

WELLINGTON BREWERY: GROWTH DECISION IN A CROWDED BEER MARKET

Nadège Levallet, Corey Wood, and Suchit Ahuja wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In late June 2019, Brent Davies was considering various strategic options for the future of his company. Davies was the president of Wellington Brewery, a well-established craft brewery located in Guelph, Ontario, Canada. Wellington Brewery had recently completed a successful expansion of its operations. The expansion had taken place during a period of explosive growth in Canada's craft brewery industry. As part of the expansion project, the company had increased the size of its premises by 1,700 square metres (18,300 square feet). It had also upgraded its facilities with new state-of-the-art equipment for brewing, canning, and water treatment. The expansion process had successfully transitioned Wellington Brewery from a small company to a medium-sized operation. Within only a few years, the craft brewery's operations had expanded significantly.

Among its greatest assets, Wellington Brewery acknowledged its employees, cutting-edge equipment, and product quality and consistency. In fact, the brewery sought to create consistently handcrafted beer products with every batch, and never took shortcuts in the brewing process. The recently upgraded equipment significantly increased the company's efficiency in the beer-canning process and improved quality control of the product. These enhancements clearly supported Wellington Brewery's overall goal of expansion across the entire Ontario market. The brewery already performed exceptionally well locally. The next step was to continue expanding beyond its own community and throughout the province.

Wellington Brewery faced strong competition from other craft breweries in the province, but also from giant multinational "macrobreweries." However, the company boasted a competitive advantage over macrobreweries simply due to its smaller scale, which allowed the craft brewery to offer more expensive and exquisite ingredients in its beer, such as interesting fruits and carefully chosen additives, to brew a selection of unique-tasting, small-batch craft beers.

After completing its recent expansion project, Wellington Brewery faced the challenges of an unpredictable and oversaturated market. Ontario's craft brewery industry was characterized by unexpected growth, shifting consumer preferences, and intense competition for shelf space at limited retail outlets. Davies urgently needed to plan his company's continuing expansion and ensure that Wellington Brewery remained relevant and financially strong during challenging times.

INDUSTRY BACKGROUND

The Beer Industry in Canada

In 2018, the global beer market was worth CA\$895 billion¹ and was expected to continue growing.² Of the estimated 25,000–30,000 breweries around the world, most produced less than 1,000 hectolitres (hl) per year.³ Beer was Canada's most popular alcoholic beverage. In 2018, Canadian beer sales reached \$20.2 billion, and were forecasted to reach \$22.1 billion by 2023.⁴ The Canadian beer market was dominated by two multinational companies—Molson Coors Beverage Company and Labatt Brewing Company Limited (owned by Anheuser-Busch InBev). These two industry giants controlled 50 per cent of the Canadian market, while the myriad of much smaller craft breweries together accounted for only approximately a 9 per cent share. Between 2016 and 2018, Canada saw a 30 per cent increase in the launch of new breweries, reaching a total of 901 companies in the industry. Despite this increase, however, beer consumption in Canada remained relatively flat over the previous decade and dropped by 0.7 per cent during 2019.⁵ This trend was attributed to various factors, including an increasingly health-conscious consumer base; lower drinking rates among younger customers; and growing cider, wine, and spirits industries.⁶ Non-alcoholic beer also saw tremendous growth in 2018, with a 31 per cent growth in total volume.⁷

The beer industry was unpredictable for various reasons: consumption seasonality, explosive growth, changing consumer preferences (e.g., products being made sustainably), aggressive innovation from smaller breweries, and uncertain Canadian and provincial regulations. Until 2015, only the government-owned Liquor Control Board of Ontario (LCBO)⁸ and The Beer Store (TBS) were authorized to sell alcoholic beverages. In 2019, TBS accounted for 63 per cent of total beer sales in the province, which was a decrease from 66 per cent in 2018. TBS traditionally sold mainstream beer brands, in packages of 24 bottles, whereas the LCBO offered over 28,000 alcoholic beverage products, including beer, in individual cans or small packs. The LCBO also acted as wholesaler to approximately 450 grocery stores in the province. In 2019, the LCBO's sales of beer, wine, and cider to grocery stores grew by 60.8 per cent for a total of \$246.7 million. That same year, grocery store sales represented 80 per cent of its market share gain by volume. The LCBO's e-commerce channel was also steadily growing by 72 per cent year-over-year, reaching \$19.5 million in 2019.⁹ The price of alcohol was regulated and consistent throughout the province, regardless of the specific retailer.¹⁰ The LCBO reported directly to Canada's Minister of Finance and provided \$6.39 billion in revenue. In 2019, the LCBO transferred \$2.37 billion in dividends to the Ontario Government.¹¹

