again they saw considerable growth, and I think it is probably related to the economy of the country. I would see us reducing probably another 10 to 20% just because the cost of running a brewery and actually people having money to buy your product. But I would expect that as the economy picks up again, we will see another spirt in craft brewers" – BP1

In the statement, the participant describes that the decline in craft beer breweries is probably linked to the economic downturn of South Africa.

4.3 OPPORTUNITIES

The participants described several opportunities in the craft beer industry. The opportunities are divided into three different themes, which is illustrated in Figure 4-9.

Figure 4-9 Opportunities in the craft beer industry



Source: Created by the researcher in Atlas.ti

Some of the participants describe that there are many opportunities in the craft beer industry.

"There are a lot of opportunities I mean we have been going at it now for about 11 years, and still every month there are new things there are new opportunities and yeah it is fun. It is fun sharing your product with the public and seeing their response. I think that makes it worth it" – BP1

Other participants described that there are not many opportunities.

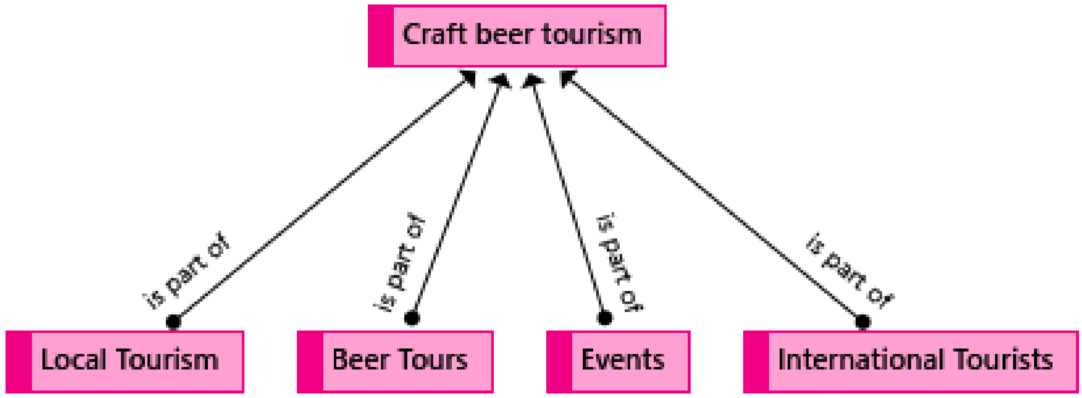
So I do not think they are many opportunities at the moment" – BP7

The following sections discuss the opportunities that have been identified.

4.3.1 CRAFT BEER TOURISM

Tourism is a significant part of the craft beer industry. The brewpub model, for instance, encourages customers to come and visit the brewery and contribute to local tourism. There are several parts to craft beer tourism sector, which will be discussed in this section. Figure 4-10 illustrates the different sub-themes of craft beer tourism opportunities.

Figure 4-10 Opportunities in craft beer tourism



Source: Created by the researcher in Atlas.ti

4.3.1.1 Local tourism

Several of the participants described that craft beer breweries promote local tourism. One of the participants indicated that he opened a craft beer brewery to help the tourism of the small town they are located.

"I was at stage (...) when I started the brewery (...) the chairman of the tourism council of [Redacted]. So for me to walk the walk as well I thought what can I do to support tourism and a Craft Brewery Is something that (...) is very conducive to tourism" – BP2

Another participant described that tourist coming through the town are looking for craft beer breweries.

"We had many tourists come through, passing by and they literally look for craft breweries" – BP4

These statements form the participants describe one element of opportunities for local craft beer tourism where a craft beer brewery can help develop local tourism. The other side of the opportunity is to open a craft beer brewery in an area already known for its tourism.

"I can take an example Parys, which is kind of a tourism destination, more local tourism rather than external tourism. Also the town and the brewery, brewpubs or the taprooms there they actually do very well. So tourism is important to the craft industry" – BP4

There are also several examples of successful craft beer breweries, especially in the Cape Town region that take advantage of the tourism in the region.

4.3.1.2 Craft beer tours

The participants had contradicting statements related to opportunities for craft beer tours. Some of the participants described that there are opportunities for craft beer tours.

"We also focusing on quite heavily on is the Gauteng beer route" – CB1

"We also get people coming (...) come with a small micro-bus who stops in [Redacted] for a few hours then goes to [Redacted] then goes to [Redacted], so people spontaneously start doing tours" – BP2

The statements of the participants indicated that craft beer tours are happening spontaneously. This indicates that there are opportunities to start formalised craft beer tours visiting several craft beer breweries. However, some of the other participants indicate that there are several challenges to start formal craft beer tours in central South Africa. The main concern of the participants is that the breweries are too far apart from each other.

"Whereas when you get on a bus let us say by x location you are on the schedule you have to be there to get back there on time on the next bus to get loaded and go again. I think everything is too far apart, especially in this country just to do that, or at least in Joburg." – BP5

The same participants who indicated that the distance between breweries are a challenge for forming craft beer tours described that in the Western Cape where the density of breweries is higher, craft beer tours are successful.

"I think in Cape Town that can probably work because there is a lot of breweries located in a very small area" – BP1

"The brewery tour that we were talking about earlier That works phenomenally is Woodstock, the breweries in Woodstock where they are blocks away from each other that will work perfectly because and adding that Woodstock is a new development there's a lot of other things there is restaurants there is bars there is lots of little shops it will work great there" – BP5

The statements of the participants indicate that craft beer tours more suited for areas where there are craft beer breweries close to each other. In the study area, the breweries are mostly in separate town or cities, making it challenging to form craft beer tours. In Johannesburg and Pretoria, there are multiple breweries; however, they are not walking distance from each other.

Another participant indicated that another challenge with beer tours is that unlike wine, craft beer is a relatively cheap product. The challenge is the cost of a craft beer tour where a driver is needed, and the customers are still looking for value for money.

"My perception people that go on wine tours are those generally in the higher echelon bracket. It is kind of something you can do for a start you got a car, you got the money to pay a tour operator to tour you around. It is an expensive product that you are prepared to pay an expensive tour. You now are going to pay 15 hundred Rand to go on a beer tour or to drink an essentially an R15 product, not an R150 product." – RB1

A possible solution the costing challenge is to combine craft beer tours with craft gin tastings. Through the interviews, the participants described that there are more opportunities to expand craft beer events and festivals.

4.3.1.3 Events

A big part of craft beer tourism is craft beer festivals. Several of the participants describe that craft beer festival are popular.

"The Capital Craft Festival, it is a sell-out festival every year since it started" – BP3

Another participant indicated that they organised a craft beer festival for the region they are in.

"The Purely Pretoria Beer Festival that we hold annually in April. That is basically a festival by the Pretoria breweries for the Pretoria community, and we end up inviting two or three guest breweries from other areas" – CB1

Regional craft beer festivals are excellent opportunities for craft beer breweries to promote craft beer in the area as well as their brewery. Other opportunities the participants described were events such as corporate functions and birthday parties.

"There are opportunities in the broader thing I mean we have a function room here that overlooks the brewery, and we get a lot of functions because people want to do something different and they find that they can come and have like I had last weekend a 21st birthday party at the Brewery. You know what a great place to have your 21st. We get a lot going to Christmas, there is a lot of corporate functions and if that an element of tourism" – RB1

Participant BP2 described that they have a small theatre at the brewery and they host artist at the craft brewery.

"At the brewery, we also have a small little theatre. It can sit about 80 people there, seat 80 people. So we take hands with other breweries … so these type of people we always try to (...) recommend the same artist to do a tour going past, doing all the breweries and artists are very keen to do that" – BP2

Utilising craft beer breweries for events, such as shows, birthday parties, and corporate functions, offer a unique experience for patrons. There are opportunities to expand event such as these to more breweries.

4.3.1.4 International Tourists

The participants had some opposing views on opportunities for the craft beer industry to target international tourists. One of the participants describes that he does not see craft beer breweries attracting large amounts of international tourists.

> *"Are we ever going to attract planeloads of Germans from Germany to South Africa to come and taste craft beers (...) one would hope so but probably not? Not for a long time anyway."* – RB1

Other participants indicated that they have a significant number of international tourists coming to the brewery.

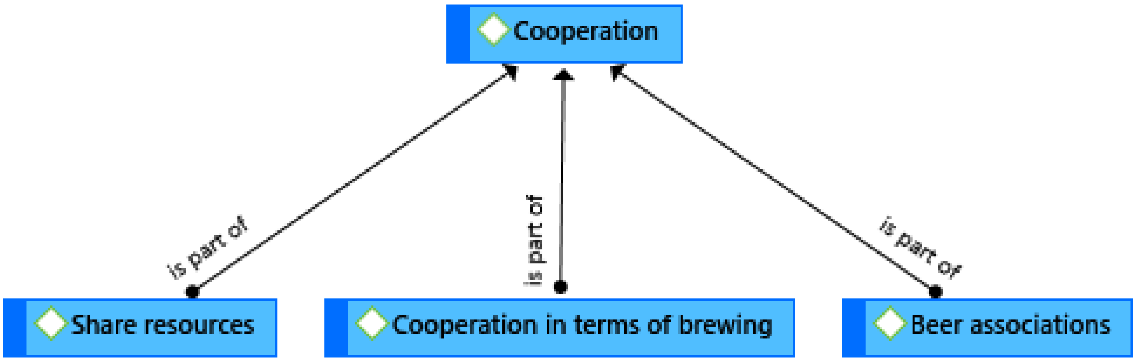
> *"If you are a craft beer enthusiast then you definitely want to start explore craft breweries when you visit other countries. So we get our I will say that about 20% of our clientele here is from overseas and the reason they come past here is for that exact reason"* – BP3

The wine industry in South Africa is well developed and internationally renowned. With the development of the craft beer industry in South African, there are some opportunities to target international tourists.

4.3.2 COOPERATION

In the previous sections, it was described by the participants that craft beer breweries generally do not compete with each other and see each other as friends. The theme of cooperation consists of four sub-themes illustrated in Figure 4-11.

Figure 4-11 Cooperation opportunities



Source: Created by the researcher in Atlas.ti

4.3.2.1 Share resources

The majority of the participants indicated that they share resources; these resources include information, recipes, raw materials and point of sale equipment. Most of the participants described that they either shared advice or received advice for other craft beer breweries.

"If I have a problem in the brewery today and I do not know the answer to it, there is probably ten different people I can phone and get the answer to, and in fact, I have many examples where we have done that where they do the same to me." – RB1

"Everybody pitched in and gave advice even (...) So every single Brewery you go to, people are very keen to share ideas," – BP2

In the statements, participants describe how they help each other with advice when they started and also solve problems that they have in their brewery. Participant BP2 also indicate that they share recipes.

"So people are very keen to exchange recipes" – BP2

In section 4.2.1.1.3, one of the participants described that they order some of the raw materials together to save costs. Another participant described that they get raw materials for other craft breweries when they run out unexpectedly.