For convenience, beer distribution channels in Canada were classified into two categories: on-premises and off-premises. On-premises locations, which allowed consumers to drink beer directly, included bars and restaurants. Off-premises locations, which allowed consumers to purchase beer but not to directly consume it, included the LCBO, TBS, grocery stores, and e-commerce outlets. In 2018, the LCBO and TBS were the most popular off-premises beer distribution channels, generating \$5.0 billion in sales. On-premises locations such as bars and restaurants generated \$9.0 billion in beer sales.¹²

Craft Beer

The craft brewing industry, a sub-sector of the overall beer industry, offered premium beverage products. From 2014 to 2018, the Canadian craft beer industry experienced significant growth, almost doubling in revenue from \$1.0 billion to \$1.9 billion.¹³ Although a comprehensive definition for the terms “craft brewery” or “microbrewery” was not officially established, microbreweries were understood to represent companies that produced less than 50,000 hl annually.¹⁴ The federal government typically licensed craft breweries that produced 400,000 hl or less per year and were independently owned and operated.¹⁵ For example, Brick Brewing Co. Limited (renamed Waterloo Brewing Ltd. in 2019) in Kitchener, Ontario, was a certified craft

brewery.¹⁶ Most craft breweries in Canada produced 5,000 hl or less per year.¹⁷ Companies that produced over 400,000 hl, such as the two multinational beer companies that dominated Canada's beer industry, were categorized as "macrobreweries." In contrast, the Canadian craft brewing industry was highly fragmented, with hundreds of small breweries typically focused on serving local communities, although some of the larger craft breweries catered to the entire province. Ontario was home to 315 breweries, but only two-thirds of them sold their beer in retail outlets such as the LCBO, TBS, or grocery stores.¹⁸

Craft beer consumers, whose tastes changed rapidly, were mainly interested in the experience, locality, and the variety of products that craft breweries offered. In contrast to macrobrewery customers, these consumers also tended to have less brand loyalty and to prefer ale to lager.¹⁹ Sales of ale, the most consumed craft beer, grew from \$905.2 million in 2014 to \$1.7 billion in 2018.²⁰ Emerging and alternative trends in the industry included canned nitrogenated beer²¹ and non-alcoholic beer.

Despite environmental uncertainty and regulatory constraints affecting the entire industry, the Canadian craft beer industry continued to grow. Reasons for growth included changing demographics, consumer preferences for unique products and new experiences, and overall support from vital retail partners.²² Specifically in Canada, the growth of the craft beer industry was influenced by the country's generally favourable demographic, social, political, economic, and environmental characteristics (see Exhibit 1).

BRENT DAVIES, WELLINGTON BREWERY'S PRESIDENT

Wellington Brewery earned \$10 million in revenues in 2019.²³ It was one of Canada's oldest and largest independently owned craft breweries.²⁴ The brewery was initially known for its darker craft beers, which were offered throughout Canada's most populated province, Ontario. Davies started working at Wellington Brewery in 1995 but left the company in 2000 to pursue a career in the chemical industry. However, in 2010, Davies returned to Wellington Brewery as partner and vice-president, with responsibilities in the company's sales and marketing divisions. In 2016, Davies was appointed president. At the time, he owned 60 per cent of the brewery and held 90 per cent voting rights. The remaining control of the company was spread among small investors with limited voting rights.

In addition to his close affinity with the business, Davies had a passion for beer and a deep understanding of consumer choices. During his interactions with customers at the LCBO stores, he would often ask people why they chose a specific product. He was proud of Wellington Brewery's award-winning beers and sought to expand people's palette with high-quality tasting products. As the brewery expanded, Davies knew that upcoming decisions were critical. He believed that any decisions about the business strategy and long-term vision would need to respect, yet help evolve, the company's culture.

COMPANY BACKGROUND

Wellington Brewery's expansion in 2015–16 increased the organization's annual brewing capacity from 24,000 hl to 80,000 hl. In addition to state-of-the-art brewing equipment upgrades, the company purchased a second building to make room for offices and inventory, a new canning line to increase efficiency, and an enterprise resource planning (ERP) system. The company also installed a complete water treatment system to improve the longevity of the equipment and to reduce water usage and waste.

As of 2019, the brewery employed 45 staff, including full-time and part-time positions, depending on the seasonality of the business. Wellington Brewery's respect and pride in its employees was reflected by the company's impressive retention rate. For example, the brewery's vice-presidents of finance, sales, and brewing had been with the company for an average of 16 years. Its experienced staff helped Wellington Brewery master the challenging product submission process through the LCBO, as Davies explained:

Because we've been around so long, we know the process to plan timing-wise. We got it so our last couple brands—our product launches—we were early to market and we had things well in advance to LCBO. We got approvals through, and we got it out there.