"A few months ago we ran out of pale malt, gave them a call and said listen just come pick it up, cost price next time when you order just send the three bags you took from us back" – BP2

A big motivation behind craft beer breweries sharing resources is to overcome challenges. With sharing raw materials, craft breweries overcome challenges related to the cost of raw materials and the ordering time. One of the other significant challenges in the supply chain is distribution to outlets. It was indicated in the section on distribution challenges that access and the cost of point of sales equipment is a significant challenge. One of the participants indicated that when they have open space on their point of sale equipment, they rent it to other craft beer breweries.

"I just had a WhatsApp earlier today from one of our fellow brewers that been offered a slot in the restaurant, ... He is going to take his IPA there, and he will actually run it through our cooler. So we will rent a space on our cooler to him." – RB1

In the statement, the cooler is referring to a beer tap system where several small kegs are placed in a cooler and connected to beer taps. Participant RB1 continues to describe that sharing of point of sale equipment is not unusual and that they both rent equipment to and from other breweries.

There are opportunities to expand the sharing of resources. Craft beer breweries can collectively buy raw materials in bulk to reduce costs. A few breweries supplying the same area can also install point of sale equipment together sharing the cost.

4.3.2.2 Cooperation in terms of brewing

The participants described several ways in which the craft beer industry cooperate in terms of brewing. Probably the most obvious example of cooperative brewing is the contact brewing model. Participant CB1 is a prime example of how contact brewing can help a craft beer brewery to start. Contact brewing helps a new brewery to overcome the challenges of the initial capital investment of the brewing equipment as well as applying for a brewing license.

"There is a lot of breweries that (...) have either limited capacity or maybe overcapacity. So instead of investing huge capital, it is much easier to have a collaborative agreement with another craft brewery that might have space and they brew your beer for you" – BP4

Even though contact brewing is a significant opportunity for potential new craft beer breweries to enter the market, the literature indicates that many craft beer breweries close down. Care should be taken by potential contact breweries to create a sustainable business model. The next chapter expands on contact breweries and makes recommendations of how to successfully exploit the contact brewing opportunities.

Another example of cooperative brewing is collaborative beers, where multiple breweries brew one beer together. These collab beers are marketed and sold as collaborative beers.

"Some brewers do managed to (...) stimulate kind of a cult following. You know, and if you got two guys that get together that have different types of followers they can make something interesting, it is always going to be interesting for the people that follow them as well. I mean we get bored easily, so collaborations are one of those things that keeps the industry exciting" – BP3

Collab beers help to grow the craft beer market by providing consumers with new and exciting beer. It also allows for craft beer breweries to gain exposure form other craft beer consumers. The last and probably the most remarkable example of cooperative brewing from the participants was how they help new breweries by allowing a new brewery to rebrand their beer to test the market. Two of the participants indicated that when they opened their brewery, they sold rebranded beer to test the market.

"We brought beer out from both [Redacted] and [Redacted] and with their consent, rebranded it with my own name, and I started putting taps out. Just to test the market" – BP2

This statement from the participant is an excellent example of the cooperative spirit of the craft beer industry and indicate the extent craft brewers will go to help each other.

4.3.2.3 Beer associations

It was indicated in the literature review that South Africa does have a craft brewer association. The Craft Brewers Association South Africa (CBASA) was only founded recently in 2017. Something which is concerning is that only two participants referred to the association. However, several other participants indicated that they have meetings with other craft brewers or that they have local craft beer guilds, but no mention of the CBASA. It may be that the participants did not feel that it was important information, but it is also possible that not all craft beer brewers are aware of the association. Regardless, the CBASA needs to play a more prominent role in promoting the craft beer industry and addressing challenges of the industry. There are several opportunities for the CBASA to assist the craft beer industry. One of the main opportunities the participants described is collective bargaining for better regulations.

"From a lobbying point of view in terms of legislation and various things like that. Obviously, as a collective group, you going to have a greater amount of chance of something than a fractured group of individuals trying to take the mammoth beast on" – BP5

"In Cape Town, there is (...) I am friends with a few of the people over there, and they (...) have meetings once a month to make suggestions and then draft policies they can have as a club or a collective group, which gives them a bit more (...) weight."
– BP2

In both of the statements, the participants describe the need for collective bargaining and the opportunity to change the regulations as a group.

Another opportunity described by a few of the participants is for breweries to work together to grow the market share of craft beer.

"In fact, a lot of the breweries are actually working together to actually grow the craft market" – BP4

The CBASA can play a significant role in both of these opportunities.

Another cooperation opportunity is craft beer guilds where craft breweries work with and support homebrewers.

"You got to get the consumers to understand what craft beer is … We actually start a craft beer guild, where people that brew beer at home used to brew beer at home belongs to the guild, and we do regular interactions or interventions where we judge the beer … they get feedback on what is right what is wrong, where they could improve their beer and in the last year we seen significant improvement from all the homebrewers. In terms of quality, taste profiles et cetera. So it is something that on a bigger scale can actually work as well" – BP4

A significant part of the motivation behind the craft beer guild is to educate consumers about craft beer and to support homebrewers. There are opportunities to expand this to more cities. If more craft beer breweries form craft beer guilds to promote and support homebrewing education around craft beer can be improved. Most people have a hobby, and homebrewing can be a rewarding hobby. Homebrewers will also be more likely to support craft beer breweries and encourage their friends to try craft beers. Also, several of the participants indicated that they homebrewed before they opened their craft beer brewery. By forming craft beer guilds, breweries can mentor future craft beer brewery owners.

The last association was unsuspected. One of the participants indicated that a new association had been formed.

"In fact just last week I mean the new Beer Association of South Africa was launched, and that is a joint venture between Heineken, ABInBev or SAB and to Craft Beer Brewers Association of South Africa" – RB1

The Beer Association of South Africa was launched in August 2019 (Moeng, 2019). This was probably one of the most surprising pieces of information that came from the interviews. Most of the interviews and literature describe the competition commercial breweries have with craft beer breweries. When probed on the aims of the Beer Association of South African, the participant described that the association have four aims.

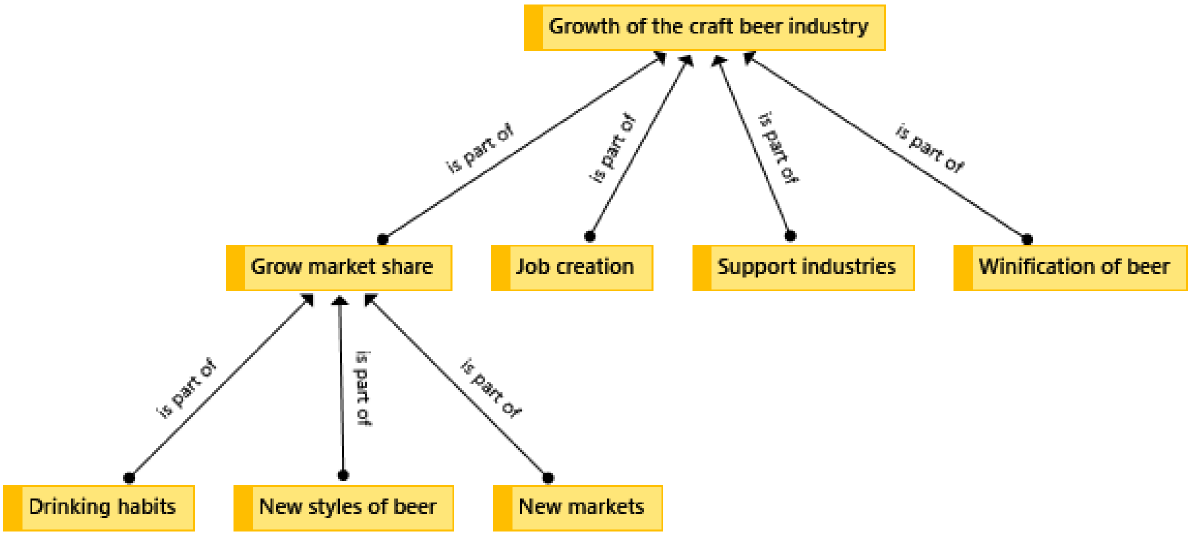
“Their aims are kind of fourfold. So first is to promote a culture of beer drinking. You know beer is a low alcohol product … if people are going to drink in quantity, it is a more responsible product than some other ones … So that is the first thing. Excise and taxes (...) is obviously applied equally to Heineken or to that ... if we can get a general reduction or at least have our increase treated fairly, and we can level the playing field that would be a great thing ... So you know the first thing is obviously responsible drinking, the second thing is exercise, the third thing is regulation is to detangle some of the laws and regulations can just make them simpler. And there I think the big guys would support a lot of the craft brewing initiatives around you know for example our warning labels ... Some of them will support some of those initiatives. The other thing that the industry is doing is obviously supporting beer culture and availability. So one of the initiatives being supported the new industry body and it is something that the craft brewers start it was a hashtag called “let us buy beer”, which is really around why can you not buy beer in a supermarket but you can buy wines. And a law specifically prohibits it ... So those are kind of industry-wide things that we are looking at supporting.” – RB1

From the statement of the participant, there seem to be some opportunities for the craft beer industry. Deregulation and changes in excise tax have some significant opportunities for the craft beer industry. Regulation and taxation are one of the main challenges for the craft beer industry. Many participants indicated that the beer industry is over-regulated and that excise tax is too high and drive up costs. Positive changes in regulation and taxation should promote the growth of the craft beer industry.

4.3.3 GROWTH OF THE CRAFT BEER INDUSTRY

Some of the participants described that there are opportunities to grow the craft beer industry in South Africa. There are various elements related to growing the craft beer industry, which is illustrated in Figure 4-12.

Figure 4-12 The opportunities to grow the craft beer industry



Source: Created by the researcher in Atlas.ti

The discussion of opportunities to grow the craft beer industry starts with the current market share of the craft beer industry in South Africa.

4.3.3.1 Grow market share

Currently, the market share of the craft beer industry is minimal. The participants described that the market share of the craft beer industry is less than two per cent.

"Because currently the craft market kind of less than 2% of the total beer market."
– BP5

Another participant described the market size as less than three per cent. On the other side the literature indicates that the market size of craft beer is about one per cent

(Eyssen, 2015:11). There is some uncertainty about the exact market share of the craft beer industry. However, the exact market share is not that important. The key takes away is that the craft beer industry has a small market share. One of the participants described that there would be more opportunities in the craft beer industry if the market share can grow.

“To be sustainable (...) and making an impact in the industry you got to at least get to 20 or 30% as an industry, as a craft industry” – BP4

The participant describes an exponential increase from the current market share. However, if compared to the American market, it is possible to grow the craft beer industry to over 20%.

4.3.3.1.1 New Markets

To achieve a market share goal of over 20%, the craft beer industry needs to develop new markets. One of the participants described that there are opportunities to develop the township market.

“I am very confident if we can get the pricing right, and develop markets, there is still an opportunity. The mainstream drinking market which in South Africa, for want of better a word you would call the black Township market is still untouched by craft. Soweto never really sold to the Soweto market although Heineken is now positioned it there. You got a few guys now like Sharpville and Madalone and a couple of other guys like trying to target the township markets through very niche marketing strategy which talk to the place where you live. That is a big opportunity.” – RB1

One of the other participants described that they are busy with a project to develop a small scale craft brewery, which is ideal for less-advantaged areas such as townships. This idea is expanded on in section 4.3.3.2

Another market where there is an opportunity to expand is the international market. It was already described in section 4.3.1.4 that some of the participants have a significant amount of international tourist visiting their brewery. One of the participants describes that there are opportunities to export craft beer.

"I mean South Africa has a very large export wine and brandy market and there is no reason why our beers cannot perform on the same scale overseas than the wines do" – BP3

To help with expanding into international markets, there are opportunities to develop uniquely South African craft beers.

4.3.3.1.2 New styles of beers

One of the participants described that SAB developed new styles of hops, which craft beer breweries potentially can use to develop unique South African craft beers.

"We have the opportunity to bring out truly South African beers and that opportunity, and that opens an opportunity for playing in the international market. So, for example, SAB has developed new styles of hops which the international community (…) are really interested in … provides new opportunities for craft brewers to develop new styles of beer that are truly uniquely South African and then exporting that overseas." – BP1

There are opportunities not only for using unique South African hop to develop unique South African beers, but also unique South African herbs. Developing new beers with a strong South African identity does not only help to attract international consumers looking to experience unique beers for other cultures but also proudly South African consumes identifying with the local identity of the beers.

4.3.3.1.3 Drinking habits.

The drinking habits of consumers are linked to the beer culture of South Africa. It was already discussed in section 4.2.3.5 that the beer culture of South Africa is focused on commercial lagers. There are opportunities to change the drinking habits of consumers by slowly educating them about craft beer.

"People still walk in daily and say what do you have to taste like a Castle, what do you have to taste like a Black Label, and (...) and then we have to slowly persuade somebody to try something else." – BP2

There are also opportunities to market craft beer in such a way that consumers associate craft beer with social status.

"If you get that type of market and get people to associate craft beer with (...) social status like to do with expensive whiskeys for instance. Then you (...) increase the market size substantially that is the type of market you want" – BP2

The craft beer industry in South Africa has a relatively small market share of around two per cent of the total beer market. There are some opportunities to grow the market share. One of the more significant opportunities is to target the township market of South Africa. There is also an opportunity to develop uniquely South African beers by developing new South African hops and using South African herbs.

4.3.3.2 Job creation

One of the challenges of the craft beer industry is the economic downturn of South Africa. A significant part of the economic downturn of South Africa is the high unemployment rate. The unemployment rate of South African is 29.1% (Stats SA, 2019)

Some of the participants described that there are opportunities for job creation in the craft beer industry

"I think there are many employment opportunities and opportunities to stimulate the economy" – BP3

One of the participants indicated that based on market share, the craft beer industry employs more workers than commercial breweries.

"Last time I checked craft brewers in South Africa supply less than 3% of your beer consumption in South Africa, but we employ 15% of the people working in the beer industry" – BP2

There are opportunities for the craft beer industry to justify either deregulation or excise tax breaks based on the relatively higher employment rate of craft beer breweries compared to commercial breweries. One of the participants described how they are working with regulators to develop small scale breweries, which is ideal for less-advantaged areas.

"I have spoken to the liquor board and they very keen to support us in this matter is where we can roll out small-scale breweries. That would fit in a single garage. Again to service for local, local community. Especially on your less-advantaged areas. You can have somebody trained, (...) to brew a 100-litre batches … only serve it there and have the immediate community in the area come to their spot, or their house (...) to have their produce. First of all, would be licensing and being legally compliant and being tax compliant and so forth. It will also be injection for the (...) the government (...) or for the country as far as tax revenue is concerned … That would be a brilliant concept because it is very labour intensive, you will have a family that works, pays tax, pays excise" – BP2

If the concept described by the participant can be successfully implemented, it would result in significant growth of the craft beer industry. It would also employ vast numbers of people. These small "township breweries" can follow the brewpub model where they serve food and drink to their local community. Each brewery like this can support a family and possibly one or two additional employees. It will also help to develop the industries supporting craft beer breweries, which will employ even more people. The opportunities for growing the support industries are discussed in the next section.

4.3.3.3 Supporting industries

Several of the participants indicated that there are opportunities for industries that support the craft beer industry.

"Since we are a growing industry, and we do generate quite a lot of (…) let's say (…) what's the right word now (…) indirect business so for example you know on the marketing side, bottling side, labelling side, all of these things are generating new business for (…) the industry" – BP1

However, one of the participants described opportunities for several supporting industries, which are listed below.

- Transportation and warehousing for small rural craft beer breweries
- Businesses growing yeast
- Businesses supplying beer additives such as Irish moss and clarifying agents
- Manufactures of brewing equipment and beer taps
- More distribution companies, especially for smaller towns
- More laboratories that can test beer
- Lawyers specialising in the brewing licence application
- Consulting for struggling breweries
- Training for brewmasters, BJCP judges and sommeliers.
- Temp work for brewmasters
- Malting and roasting of barley
- Hop and barley farms

Rather than providing the statements for all of the supporting industry, it was decided to highlight a few of the industries that stood out.

The first is hop farming. In the previous sections, the majority of participants described that they have to import hops at a considerable cost.

"I think there is huge, huge opportunities in hop farming. Especially being such an intensive farm. Where you can on a very small piece of land (...) do a very lucrative hop farm if you look for instance at a lot of your European hop farms. They have imprint internationally, where they export hops internationally to different areas, they have got farms smaller than 100 hectares, so with that type of intensive farming (...) it is also very labour intensive obviously" – BP2

In the statement, the participant describes how hops farming can be done on a small scale and also employ many people. However, there are some challenges to grow hops in South Africa. The biggest challenge is control of hop farming by SAB.

"SAB again (...) they are not playing fair. Like most big companies do not. So they put a restriction on importing any live hop material, years ago I think in the 60s. They put a ban on (...) importing any hop, viable hop materials, so they got hop farms in George. With their own strain of hops. The reason for the ban, they claim that all the hops in South Africa is … It is pest free … So should you bring any life hop material into the country you might import pests? On that ground, they refuse any importation of hops" – BP2

If the restriction on the importation of viable hop material can be lifted, there will be opportunities to grow speciality hops for craft breweries in South Africa. Another opportunity is the manufacturing of brewing equipment. Most of the brewing equipment needs to be imported, and with the poor rand-dollar exchange rate, many new breweries will benefit from locally manufactured brewing equipment.

"Brewery tap and equipment manufacturing, there is a big one. We do have a lot of technical knowledge in South Africa, there is no reason why cannot manufacture brewery equipment and taproom equipment in South Africa, but we do not. There is absolutely zero manufacturing. You will get the odd guy here and there that does it in a very small scale, does manufacturing but I think there is a massive market for it because all the equipment we buy is imported" – BP2

The last supporting industry to highlight is training. One of the other participants also described that there are opportunities for training.

“There are courses that you can study to become a master brewer, but you do not need a qualification to be a brewmaster. So yeah it is actually one of those. One of those Industries that you know it is almost like a trade where with the right type of training you can really go anywhere in the world … That is something that can be quite exciting and quite stimulating for the country” – BP3

“There is opportunities for universities to start doing brewing qualifications, sommeliers and BJCP judges and that type of qualifications would be brilliant to start” – BP2

The statements for the participants describe that there are opportunities for skill development and training of professions related to brewing beer. Some of the breweries that were visited during the study did employ a brewer — indicating that there are now only opportunities for breweries to employ qualified brewers but also employment opportunities for the vast number of people unemployed in South Africa.

4.3.3.4 Wineification

Wineification of beer was one of the opportunities identified during the literature review. However, there was only one opportunity to probe for wineification.

“You know interestingly there is an outlet (...) I am trying to think about his name down near Stellenbosch (...) that tried that. Ok so he took all his beers off the shelves, and he put it back and categorised it by lager, ale, IPA, Weiss, whatever and then we each had a slot there and to cut a long story short he has gone back to doing it by brands. None of us particularly liked it. I thought it was interesting; it was a great experiment … So you are there for ale but you, unless you are there for (...) it should theoretically work as you say with wineification I mean you know you got red wine white wine You know, but then you got Shiraz, Pinotage, and that is how they do it. As I say that is an example of one where it did not work that well in that one store.” – RB1

The participant describes that they did try sorting craft beer according to styles of beer, but it did not work. It might be that the craft beer market is still too young and need further development.

CHAPTER 5: CONCLUSION

“Beer is proof that God loves us and wants us to be happy.”
– Benjamin Franklin, American Founding Father

5.1 INTRODUCTION

The purpose of this chapter is to conclude the findings from the empirical study as well as the literature review. The conclusions provide a summary of the various themes discussed in the results and discussion chapter. The conclusion also compares the results found in the study with the existing research discussed in the literature review.

The chapter continues by making recommendations on how craft beer breweries can overcome some of the challenges facing the industries and possibly exploit opportunities. Furthermore, the chapter revisits the primary and secondary objectives, critically assessing the achievement of the objectives. Finally, the chapter concludes with recommendations for future research.

5.2 SUMMARY OF KEY FINDINGS

Continuing with the structure of the previous chapters, the themes are divided into challenges and opportunities.

5.2.1 CHALLENGES

During the study, the challenges facing the craft beer industry was divided into seven themes.

5.2.1.1 Supply chain management

Supply chain management has two components, Sourcing raw materials and distribution. The main challenge for sourcing raw materials is the cost. Due to the limited variety of locally sourced raw materials, the majority of raw materials needs to be imported, which increases the cost significantly. The challenges of sourcing raw materials and the cost of raw materials are reinforced by the findings of Ramorula (2018:49). However, an additional challenge was found during the interviews. Some of the participants described that there are some challenges regarding the ordering of raw materials. For example, the suppliers have to order hops a year in advance. Which are a challenge for many craft beer breweries because do not have a long history of sales, and they are still growing? Also, typically craft beer breweries are small and thus order small amounts of raw materials at a time, further increasing the cost of raw materials.

In terms of distribution, the majority of the challenges described by the participants are supported by the literature review discussed in section 2.3.2.2. The main challenge is accessibility in outlets. Typically outlets do not own their beer taps. Breweries install beer taps, and they restrict the use of the beer taps. Craft breweries can install beer taps. However, the cost of installing beer taps are high. The cost of distribution is also a challenge for smaller craft beer breweries distributing small volumes at a time. The profit margin for craft beer breweries supplying outlets is low, decreasing the profitability for small craft beer breweries. Several craft beer breweries overcome the distribution challenges by following the brewpub model, where the supply the majority of their beer to their restaurant or taproom. By supplying their restaurant or taproom, they increase the profit margin by cutting out the middleman and selling directly to consumers.

Another major distribution challenge, which was not discussed in the literature review, is maintaining the quality of craft beer throughout distribution. Craft beer has a short shelf life and is sensitive to high temperatures. If an outlet does not look after the craft beer, there is a risk that the craft beer might spoil and negatively impact the reputation of the craft beer brewery.