Long-tenured employees contributed to corporate memory, provided stability within the business, facilitated creativity, and readily provided their expertise. However, Davies was aware that long-time employees could also be more resistant to change and more heavily relied upon, rather than establishing more automated processes. Wellington Brewery's top management team described the company culture as "very family and community-oriented." This type of culture worked well as long as the company remained relatively small. However, with the expansion of the brewery and additional staff added to the team, Davies acknowledged the need for a more balanced approach between focusing on maintaining a "family" feel and integrating more structured roles into the business. Davies noted that "when you're small, everybody's doing everything. But now, the thing is, you can't. You can't do everything. You can't have those pressures all the time."

Some members of the top management team were responsible for multiple managerial roles, which reduced their ability to take on additional tasks or projects. The brewery had to start implementing its new inventory management system, but it was difficult to find the right time and the right person to manage the project, which incurred delays. That person would likely to be selected from among the busiest people in the company. Stress and confusion arose in reporting lines due to multiple roles held by some employees. Davies felt that a revised organizational structure was needed to support growth plans, formalize processes, clarify roles and responsibilities, and reduce employee workload.

COMMUNITY

The community was a crucial element of the craft brewing industry. Craft beers were locally handcrafted, authentic products. Wellington Brewery maintained its connection to the community through engagements in local events, charitable work, and donations to local causes. Davies felt that "those decisions kind of become stand-in for a lot of things I think are really important, and in broader relationship building." Some initiatives included collaborations with local organizations, such as donations to Pride support groups based on the sale of a specific beer brand or hiring local artists to design beer coasters. Despite its goal to expand across the entire province, Wellington Brewery was eager to retain the local brand feel and connections it had established within its community.

A craft brewery's community was dependent on location, size, and strategy. Some regions and communities were more receptive than others to craft beer. In fact, the number of Canadian beer drinkers that consumed craft products ranged widely from 26 per cent to 50 per cent of the population, depending on the geographical location.²⁵ Therefore, craft breweries needed to decide whether to focus their efforts on competing in a popular craft beer market or instead tap into a smaller market and build up the brand by educating new craft beer consumers. In Ontario's highly competitive Toronto market, for example, a craft brewery's community could vary from the entire city, to a geographical portion such as east Toronto or the downtown core, or even a specific neighbourhood such as The Danforth or Etobicoke. A brewery could focus on specific stores within a small area to sell its products to a targeted consumer group. Alternatively, it could instead cater to a much broader range of consumers. For example, Waterloo Brewing Ltd. chose to expand its market share by acquiring province-wide distribution rights for several major beer brands including Laker, Seagram Coolers, and LandShark.²⁶

Smaller breweries looking for growth needed to be more creative due to their limited access to capital. An alternative to acquisition was to develop long-term sustainable relationships with retailers outside the

community. To achieve this, craft breweries could leverage their existing connections with local LCBO stores and licensees to help them expand. Other options included sponsoring events and sports teams outside their city and developing innovative methods for bringing people from outside the community to the brewery.

The craft brewery industry was generally collaborative. Companies often relied on each other during times of need and shared their knowledge at professional events. These practices helped produce resourceful teams and promoted rapid pivoting when information was needed. For example, when Wellington Brewery's equipment was experiencing rapid degradation due to the city's hard water, the company's vice-president of brewing and another employee leveraged their expertise to build a network of contacts who worked in wastewater management and water treatment services. Using this knowledge, the company was able to assess the problem and procure a new water system. One employee outlined his experience:

It all ties back into [the fact that] we always try to get people out in the community to try and learn to make better beers. The [brewery] would put me out in trade shows to connect with people and network. So, if any of these things come up, I know who to contact.

PRODUCT FOCUS

Wellington Brewery was customarily known as an English-style craft brewery, with ale as its featured beer type. In the past several years, its product line focused on three core brands and an assortment of experimental small-batch and seasonal beers. The company's high-volume production brands—a traditional ale, an India pale ale, and a lager—were aimed at a wide consumer base and required different brewing strategies than its low-volume production brands, which were usually experimental beers aimed at consumers seeking a novel beer-drinking experience. Therefore, the two different product lines required the company to attract two different customer segments, which also divided Wellington Brewery staff members.