5.2.1.2 Quality control

As indicated in the literature review, consistent quality craft beer is crucial for the craft beer industry. Quality control is one of the critical challenges of the craft beer industry. Craft beer is marketed as higher quality than commercial beer. However, craft beer breweries have significant challenges to maintain consistent quality beer. Typically craft beer breweries are small, and they do not have quality or process control equipment due to the cost, which is consistent with the findings of Ramorula (2018:44) who found that smaller craft beer breweries do not have quality control equipment. The lack of quality control equipment increases the risk of brewing poor quality beer. Poor quality beer does not only impact the brewery responsible for the poor quality beer but also the craft beer industry as a whole. Even though contact breweries do not brew their beer, they are still responsible for ensuring that they deliver a quality product to their consumers. The strategy that participant CB1 follow to ensure the quality of their beer is to form strategic partnerships with hand-selected breweries to brew specific beers that they specialise in. With these strategic partnerships, contact breweries can ensure the quality of their beers. This strategy to control quality through partnerships was not found during the literature review.

5.2.1.3 Marketing challenges

Marketing is one of the crucial challenges for craft beer breweries. Several of the participants described that over the last few years, craft beer sales have been decreasing. The decrease in sales is partly due to the economic downturn of South Africa. Due to the economic downturn, price is a critical challenge. Craft beer is significantly more expensive compared to commercial beer. The high price of craft beer is due to the lack of scale and the resulting higher production cost. Craft beer breweries also need to manage the prices of their craft beer at outlets. Some outlets take advantage of the craft beer trend and charge very high prices for craft beer, which can negatively affect the craft beer industry.

The beer culture of South Africa is focused on commercial lager. However, advertising challenges are preventing the craft beer industry to effectively changing the beer culture of South Africa. All of the participants indicated that they do not have the funds for above the line advertising due to the cost. The literature review supports the main methods of advertising by the participants. Lee *et al.* (2017:4) found that social media is an effective advertising method for craft beer breweries, supported by the majority of participants describing that they rely on social media advertising. However, craft beer breweries need to be creative with social media to stand out for other craft beer breweries. Most of the participants described that differentiation is not a challenge. For larger craft beer breweries brand differentiation is important because they sell large volumes of beer in retailers, where differentiation is essential. The majority of participants in the study follow a brewpub model or have a taproom. For these breweries differentiation of their location is more important. They want to create a positive experience for consumers and generate positive word of mouth. Troxler (2015:76) supports the importance of word-of-mouth advertising for craft beer breweries.

5.2.1.4 Regulation and taxation

The primary regulation and taxation challenges are excise tax and obtaining a brewers license. Excise tax forms a significant part of the production cost for craft beer breweries. Participant RB1 described that excise tax is between 20 and 25 per cent of their production cost depending on whether it is for bottles or kegs. In South Africa, there are no volume breaks for excise tax and all breweries pay the same excise tax rate. For licensing the main challenge is the time it takes to obtain the brewer's license. The participants indicated that it took them between 14 months and two years to obtain the license. The license is linked to the location of the brewery, which means that potential new craft beer breweries must either own or rent a property while they wait for the processing of the license. This wait puts immense financial pressure on the craft beer brewery even before it opens. The results of this study contradict the description of Crone (2018a) that brewing licenses are only issued for locations in industrial zones. Several of the participants described that they have brewing licenses for locations in commercial areas.

5.2.1.5 Competition

The participants described that there is minimal competition between craft beer breweries. There is some competition at outlets due to limited beer tap space. However, the majority of participant indicated that competition is positive and helps to improve and grow the craft beer industry. The main competition challenge is due to commercial breweries buying other craft beer breweries and promoting their "crafty" beers as craft beers. Commercially produced craft beers take advantage of the production, distribution, and marketing capabilities. They can reduce prices and install beer taps, which give them advantages over independent craft beer breweries. However, it is not all negative. The added capabilities of commercially produced craft beer help to normalise and promote craft beer. In the long term, commercial breweries entering the craft beer industry should have positive effects for the craft beer industry as a whole. Participant RB1 did describe that commercial breweries have helped that craft beer industry with the introduction of products such as Flying Fish and Carver's Weiss. Participants RB1's description is supported by the findings of Verhaal *et al.* (2017:2540)

5.2.1.6 Cost

Several of the participants described that the low profitability of craft beer breweries is a challenge. The cost of brewery equipment is high because the majority of brewing equipment needs to be imported. The high initial capital investment needed for brewing equipment combined with the low profitability increases the time needed to make a return on investment. New craft beer breweries also find it challenging to determine the initial size of the brewery needed. Due to inefficiencies of brewing small batches in a large brewery, new breweries need to estimate the size brewery they need and instead start small and grow the brewing capacity over time as the brewery grows.

5.2.1.7 Economic downturn challenges

The economic downturn of South Africa is a significant challenge for craft beer breweries. Craft beer is a luxury product, and consumers can cut cost by drinking alternatives such as commercial beer. This is a challenge for craft beer breweries because they cannot increase their prices with inflation and still be attractive for consumers. Over the last year, several breweries closed down. The brewery closures are partly due to the economic downturn of South African.

5.2.2 OPPORTUNITIES

The opportunities which can be exploited by the craft beer industry was divided into three different themes.

5.2.2.1 Craft beer tourism

The participants described several opportunities related to craft beer tourism. Craft beer has a strong connection with tourism. The participants described how craft beer breweries attract tourist to local communities. There are opportunities to open craft beer breweries in areas know for tourism, where the craft brewery can feed on the already established tourism. There are opportunities to form formal craft beer tours in areas where there are several breweries in a small area. The challenge with craft beer tours in the study area is that generally, the craft beer breweries in the area are far apart for each other. Howlett (2013:33) indicated that a town’s tourism could be built on several craft beer breweries in a small town. The breweries are in a small area, which is ideal for craft beer tours.

An opportunity that is currently more successful in the study area is craft beer festivals. The majority of the participants indicated that they attend craft beer festivals. Some of the participants also described that they host events such as corporate functions and birthday parties at the breweries. The last tourism-related opportunity described by the participants is attracting international tourists. A few of the participants described that a significant portion of their customers is international tourists. There are opportunities to market the South African craft beer industry more aggressively for international tourists. However, this will probably be more successful in the Western Cape where the craft beer breweries are closer to each other.

5.2.2.2 Cooperation

There is a robust cooperative spirit in the craft beer industry. The various ways in which the participants described that they cooperate are consistent with the findings of Mathias *et al.* (2017:21). Several of the participants described that craft beer breweries share resources and give advice to each other regularly. A remarkable example of cooperation is that two of the craft beer breweries indicated that other breweries allowed them to rebrand craft beer and sell it under their label to test the market. There are also opportunities for breweries to brew collaboration beers, where two breweries brew one batch of beer and sell it together. The Collab beers help breweries to expand their market and attract consumers from other breweries.

There is a craft beer association in South Africa which was founded in 2017. The CBASA aims to assist craft beer breweries in South Africa. There are opportunities for the CBASA to change some of the regulations, such as the licensing process and excise tax. These changes should have a significant effect on the craft beer industry and promote the growth of the industry. The CBASA also aims to promote craft beer in South Africa and change the beer culture.

5.2.2.3 Growth of the craft beer industry

The growth of the craft beer industry can be grouped into two types of opportunities. The first are opportunities to grow the craft beer industry, such as expanding into new markets such as the township market. Another opportunity to grow the craft beer industry is to develop new uniquely South African styles of beers using South African developed hops or local herbs. These uniquely South African beers can be used to attract international craft beer drinkers.

The second group of opportunities focus on opportunities created from the growth of the craft beer industry, such as job creation and developing supporting industries. The rate of job creation is higher in the craft beer sector compared to the commercial beer sector. The high job creation rate of craft beer breweries are supported by Di Matteo and Cavuta (2016:352), who found that the craft beer industry generated 424 thousand jobs of which 115 thousand are directly employed in craft beer breweries. If the craft beer industry grows to a more substantial share of the beer market, the craft beer industry can help to address the unemployment problems of South Africa. As the craft beer industry grows, there will be many opportunities to grow various sectors of industries that support the craft beer industry. Development of some of the supporting industries can also help to overcome some of the challenges in the craft beer industry. For example, there are opportunities for hops and barley farms. The farms currently support commercial breweries and produce the raw materials commercial breweries need. The craft beer industry can benefit from farms producing speciality malts and hops needed by craft beer industries. This will reduce the import cost of raw materials for craft beer industries. Other industries include brewery equipment manufacturers and training of brewmasters.

5.3 RECOMMENDATION

This section makes recommendations on how craft beer breweries can overcome some of the challenges facing the craft beer industry as well as recommendations on how to exploit some of the opportunities. Recommendations are made for each of the themes. This section ends with a recommended business model on how to overcome several of the challenges.

5.3.1 CHALLENGES

The participants described several challenges. This section provides recommendations on how craft beer breweries can overcome some of the challenges.

5.3.1.1 Supply chain management

The majority of the challenges related to sourcing raw materials is due to the small market share of the craft beer industry. As the industry grows, some of the challenges with reduce. For example, more suppliers will increase competition and reduce prices. Also, if suppliers can import larger amounts of raw materials, the cost of raw materials should decrease.

- It is recommended that craft beer breweries look for opportunities to import raw materials collectively to reduce cost.

- The researcher recommends that craft beer breweries focus on distribution to their local community and grow the market of their local community. This recommendation will reduce the cost of distribution.

- It is recommended that craft breweries open either a taproom or a restaurant as a main outlet for their beer. This recommendation overcomes the challenge of accessibility to outlets. It should be noted that the necessary attention and care must be given to the taproom or restaurant to ensure that it provides a positive experience for consumers and adds to the success of the brewery.

- Craft beer breweries distributing to outlets should ensure that outlets maintain the quality of their craft beer as well as the cold chain. It is recommended that craft beer breweries do not supply to outlets that do not maintain the cold chain. Spoilt beer has a negative impact on the craft beer brewery and the industry as a whole.

5.3.1.2 Quality control

- The researcher recommends that contact breweries select multiple breweries to brew their beer based on the expertise of the specific brewery rather than selecting a one size fits all brewery. This recommendation is to ensure that contact breweries supply high-quality beer to their consumers.

- It is recommended that all breweries implement quality control systems. The quality control system does not need to be automated or use quality control equipment. However, a standard operating procedure should be in place to ensure that the brewery the proper procedures.

- The researcher recommends that breweries ensure that all batches of beer comply with the breweries quality standard. Under no circumstances should a craft beer brewery allow poor quality craft beer to reach the consumers. The negative impact poor quality beer have on the craft beer brewery and the industry as a whole far out ways the cost of disposing of a bad batch of beer.

- It is also recommended that the CBASA host workshops for small craft beer brewers too provide best practices and procedures for brewing high-quality craft beer without the use of quality control equipment.

5.3.1.3 Marketing challenges

- It is recommended that craft beer breweries work with outlets ensuring that outlets price their craft beer consistent with standard prices of the craft beer industry. Outlets charging very high prices form a negative perception of craft beer.

- The CBASA can assist craft beer breweries by hosting workshops or training on social media advertising. Even though it is recognised that advertising is the responsibility of each craft beer brewery, effective marketing by more craft beer brewery can benefit the whole craft beer industry. Consumers that have a positive experience with one craft beer brewery are likely to try craft beers from other craft beer breweries.

- To change the beer culture, it is recommended that craft beer breweries in conjunction with the CBASA do collective advertising campaigns targeted to promote the craft beer industry as a whole.

- The researcher recommends that craft beer breweries for partnerships with other craft alcohol manufacturers to expand the offering at their restaurant or taproom attracting a wider range of customers.

5.3.1.4 Regulation and taxation

The recommendations for overcoming the regulation and taxation challenges are aimed more at the CBASA instead of individual craft beer breweries. Changes in regulations need the collective bargaining of the craft beer industry as a whole.

- It is recommended that the CBASA lobby changes in the process to obtain a brewers license. The focus should be on streamlining the process in order to reduce the time it takes to obtain a brewing license.

- The researcher recommends that the CBASA lobby to reduce zoning restrictions placed on brewing licenses. It is recommended to lift zoning restrictions based on the batch size of the brewery. For example, breweries under 100-litre batches are allowed in residential zones, breweries under 500 litre are allowed in commercial zones. The concept of small breweries for townships described in section 4.3.3.2 can be used as motivation for changes in zoning restrictions.

- It is recommended that the CBASA lobby for volume breaks in terms of excise tax. The high rate of job creation can be used as a motivator for the changes in excise tax regulations.

5.3.1.5 Competition

- To promote positive competition, it is recommended that regular craft beer competition should be held. Although there are already some competitions, there is space for more regular regional competitions. The reasoning behind the recommendation for more regular competitions is to increase the overall quality of craft beer in the industry.

- It is recommended that the CBASA launch an independent brewery seal similar to the Brewers Associations' seal for independent breweries illustrated in Figure 2-4. It is recommended that the seal is made available to all craft breweries in South Africa that comply with the craft brewery definition of CBASA stated in section 1.2.1.3.

5.3.1.6 Cost

- It is recommended that small craft beer breweries either follow the brewpub model or have a taproom or restaurant linked to the brewery to increase the profit margin of craft beer sales. A restaurant can also supplement the income of the business, increasing its profitability.

- The researcher also recommends that the CBASA create a portal for breweries to sell and buy second-hand brewing equipment. This second-hand portal will increase the availability of second-hand equipment, reducing the cost of replacing brewing equipment.

5.3.1.7 Economic downturn challenges

- To reduce the risk of brewery closure, it is recommended that craft beer breweries have a diversity of outlets where they sell beer and not rely on a single large outlet such as a chain retailer.

- It is recommended that craft beer breweries grow organically and not expand their brewing capacity significantly for a single contract. The reasoning is to reduce the risk of brewery closure if they lose the contract. Breweries that want to pursue large contracts should rather consider using the excess capacity of other craft beer breweries to fill large contracts through contract brewing agreements.

5.3.2 OPPORTUNITIES

The participants described several opportunities, which was grouped into three themes. This section provides recommendations on how craft beer breweries can exploit these opportunities.

5.3.2.1 Craft beer tourism

- It is recommended that craft beer breweries, especially those in areas know for tourisms to assist and welcome new craft beer breweries in the area. The hope with the recommendation is to create a craft beer hub with several craft beer breweries in a small area. A craft beer hub should allow for craft beer tours in the area as well as attracting tourist specifically for craft beer. The increased tourism should benefit all the craft beer breweries in the area over the long term.

- The researcher recommends the formation of a monthly craft beer festivals in areas know for tourism. These craft beer festivals will increase the craft beer tourism in the area and promote the craft beer breweries that attend the festivals.

- It is recommended that craft beer breweries develop uniquely South African craft beers using locally developed hops and local herbs. These uniquely South African craft beers should be used as an attractor for international craft beer drinkers.

- It is recommended that craft beer breweries host and promote events such as corporate function and birthday parties at the craft beer brewery.

5.3.2.2 Cooperation

- It is recommended that the CBASA play a more prominent role in assisting the craft beer industry. Some of the recommendations on how to overcome challenges made recommendations for the CBASA. These recommendations include lobbing for regulatory changes and hosting training for craft beer brewers, which is consistent with the objectives of the CBASA.

- It is recommended that all craft beer breweries in South African should consider becoming a member of the CABSA.

- The researcher recommends that craft beer breweries allow contact breweries to use their excess capacity to brew their beer.

5.3.2.3 Growth of the craft beer industry

- It is recommended that together with Participant BP2, the CABAS and the regulatory body to implement the plan for small-batch craft beer breweries described by participant BP2 in section 4.3.3.2 in township communities. These small breweries will not only create jobs but also expand the craft beer industry into the township market.

- The researcher recommends that the CABAS lobby to lift the restriction placed on the importation of viable hops material described in section 4.3.3.3. The lift of the restriction will allow farmers to grow speciality hops used by craft beer breweries and currently being imported.

- It is recommended that craft beer breweries either support or indicate their willingness to support local farmers and malting plants producing speciality malts used by craft beer breweries. However, craft beer breweries should ensure that locally produced speciality malted barley complies with quality standards. It is also recommended that craft beer breweries work with the malted barley industry to increase the quality of speciality malts.

5.3.3 BUSINESS MODEL

This section makes recommendations on a business model for a contact brewpub. For the purpose of the study, a contact brewpub refers to a brewpub that starts with contact brewing while establishing a market share, building the brewery and applying for a brewing license.

Table 5-1 Recommended business model canvas for a contact brewpub

<table>
<tr>
<td rowspan="2">KEY PARTNERS
• CBASA
• Breweries that brew craft beer for the brewery
• Other craft beer breweries
• Producers of other craft alcohol products</td>
<td>KEY ACTIVITIES
• Make high-quality food for customers.
• Serve customers food and drinks.
• Attend craft beer festivals.
• Host events
• Social media marketing.</td>
<td rowspan="2">VALUE PROPOSITION
• Provide high-quality craft beer for consumers
• Serve high-quality food
• Serve a range of craft alcohol products
• Host events</td>
<td>CUSTOMER RELATIONSHIPS
• Interact with customers on social media.
• Interact with customers at the restaurant and craft beer festivals.</td>
<td rowspan="2">CUSTOMER SEGMENTS
• Craft beer drinkers
• Consumers of craft alcohol products
• Other outlets</td>
</tr>
<tr>
<td>KEY RESOURCES
• Restaurant
• Brewery
• Point of sale equipment
• Knowledgeable staff</td>
<td>CHANNELS
• Sell food and drink at the restaurant
• Craft beer festivals
• Other outlets</td>
</tr>
<tr>
<td colspan="3">COST STRUCTURE
• Fixed cost: Restaurant and salaries of employees
• Variable cost: Craft beer, materials for food, and other craft alcohol products.</td>
<td colspan="2">REVENUE STREAMS
• Sell craft beer, other craft alcohol products, and food to customers.
• Events such as corporate functions and birthday parties.</td>
</tr>
</table>

The main goal of the business model is to overcome some of the major challenges facing new craft beer breweries described by the participants during the interviews. The Business Model Canvas, developed by Alexander Osterwalder, is used to describe the business model of the contact brewpub.

5.3.3.1 Value proposition

The primary value proposition the contact brewpub is to provide high-quality craft beer to both craft beer drinkers and potential new craft beer drinkers. Served with the craft beer, the second value proposition is to provide quality food. The food menu is designed to complement the craft beers provided. The third value proposition is to provide a variety of other craft alcohol products such a craft gin, whiskey or brandy. The last main value proposition is to host events such as corporate functions, birthday parties, and other celebrations. A general value proposition is to create an atmosphere in the restaurant that creates a positive experience for customers.

5.3.3.2 Customer segment

The primary customer segment is craft beer drinkers, whether they are long-time passionate craft beer drinkers or first-time craft beer drinkers. Taking into consideration that not everyone drinks beer, the second customer segment is consumers who want to drink other craft alcohol products. The last customer segment is outlets that are interested in selling the craft beer produced by the contact brewpub.

5.3.3.3 Customer relationship

The customer relationship is aimed to be directly with the customers, either through interactions on social media or face to face with friendly staff serving and interacting with customers. One of the key success factors at restaurants and pubs are excellent service.

5.3.3.4 Channels

The primary channel for distribution is the restaurant. At the restaurant, customers can experience the whole range of products the brewpub offer. Customers can enjoy good food that compliments the high-quality craft beer. Consumers that do not prefer to drink beer can enjoy the excellent food with other craft alcohol products. The secondary channel is other outlets serving craft beer and craft beer festivals. The main purpose of the restaurant is to have a reliable distribution point for the craft beer produced and to overcome the cost and accessibility challenges of distribution.

5.3.3.5 Revenue streams

The primary revenue stream is the sales of craft beer, food and other drinks to customers at the restaurant. Other revenue streams include sales of craft beer at other outlets and craft beer festivals. Primarily selling craft beer at the restaurant overcome the challenges of the low-profit margin of distributing to other outlets. The sales of food and other drinks supplement the sales of craft beer, increasing the profitability of the craft beer brewery.

5.3.3.6 Key partners

The most crucial partner for the contact brewpub is the breweries which brew the craft beer. These craft beer breweries should be hand-picked based on the expertise and quality standards of the brewery. If possible, it should be negotiated that a brewer of the contact brewpub be allowed to brew the beer at the selected brewery. This arrangement is to allow the brewer to gain the necessary experience and knowledge to brew consistent craft beer when the contact brewery installs its brewery.

The second key partner is the CBASA as the association to assist and promote the interests of craft beer breweries in South Africa. The next key partner is other craft beer breweries. The craft beer industry has a strong cooperative spirit where craft beer breweries assist each other. The last key partner is producers of other craft alcohol products. Other craft alcohol product forms a critical part of the value proposition. Part of the aim of the contact brewpub model recommended is not only to promote the craft beer industry but also the craft alcohol industry as a whole.

5.3.3.7 Key activities

Initially, the most crucial key activity is making high-quality food. A restaurant must produce good food to be successful. After the brewery has been installed and the brewing license has been obtained, the main key activity change to brewing high-quality beer. Other key activities include serving customers, attend craft beer festivals and host events.

5.3.3.8 Key resources

The key resources for the contact brewpub are firstly the restaurant and eventually the brewery equipment. Another key resource is knowledgeable staff who provide friendly service and can assist customers on recommendations for craft beer and food pairings. Point of sale equipment such as beer taps installed in the restaurant and other restaurants is also a key resource.

5.3.3.9 Cost structure

The main variable cost is the craft beer from the brewery that brews the craft beer for the contact brewpub. The production cost for contact breweries is slightly higher compared to craft breweries that brew their own beer. Other variable costs include the ingredients for the food and other craft alcohol products. The fixed costs include rent for the location of the restaurant and salaries of employees

5.4 ACHIEVEMENT OF THE STUDY OBJECTIVES

A crucial factor determining the success of a research project is whether the objectives of the study have been achieved. The primary objective of the study was to explore and describe the challenges and opportunities craft beer breweries face in central South Africa. The study has four secondary objectives to assist with the achievement of the primary objective. The section continues by listing the secondary objective and describing how each of the objectives was achieved.

To obtain insight into the craft beer industry not only in South Africa but also globally through a literature study.

The literature review in Chapter 2 provides a discussion of the craft beer industry in America, Europe, and South Africa. The literature review continues with a discussion on five themes of challenges and three themes of opportunities. As a whole, the literature review provides a significant insight into the global craft beer industry.