A senior executive felt that staff members were conflicted between “putting out products that sell versus products that are innovative.” Davies agreed that producing award-winning experimental beers would build “street cred” (short for “street credibility” or acceptability among fashionable beer consumers) and thus draw more customers to the brewery. However, he also recognized that although lager was not Wellington Brewery's choice of beer type, it represented the largest beer market segment and could be an important source of revenue for the company. Because traditional ale products had always been associated with Wellington Brewery's identity, adding a lager to the product mix would require a significant shift in business culture.

COMPETITORS

Wellington Brewery viewed the two international macrobreweries, Molson Coors Beverage Company and Anheuser-Busch InBev, as major competitors in Canada's overall brewing industry. Wellington Brewery's mainstream beers were intended to increase sales and faced direct competition for shelf space from the two brewery giants. However, over the previous three years, the overall craft brewery segment had helped flatten Canadian sales volumes of the two multinational breweries, which reflected a consumer trend away from traditional beer consumption.²⁷

Wellington Brewery saw all other craft breweries as collaborators, but it nonetheless competed against local and nearby craft breweries. For example, Guelph's innovative small-batch craft brewery was home to Royal City Brewery and Fixed Gear Brewing, while in nearby Waterloo, the mid-sized multi-branded brewery Waterloo Brewing Ltd. had earned annual revenue of \$53.7 million in 2019.²⁸ Guelph was also home to Sleeman Breweries (owned by Sapporo Breweries), a large traditional brewery that sold both domestic and imported beer products.

THE PRODUCTION OF BEER

Beer had been produced in Canada since 1646. Key ingredients in the production of beer included malts (i.e., converted grains, often barley), hops (i.e., flowers of the hop plant), and yeast. Specific temperatures and times depended on the beer's recipe. Yeasts were re-added throughout the process to produce sugars, some of which transformed into alcohol.²⁹ The company's brewmaster would create recipes for traditional beer (e.g., lager or ale) or experimental beer (e.g., sour fruit beer) by using a variety of additives and customizations. Compared with both smaller craft breweries and larger traditional breweries, Wellington Brewery's advantage was its ability to produce large amounts of experimental beer, although some ingredients and additives proved challenging to scale for high volumes.

The addition of new canning and brewing equipment enabled Wellington Brewery to significantly increase its efficiency. The company went from producing 20 hl per large batch in six hours to 40 hl per large batch in only two and a half hours. The new equipment also helped increase malt-processing efficiency and reduce water waste. Brewed beer sat in tanks for approximately two to four weeks until it was ready for packaging. In recent years, cans had become the predominant packaging choice over glass bottles. The shift to cans provided a more environmental option and resulted in a better-tasting product. Cans could block ultraviolet light more effectively than bottles, which helped limit product spoilage.³⁰

Wellington Brewery employed a pilot system to experiment with different combinations of ingredients. Its low-volume capability allowed the company to produce single products, or "one-offs," and later scale up to large volumes. Wellington Brewery was thus able to quickly react to consumer trends and release new products each week in the company's brewhouse. These frequent releases provided an opportunity to experiment, gauge customer reactions, and collect customer preference data at a relatively low cost.

IMPACT OF REGULATORY CHANGES

Both provincial and federal governments regulated the sale of alcohol in Ontario. An annual excise tax was based on the beer's alcohol percentage and production volume.³¹ In 2018 and 2019, Canada's alcoholic beverage industry faced various challenges, and some opportunities, due to legislation changes. Legalization of cannabis in Canada went into effect in October 2018, and cannabis-infused beverages were allowed to be sold starting in December 2019.³² These legislative initiatives provided opportunities for craft breweries to enter the new cannabis-infused beverage market. In addition, the sale of beer in grocery stores, which had started in December 2015,³³ had reached an Ontario government goal of enabling 450 grocery stores in the province to sell beer. This new market segment provided access to a new retail option for many breweries across Ontario.³⁴ In 2016, the sale of alcohol was made available by mail directly to consumers,³⁵ which opened a new opportunity for many breweries to set up an e-commerce platform. Discussions had also begun on the topic of making the sale of alcohol available in Ontario's numerous convenience stores, although no decisions had yet been made on this potential new distribution outlet.

Wellington Brewery's management team had not yet expressed an interest in the cannabis-infused beverage market. However, grocery store sales provided high margins, and e-commerce was an especially promising sales vehicle for the upcoming Christmas holiday season, so the company decided to enter both of these markets. Discussions by Ontario's regulators on the prospect of allowing beer sales in the province's convenience stores were still in early stages and remained unpredictable. Wellington Brewery was also licensed for the sale of cider, but had yet to decide whether or not to diversify into this segment, which could be an important consideration if a drop in beer sales occurred. However, the company was comfortable remaining focused on beer production at this stage. As Davies noted, the company had "historically done beer very well and still [saw] lots of room to grow."