To explore and describe the challenges, craft beer breweries in central South Africa face that create obstacles for new entrepreneurs.

The five themes of challenges facing the craft beer industry are supported by the description provided by participants during the qualitative interview. An additional two themes of challenges were identified during the interviews.

To explore and describe the opportunities craft beer breweries in central South Africa can benefit from.

Two of the three opportunities identified through the literature review were supported by the descriptions provided by the participants. However, the participants did describe one additional theme of opportunities.

To make recommendations on how to tackle the challenges and exploit the opportunities facing the craft beer industry in central South Africa.

Several recommendations were made for each of the identified themes, both challenges and opportunities. A recommendation was also made on a possible business model for new craft beer breweries. The recommended business model address several of the challenges facing new and existing craft beer breweries.

All four of the secondary objectives were achieved during the study. The primary objective was also achieved. The challenges and opportunities facing central South Africa were explored through the qualitative interviews held with several craft beer breweries in central South Africa. The findings of the interview were described in Chapter 4. In the problem statement, it was indicated that there is limited academic research on the craft beer industry in South Africa. The findings of this study supplement the academic research available on the craft beer industry of South Africa. However, there is a need for future research on the craft beer industry of South Africa.

5.5 CONSIDERATIONS FOR FUTURE RESEARCH

Due to limited research available on the craft beer industry of South Africa, this study explored the challenges and opportunities of craft beer breweries in South Africa. However, this study was limited to central South Africa. Future studies can expand the study area to other provinces. It is recommended that future study should explore and describe the challenges and opportunities of craft beer breweries in Western Cape. The majority of craft beer breweries in South Africa are located in the Western Cape. It will be interesting to compare the challenges and opportunities facing craft beer breweries in different areas of South Africa.

Due to the study following a qualitative research method, only a limited number of participants were interviewed. The results challenges and opportunities identified in this study can be used to design a quantitative questionnaire for a future study. A quantitative study can reach more craft beer breweries and allow for statistical analysis, which may reveal additional information.

5.6 SUMMARY

This chapter concludes the study on exploring and describing the challenges and opportunities facing craft beer breweries in central South Africa. All four of the secondary objectives and the primary objective of the study were achieved. The empirical research was conducted using a qualitative research method with a descriptive research design, which is ideal for research topics with limited research available.

From the empirical research, several recommendations were made for each of the themes for the challenges as well as opportunities facing craft beer breweries in central South Africa. The main recommendation of the study is a business model of a contact brewpub, which overcome several of the critical challenges of craft beer breweries. Several of the recommendations are targeted at the CBASA to expand the role the association play to assist and promote the interests of craft beer breweries.

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APPENDIX A:
INTERVIEW SCHEDULE

1. Tell me about your brewery, how did it all start?
2. What are the major challenges of the craft beer industry in South Africa?
3. Can you elaborate on the opportunities of the craft beer industry in South Africa?
4. Where do you see the future of the craft beer industry in South Africa?
5. What advice would you give someone who wants to open a craft beer brewery?

APPENDIX B:
LETTER OF CONSENT

INFORMED CONSENT TO PARTICIPATE IN AN INTERVIEW

My name is SP van der Merwe and I am an MBA student at the North-West University Business School. The aim of this study is to explore the challenges and opportunities facing craft beer breweries in Central South Africa.

This research will add to the body of knowledge about challenges and opportunities facing craft beer breweries in Central South Africa. This research could potentially assist with a greater understanding of the challenges and opportunities facing craft beer breweries in Central South Africa.

This study forms part of a mini-dissertation to be submitted in partial fulfilment of the requirements for the degree Master in Business Administration at the Potchefstroom campus of the North-West University. It is an internationally accredited degree that requires adherence to strict ethical standards as a prerequisite to conducting this research.

Thank you for your willingness to participate in the interview. Your participation is voluntary. You do not have to answer any questions you do not want to answer. If at any time you do not want to continue with the interview, you may decline. Your time and involvement are profoundly appreciated. The entire interview will take approximately one hour. To maintain the essence of your words for the research, I will record the information. At any time you may request to see or hear the information I collect. I will call you within two weeks to set up a convenient time for the interview.
The interview will be tape-recorded and the interviewer will take notes. This is done for data analysis. The tape will be transcribed by the interviewer and kept confidential in a password-protected computer. All individual identification will be removed from the hard copy of the transcript. Participant identity and confidentiality will be concealed using coding procedures.

Excerpts from the interview may be included in the final dissertation report or other later publications. However, under no circumstances will your name or identifying characteristics appear in these writings. If at a subsequent data, biographical data were relevant to a publication, a separate release form would be sent to you.

The study has been approved by the Scientific Committee of the NWU School of Business and Governance. The Chair of the Scientific Committee is Prof Christoff Botha. He can be reached at 018 299 1411 and his email address is christoff.botha@nwu.ac.za.

Ethical clearance has been obtained by the Economic and Management Sciences Ethics Committee (EMSREC) and the following ethical clearance number is allocated: NWU-00267-18-A4. The Chair of the Ethical Committee is Prof Bennie Linde. He can be reached at 018 299 1427and his email address is bennie.linde@nwu.ac.za.

The supervisor of the dissertation is Prof Tommy du Plessis. He can be reached at 082 456 8367, Email address: tommy.duplessis@nwu.ac.za for further questions or concerns about the research project.

Your input is of great value to this research and I appreciate your help in providing this information. I would be grateful if you would sign this form.

I, ______________________________ (name and surname), hereby declare that I have read and understood the contents of the Informed Consent Statement, and give my full consent to Mr. SP van der Merwe to progress with the interview on ____________ (date) and use the information communicated by myself to him in his MBA dissertation.

X ____________________________

Interviewee

APPENDIX C:
AN EXAMPLE OF A TRANSCRIBED INTERVIEW

I: Can you start by introducing yourself?

P8: Okay, so my name is xxx. I am one of the founders of or co-founders of xxx Brewery in Pretoria. We are a very small setup, started a couple of years ago. We primarily distribute in the Pretoria and Joburg regions. It is basically it for myself, I do it as a hobby, as a side-line and then for my normal day job I am a chemical engineer by background.

I: Ok that is interesting, in what year did you guys open?

P8: so we started 2016, it is actually quite an interesting story. So I did my masters at Tuks in engineering management, and one of the modules we did was entrepreneurship and new ventures, and as part of that, we had to investigate, a business case of some sorts. I looked at the opportunities for starting a craft Brewery, in 2016 the South African scene was picking up quite a bit. Joburg quite strong, Cape Town has obviously already kind of plateaued in terms of number of breweries, Joburg was picking up very strongly, and Pretoria was a little bit behind so if you think of the technology adoption or industry adoption s-curves. Pretoria was really still in the early adopter's phase. I obviously saw that opportunity, saying there is a gap to start a brewery here. But if you want to do it properly it is going to cost you a crap ton of money. So there is a couple of models you can follow, the one that we went for intentionally because it is a balance between capital required and risk and margin and return and so on. Is to become a contact Brewery. Yeah basically the whole business case is around that submitted it as part of that modules and then decide that well, seeing that I already have the business plan I might as well start the business, threw some money at it and some more money, and some more money, and some more money (laughing) about five times more than I expected to get the brand up and running. We've been operating for (...) since May 2016. So that is about three and a half years now. Like I said in the Pretoria area, we primarily focus on on-consumption distribution. So we got a couple of bars, restaurants, and the odd other venue that has our beer on tap. We specifically also focus on sporting events. So we do mountain bike races, trail runs, road runs, fun runs, anything sporting related. Because it ties in well with our brand essentially so xxx Brewery and social media “Legends drink xxx” so it is a nice ego boost.

I: What is your capacity roundabout?

P8: Because we contact brew we can scale without any capital requirements. It is just about the available capacity in the market. Anybody that has equipment and skills that can brew our recipes, can do it for us. At the moment we operating on about, our projections for this summer coming up, will go up to about 4000 litres a month, we are operating at about two and a half at the moment, coming out of winter and then we got scale, enough capacity to comfortably produce all that within call it 4 week’s notice.

I: it is quite interesting you guys are the first contact brewery I am actually interviewing so that is, that will be a little bit interesting to see how it differs.

P8: The nice thing about being a contact Brewery, you do not have to fork out the capital. The quality of the beer a very big extinct depends on the equipment you have got. Skill and so on play a role, working clean and all the other basics of brewing, but you can only do so much with a very manual or very outdated Brewery. The type of beer we make in terms of quality, we would not be able to replicate that ourselves with equipment anything less than, what we think should be about two and a half million rand. So that saves you quite a bit on that but the flip side of it, just for you to understand that model, now means our production cost is a hell of a lot more. We pay about 2.1 to 2.5 times (...) the rands per litre than a production brewery would pay for the same beer. So there is call it about a 100% markup or a 50% gross margin off on the production side on those we are making so we obviously make a lot less in terms of margins, but the flip side is we got a lot less overheads that we need to service on a monthly basis. If we make less gross profit, it is not the end of the world.

I: What are the major challenges of the Craft Beer industry in South Africa?

P8: It is an interesting one. So let us talk industry pre-2017 or even pre-2018 versus current industry. When we started it was a young industry and I suppose that is still valid for both. The stuff that you struggled with was ensuring that the quality of your beer is good that your public gets to know about you so you know getting your brand out was some of the biggest challenges. Consistency of your product to a large extent. Shelf space so a lot of competing breweries have come in, in recent times. So we start thinking now about call it the pre-2017 era or post-2017 where we are today. The competition is a lot more fears, I for one did not expect the Cape Town breweries to be so extremely present in the Gauteng market. Craft in my view is supposed to be a regional thing. Supposed to be small-batch, locally produced, part of the artisanal economy, which you probably picked up, is quite a big thing in your literature review. The reality though is there is a handful of players in the industry specifically talking about the likes of xxx and xxx yeah they probably the two biggest issues, xxx to a lesser extent, that are absolutely controlling the market up here. That we did not expect and along with the scale at that those guys are operating at comes economy of scale. So they push prices down a hell of a lot. So it is competition for shelf space, physical space as in being able to get onto, getting your tap on to bar counters, getting your bottles into fridges. But then with that the price depreciation as well. So that was our major challenges and the other obvious one recently is the economic downturn of the country as a whole. So craft beer is a luxury item unfortunately and whenever people don't as much expendable income then luxury goods like that are going to struggle. Well it's not even luxury goods, it is just a premium item if you like. The public will tend to be not as experimental, they will be spending a lot less and the interesting thing is (...) a lot of the brewers have seen opportunities in that, with a lot of the challenges that we got, moving on to your next question so lot of the opportunities the guys are seeing but also creating for themselves. Simple things like three years ago everybody was on 440ml bottle as a silly example and everybody has gone over to 340s or sometimes even smaller. So a lot of the guys are going for cans all in an attempt to bring unit cost down. You have to understand how the pricing model works. So if a can of beer is, pick a number R30 on the shelf at the liquor store, it means that that liquor store probably paid 22, 23 rand for it. The distributor probably paid R18 for it, from the brewery and then there was a couple of guys in between. So every Rand that you can save on your packaging ends up saving you 2,3,4 Rand on the shelf eventually. So a lot of the guys have been searching for all of those opportunities to shave unit cost but then also finding ways of growing their margins. So there is two major ways that you can do that, either getting more expensive products so a lot of the guys are pushing collapse, interesting beers, sort after beers, limited edition runs, anything that you can price more aggressively that the public will be willing to pay for because of its scarcity. But then the flip side of it is the ability to sell it to the public directly so that you cut the distributors, the marketers, retail margins. And the main method that people are pushing to do that with is through taprooms. So in the Cape the majority of the Brewers already had taprooms. In Gauteng we have seen probably five or six of them open in the last six months. We have opened ours in February this year, specifically to target that. So get a nice venue with a good restaurant, put it up and from there sell your beer directly to the public. You are able to generate the extra margin. You have to go for those kinds of opportunities. People are still willing to spend a little bit, but they want a new exciting kind of experience and you can generate an opportunity out of it it must be experience-based. The other bit that the guys also go for is anything in terms of niche market, so our niche attempt at a market is obviously the sporting angle where we are saying there is a lot of sporting events and we want to be the premium beer of choice at those kinds of events. If someone has the option between drinking something interesting from us, slightly more expensive versus a Castle LITE we want to ideally see them with our beer in hand.

I: I just want to make sure, so you guys are a contact Brewery but you also have a taproom.

P8: Yes so we focus on everything after production. The distribution, marketing, the sales to the outlets, sales directly to the public, all of those kinds of beer events, beer festivals basically brand owners everything from distribution downwards in the food chain.

I: It is quite interesting, because a lot of the people I have interviewed are brewpubs, and they say brewpubs are the future, so if you brew and you have your own pub. It is interesting to see a contact Brewery that is following that sort of same approach but do not actually produce the beer, so it's quite interesting.

P8: Yeah so that is I mean our business model or our business plan originally was written in three phases where we said just get route to market as quickly as you can and doing that literally have white labels, contract beers, so we would do partner beers with other breweries if we liked their pale ale or their "*witbie*r", or whatever. You would rebrand it as a xxx partnered beer with x Brewery. And obviously because they were packaging for us, but it gave them the opportunity to brew already existing batches, and it gave us the opportunity to access good quality beer reasonably quickly. That was the first phase and idea was then by the end of two years give or take have all of the (...) lines up and running, have good foothold in the market and put our own recipes in place. So we have now at probably the end of the second phase where we have basically phased out all of the partner beers, it is all our recipes, we actually retired a couple of our recipes already so, I mean it is a natural attrition in the recipe game if you like you have to play with the thing and see what the market likes. We obviously have those so we can do seasonals but the idea was then to in phase three, to build our own Brewery and to do all those recipes with a couple of seasonals and have then a brewery and brewpub kind of set up, but living in the contract age we do. The model that we sit with, we need to still set up capital. We wanted to make use of the taproom component without necessarily having the brewery yet. So it became a brewpub, but at the moment it is just the pub part of the brewpub.

I: So you basically at phase 2.5

P8: Yeah something like that (laughing) and to a large extent we actually kind of sitting on our hands saying would you really be spending two and a half or three million Rand if we had it now, or would you put it into craft beer and that is the question that we are grappling with.

I: yeah it's sort of a Catch-22 if you're a contact brewery, produces or the beer fails then you maybe have protection, but if you brew your own beer and it fails then it's all on you.

P8: Yeah that is the one part and the other part is the market is flooded with equipment at the moment from failed to breweries, so you buy that stuff and it doesn't work out, you won't be able to sell that equipment in the next couple of years probably. Unless there's some sporadic turn around the industry you are going to be stuck with all that stainless steel.

I: Yeah but maybe there is then the opportunity to buy second-hand from one of the breweries that closed down, saving you cost

P8: Yeah it is still a good one and a half million at least.

I: Yeah it is very expensive.

P8: in terms of future of the for the industry. I mean if it just read your question where do you see the future of the Craft Beer industry in South Africa. I would start off by just looking at that question and, properly defining the word, craft. Again as I said earlier on craft to us is supposed to be regional, it is supposed to be small-batch, it is supposed to be personal, it is supposed to be part of the artisanal economy. And what a lot of the breweries are doing, rightly or wrongly is trying to distribute to widely. I must admit we have stepped in that trap as well, where we are distributing to Joburg now. Probably not nearly as profitable as we wanted to because the logistic is a pain in the Jack. What we would see happening is rather instead of trying to go search for every single craft drinker in the country rather convert people in your own area to start supporting your brand. If you have a little brewery in a little town in Germany then everybody supports that brewery even if they not necessarily flat out beer drinkers they end up supporting them and become beer drinkers in the process if you like. Whereas (...) a lot of the South African set up we keep trying to compete for the same pie that we slice into thinner and thinner slices. If the industry really wants to be competitive you have to grow the pie and you cannot do that on a national level. Not if you are a true craft brand. People like to speak are obviously doing their part to get the major industry to turn to get people away from the likes of Heineken and SAB and so on. But the reality is that if you really want to grow craft it is about generating an absolute cult following in the area that you operate. And then build you know build that following but have really good beer. We have no other option than doing that. That you can do it through absolute local involvement you know you have to be the beer on tap in call it the ten biggest pubs around your brewery. You know you have to be knowing that you are operating in that area but then also have your own outlet. You must have an identity.

I: Yes that is for sure I just want to move back a little bit you went quite ahead. You touched on distribution as a challenge can you expand on that a little bit more.

P8: Yeah so distribution in the true sense of the word is all about literally getting the beer from where ever you are storing it to the different clients. The challenge that we typically sit we have is fluctuations. So there is very little rhythm. Some of our clients you know we can almost set our watches to you will know exactly when they ordering and how much they ordering because it is exactly the same every week. There are other clients where they won't order for three or four weeks and then have three booming weeks in a row will be dead quiet again for a month. So there is a lot of fluctuations and that makes the planning cycle around your deliveries in the distribution exceptionally tricky. You know in the early days you would have had followed some form of a model where you sat and waited for an order to come in you know some form of a next-day delivery. If you did that though you would end up spending a hell of a lot of money making those deliveries ad-hock and really not doing it as profitable as you can. So we have gone over to the setup where just in terms of planning. We have got certain days in the week that we run certain routes, which mean that if you are in the Pretoria East area, for example, you have to get your order in on a Wednesday so that you can have deliveries on a Thursday. If you are for example in the Midrand area you have to have it in by Tuesday so that you get deliveries on a Wednesday. All that stuff there is almost, you need a mini logistics manager in the background so that you can roll the stuff out on her day-to-day basis. The operation management part of the distribution is a challenge in itself. And then another obvious thing is margin in terms of distribution. So if you are running bottles the market is very sensitive in terms of price and you can only cut it so much so you are not making a lot of money on bottles and you are not moving a lot of volume it is difficult. Whereas when you move kegs your margins is a lot better, you moving much higher volume and that is to a large extent why we are specifically focusing on that. But that comes with its own challenges because now you have to have equipment. You get to an outlet and they might have their own only equipment which is great and you know low and behold you get there and there is a line open on their equipment, even better. Then it is a very easy sell or an easy implementation. Reality is if you look at places like Capital Craft or Beer House they have got 20, 30, 40, 60 taps but (...) so you do not have to pay to get equipment in their but their taps always full. Or if they are not full and you eventually get onto tap and somebody is not actively pushing your brand in that outlet then you end up moving two kegs a month if you are lucky. Just because the competition is so fierce. In the distribution game an ideal place would be somewhere that there is no other Beer on tap, you are the only Beer on tap there and the place is reasonably popular so you know you have got people that are willing to try your brand even if they do not know it. They are willing to try it for the first time and (...) because you are the beer on tap. I would rather drink and no-name brand in a draught, than a Castle LITE bottle.

I: Yeah I agree. I just want to make sure you guys for distributing yourself or do you use a distributor?

P8: No we self-distribute at the moment. We are in discussions with two potential distributors for some of our products not beer-related we have obviously branched out a little bit. We initially only started with beer but we are also doing a xxx. Although maybe keep that out of your publication, and just call it a ready to drink, RTD. We are in the process of trademarking term xxx for competitive advantage purposes. So I would appreciate it if the term does not end up in your publication. Just call it a ready to drink, a chick drink. So we have done (...) We did it during 2017, we developed it and the market acceptance as a whole have been a hell of a lot stronger than the beer. We are comfortably doing 50% of our monthly volume in RTD. As opposed to beer sales. So they are jokes saying we are at chick drink company with a beer problem. (laughing)

I: Yeah a lot of the places have been to, they got gin on tap, so similar things and they always say that sells very well.

P8: You have to service the whole market, that is the reality. Not everybody is a beer drinker. So if you going to have a taproom, for example, you have to cater for the whole spectrum of visitors there. Either you bring in some savannah's or whatever but you have to have some things if it is just your own brand on tap it makes a lot more sense

I: Yeah that is true you need to give something to the ladies as well, they don't always drink beer, not always but some of them are very keen on beer. You touch on quality a little bit how do you guys ensure that you produce quality beer as being a contact Brewery.

P8: So for us, it is all about the partnerships we create. We obviously hand-picked the breweries that we work with for very specific purposes. We do not believe in a one-size-fits-all kind of brewery. To put it in perspective for you we are running for different beer lines as our permanent lines at the moment. We got two types of lager, an IPA, and a stout, and the stout because it is a more almost a German kind of style, we doing with xxx in Pretoria because they got a dark beers and German’s beer background so there's a lot of skill there and their brewery set up to be able to do it. Our IPA we doing with xxx, xxx, who owns xxx he is one of the guys involved with African hops so he has access to the freshest hops the whole time. He is also an ex Canadian and the IPA style is obviously very very big in North America as a whole so who better to brew your IPA for you than a guy that has been drinking it since 18 years old. And then our lagers we do with xxx (...) That is a contract brewery in xxx that is owned and operated and ex-SAB Brewmaster. She was one of SABs leading brewmasters and development people when he came to stuff like Castle LITE ensuring quality on stuff like Black Label’s for example so she has got a hell of a lot lager related skills. So for us it is all about making sure that partnership is right and it fits for exactly the beer type. When you do that it is obviously the professional signature if you like of the brewmaster that goes with that beer. So then there is a lot of pride for them in the beer as well. To put that into perspective one of our earlier craft, or one of our earlier manufacturing facilities that we make use of once a one-size-fits-all setup and he just brewed for the sake of making money and it showed in the beer. We had a lot of quality issues because he just did not pay the attention to it. The sense of pride was missing from it. Almost the artistic side of craft.

I: I am planning to try and hold an interview with xxx, that you spoke of that worked at SAB one of the previous guys said she's somebody to really talk to.

P8: I know xxx she is a legend in the industry for the lack of a better term. We obviously like using the word legend. She is exceptionally knowledgeable and xxx that is her full business name. She is very good at what she does.

I: You guys obviously have challenges differentiating your brand can you expand a little bit on that.

P8: Yeah that is a good one hey. Brand differentiation I supposed to a large extent is almost. What we almost seeing is not even a brand; it is more an individual beer differentiation. As an example for that, you know the people drink craft at the moment in South Africa because they are looking for something new, something interesting. But very seldom would they repeatedly go for the same new type of beer. Especially if it is a little bit pricing. If you think of yourself even if you are a really avid craft beer drinker. If you going to have a big braai at home and then you buy 2 or 3, or 4 nice unique and interesting beers and then maybe a six-pack or two of Castle LITE for argument sake. It is a combination

I: Guinness in my case

P8: So if you have (...) As long as the prices are high your challenge is always going to be repeat customers and that is the thing that we are seeing. So we bottle our two lagers, we have been bottling them for quite a while, but we never really had traction in the market because there is just a complete oversupply of lager and it is not just people saying that they do not want to drink xxx is that they do not want to drink lager. And they are not willing to pay that price for lager we bottle our new world IPA, which uses a bunch of American hops you obviously you understand the background of that and our xxx Stout, which is a xxx-infused milk stout both of those have a niche angle to them and they are flying off the shelves. Again not because people are going for our brand to say, they are going for the unique and individual beers. So they are breweries that are really getting that right. Again xxx being a good example with their limited edition runs that they bring out. If they kept selling the xxx IPA year round they would see the sales tank but because they only do limited release once a year. The batch is always sold out and it always sells pretty well. It is not because people buying xxx, yes they understand the brand and it is differentiated but it is because it is a limited edition item that people are going for. So if you really want to go for brand differentiation you must have a name that is exceptionally well recognised. That is going to be your challenge or that is going to be your target but then at the same time you have to be exceptionally cognizant of price point on the self to be able to get that repeat drinker picking up your brand every single time they go into the liquor store.

I: Do you guys have any challenges advertising and so on?

P8: That is an interesting one. So we primarily use social media. Instagram to a lesser extent we spent quite a bit on our Facebook advertising and yeah I suppose we have learnt to work with the platform quite a bit, so not necessarily challenges. I supposed to biggest challenge remains that any money you spent on advertising it is always very difficult to directly link back the money you spent to potential income or actual income that comes through. So to a large extent, it is a grudge purchase the whole time. You do not really know what you're getting for it. So we prefer to push stuff like events, product releases those kinds of things with our advertising so that we can see that there are people rocking up to the thing and asking for something. So we normally try and link some form of a competition or something to the advertising. You know share this post and so on. And at least we can gauge some form of an activity by the people that are seeing the adverts. That is probably our biggest challenge is feedback on advertisements. And then anything bigger than or balder than that are additional costs. The cost of advertising is insane. Even if we put up our taproom just a couple of nice signs for example on the road there that guide people to the right spot you know that was a quick blink your eyes 20000 bucks that you had to spend to get a couple of signs up. You know so advertising is, unfortunately, it is a necessary evil but it is very expensive. What we rather try to do is in the outlets that we in that we try and push hard, we go for very targeted advertising. So we would go for stuff like lightboxes and posters in the pubs that we want to focus on. Table talkers in restaurants where we got her a couple of different taps. Engaging do not just saying that we got our beer here put a little story behind it, tell people what a brewery is about, tell people what the beer is about, give them some tasting notes. Get people to really interact with your brand.

I: You touched a little bit on challenges regarding competition can you expand a little more on that?

P8: So depends on which industry you are looking or which route to market you are looking at. Like you said there is basically for different routes to market. It is off-consumption, i.e. Liquor stores, it is on-consumption so bars and pubs, anywhere that they can buy your beer in draught to a large extent or even bottled. And then it is events and festivals as the third one (...) On-con, off-con, events and festivals, and obviously your own taproom. So in the taproom, you do not really have competition. The reality is you only completing with other things that people could have gone to do on a Saturday or Sunday. The events and festivals game is a tricky one. There we typically differentiate between specific beer events and then general events. If you go for a general event know whether it is a music festival or a food festival or a "*kerk basaar"* or whatever it is. It's always about getting the balance right between the number of people that are going to be there versus the number of breweries. We are ideally like to see a number off at least call it 500 people per brewery if it is a non-beer event. So that you know of the 500 you might get call it 300 adults, of the 300 adults you might get you know 100 of them buying your beer. So at least on that day you selling 200 or 300 beers. And that is an absolute min at you might make some money. If it is a beer specific event then anything from about 150 to 200 people per brewery. So it's all about on events (...) the biggest challenge with competition is matching the size of the event with the number of breweries that are there. There is very few things as frustrating as being invited to an event, there are ten breweries that rock up and then there is a hundred people. That just does not make sense. The irony as well is that those hundred people would not be able to drink one beer from every line at every Brewery. So it's not even a good experience for them. On the on-consumption side, that is again bottles and draughts. Bottles competition is really just about fridge space, but we do not really focus on on-consumption for bottles. Simply because they become very very expensive. The on-consumption model requires the outlet owner to price your product two or three times higher then they pay for it. So if again take for example they pay R20 a beer from you, they have to put it on the menu for between 40 and 60 Rand depending on their model to be able to pay for all the overheads, staff and stuff like that. And I'm sorry but R60 for a 340ml Craft Beer is a lot of money. Anybody even if you rich. Whereas on draught you can get that right so on-con bottles your biggest challenge is price to be able to get that down as far as you can. On-con on draught it is space. You can compete with price a lot more aggressive even if you are a contact Brewery because you produce kegs at a much cheaper price. But your big challenge is space at the bar. And then oversupply as well because kegs go off. It is not like bottles you stuck them in the fridge until they get to their best before date. If you have tapped a keg you want to move that in you know between three and ten days depending on the beer. Lagers move quicker. Anything with a lot of hops you can leave a little bit longer. So if there is too many taps in the outlet and again there is not enough feet then your beer goes off and your quality goes for a ball. Your big challenge there is space and volume. So what is the one that we did not cover (...) Off-con. So in off-con the challenge there I suppose to a lesser extent is price. Your competition there, because people shop with their eyes, unfortunately, your brand has to really pop. You have to design incredibly well. In the fridge itself you have to positioning as a stupid example you want to be at eye level. You know you do not want to be high up or down low in the fridge for argument sake. And then just general quality as a whole. A lot of liquor stores store the beer warm and the beer goes off much quicker. Those kinds of challenges. Just general education of the other role-players in the industry. So that the people selling your beer to the public understand that you have to look after the beer. It is not pasteurized, there's no preservatives in it.

I: Do you guys have any challenges relating to regulation and taxation.

P8: We do not. Ours is easier because you know almost all of that stuff is handled by the contract Breweries. We operate under all of those licences. They handled the taxes and make sure that all audits are in place. Our biggest challenge is for small events that we do ad-hock. So you might get invited to a, I do not know strawberry festival in Brits whatever it is and then you end up getting there and they did not apply for an event liquor licence on the day for example. So then you cannot sell because the event is not legal. So those are challenges for us, but they regulated industry is pretty well regulated in terms of manufacturing licence on-consumption and off-consumption licences those things are very well regulated and it is not a challenge per se. There is red tape but I mean it is the same kind of red tape that you would have in any other industry. It is not unique to liquor.

I: I just want to ask your taproom do you only sell beer or do you sell food as well.

P8: No so it is a full restaurant. We have got a breakfast and lunch menu, beer, ciders, wine, hot tag, We even sell SAB beers there. It is a full-blown restaurant we just the majority beer supplier if you like.

I: And you're open every day the week or just part-time

P8: We are open Wednesdays to Sundays from eight in the morning to three in the afternoon. The eight in the morning part comes from it being co-located with a coffee shop. So the liquor licence runs 10 in the morning, but it is open from Wednesdays to Sundays.

I: You touched a little bit and opportunities side, you touched a little bit on cooperation whit breweries with co-op beers and things like that can you expand a little bit more on may be further opportunities in that or so on

P8: Yeah I mean that is very relationship-specific if you like. The collab beers have a time and place. There was a festival in Joburg either last year or the year before that just had collab beers at it. And they held the beer festival at Monte casino and then not getting as much traction as they want necessarily with the idea. So it is fun and interesting to have collaborations. The nice thing is that you know you can play with speciality once of beers and if you are going to make a big batch of it then you have got two partners that can both help you move the beer. Whereas if you going to do limited edition runs on your own you are responsible for moving the whole batch by yourself. So that might be a challenge. It does not sound like a lot. But breweries like xxx for example in Joburg I think their batch size is 3000 litres now. So that is 100 kegs that you have to move. If it is some interesting speciality beer then it is a lot easier said than done especially if you do not have dedicated taps to do that on. But in terms of collaboration as a whole there's obviously a much broader opportunity for that with breweries leveraging of this regionality that you are supposed to push with craft. Two major things that we are going with, in Pretoria is the Purely Pretoria Beer Festival that we hold annually in April. That is basically a festival by the Pretoria breweries for the

Pretoria community and we end up inviting two or three guest breweries from other areas. The last one that we had we had three different breweries out of Joburg that came in. That is the one part in terms of collaboration and the other bit that we also focusing on quite heavily on is the Gauteng beer route. So very similar to a wine route you got in the Cape. We have put a beer route together as tourism drawcard if you like. So it has got a couple of pamphlets, we posted on our Facebook page and so on and then you can go from one to the other on all the different stops and each of the breweries then co-promotes the others that are all on the beer route. Because if you visit the one you will see all the others that are part of that route.

I: That something that I picked up as well and wanted to ask just now about opportunities in tourism. Anymore there that you can think of or that you noticed?

P8: Not really hey. I mean it is the big thing is your taproom has to be at destination setup. Very seldom you going to get people driving by and popping in there going past because they do not know the area. You have to build a really good name for yourself so by definition craft beer breweries is already tourism-related which means you have to cater for the whole family so you have to make sure that your food is good, there is stuff to do for the kids. You have to cover the whole spectrum. There is a couple of guys, one of the things that we got because our taproom potential future brewery is located on a wedding venue lodge. We also now got accommodation available for example so we can host stuff like bachelor's parties or you know birthday parties or anything like that. People can really turn it into a weekend.

I: Yeah that sounds quite nice. Any other opportunities or challenges you want to add?

P8: To continue with the economic pressure is going to be a big one. So if the economy is keeping to nosedive that it is now you going to see a very rapid decline in craft breweries and luxury products as a whole. It is part of the artisanal economy that is going to struggle immensely as people have less and less expendable income.

I: What advice would you give to somebody that wants to open a craft beer Brewery

P8: (laughing) there is a nice saying, that you can put in your text. The saying goes "money makes beer, not the way around". So if you want to be in this do not be in it for the money be in it for the passion, be in at for the fun, be in it for the craft, be in it for the creative side of it. Do not do it for money and also understand that, whatever you think it is going to cost you can at least triple that number. Because of the amount of unforeseen expenses that you just simply will not know about until you headfirst in the industry. Do not do it as an investment. I suppose as well. It is my biggest bit of advice and it is a lot of work. It is physical, hard work. That is what a lot of people do not understand as well. If you are going to do festivals, for example, you as the brand owner or the brewery have to be there from setup to strike down, interacting with people, pouring beers, carrying kegs, you know it is a lot of physical work. You cannot just outsource it to some students and hope for the best. You know they just going to damage your brand in the long run.

I: Yeah that is very true. I think it that is that for the interview. I think we touched on everything.