WELLINGTON BREWERY'S SALES MIX AND DISTRIBUTION

Wellington Brewery generated revenues from both on-premises sales channels, such as the company's onsite brewhouse or licensees (e.g., bars and restaurants), and off-premises sales channels, such as retailers. The brewhouse was the company's most profitable revenue source but represented only a small portion of total revenues, whereas off-premises retailer sales channels such as the LCBO and e-commerce, generated greater revenue amounts that were fundamental to the company's growth. Another important revenue channel was contract brewing, which referred to Wellington Brewery offering its brewing premises and expertise to other breweries that did not have their own facilities. The breakdown of Wellington Brewery's sales mix consisted of approximately 25 per cent LCBO, 30 per cent licensees, 25 per cent contract brewing, 10 per cent TBS, and 10 per cent brewhouse revenue.

Although macrobreweries typically sold their product in standard cases of 24 beers through TBS, craft brewery sales consisted mainly of low-number packs or single-unit sales. Therefore, the craft brewery segment's relationship with TBS was increasingly becoming insignificant. In contrast, the craft brewery segment's relationship with the LCBO, licensees, contract brewing, and e-commerce was critical (see Exhibit 2).

THE LCBO

The LCBO dominated retail distribution in Ontario. Getting a product onto the retailer's shelves was challenging for craft breweries. The LCBO used a web-based product submission process called the New Item Submission System (NISS).³⁶ This process required a new product to pass through a series of stages, ranging from setting price parameters to product tasting, which lasted at least six weeks. Several factors affected a craft brewery's ability to be accepted and remain active in the LCBO stores. After a product was accepted, its shelf space was reviewed weekly. The LCBO preferred stocking beer products in cans of 473 millilitres and required a minimum of 20 litres of the product to be sold in each store within a specific period. Each year, a random sample from every product listed on the LCBO was sent to its quality assurance department for analysis of alcohol content and packaging.³⁷ If a product's alcohol content was found to be over its advertised level by as little as 0.5 per cent, the entire listing could be removed from the shelves. Therefore, Wellington Brewery made consistency a critical aspect of its business.

Before completing the NISS process, a craft brewery needed to establish a relationship with LCBO's head office and individual store managers. Dedicated brewery sales teams participated in ongoing relationship-building efforts and presented their new products. This process was labour-intensive and competitive. Shelf space at the LCBO stores was limited, and macrobreweries occupied a considerable amount of the available space. Davies was aware that new-product applications to the LCBO were required for both core and seasonal brands. The LCBO maintained an updated product-need item list through the NISS to guide new-product submissions.³⁸ As Davies explained, "the better a product's performance ratio, the better chance it had at getting a subsequent product in, or in scoring a seasonal listing."

Wellington Brewery modified its tactics over time to maintain a positive relationship with the LCBO. For example, the company decided to adopt the LCBO's preferred format of 473-millilitre cans for its beer. As well, the company used its own distribution service, rather than a third party, to better leverage opportunities to build rapport and connections with buyers. Among other strategies, Wellington Brewery offered tasting notes and comparable products to the LCBO store managers and ensured quality and consistency through lab testing before submission of its products. The LCBO also offered companies monthly in-store marketing opportunities, such as product sampling services and end-of-aisle placement. However, the cost of these promotions was usually too high for craft breweries such as Wellington Brewery, and was therefore used mainly by macrobreweries.

Licenseses

According to Davies, retail sales channels tended to provide higher margins for the brewery than licensee sales channels, such as bars and restaurants. However, licensees also served a critical purpose of promoting a local presence and collecting valuable information about consumer trends, product sales, and competitors. Therefore, Wellington Brewery opted for a relatively high portion of its product distribution through licensees, compared with most of its competitors. Its sales mix was set at approximately 60 per cent retail and 40 per cent licensees, compared with the sales mix of most competitors at 80 per cent retail and 20 per cent licensees.

However, securing permanent beer brand placement on-tap at a licensee, such as a bar or restaurant, was becoming increasingly difficult. As Davies explained, macrobreweries tended to offer financial incentives to licensees to gain on-tap brand placement, which craft breweries were unable to afford. As well, with licensees frequently rotating their beer taps and adding new product lines, the required amount of beer from each brewery could drop significantly. Therefore, although Davies delivered beer kegs to licensees in person to build connections and gather information, he was also working diligently to grow Wellington Brewery's retail presence, especially through the LCBO. The aim was to gradually reduce the company's dependence on licensees and contract brewing. To achieve this goal, the business needed to find ways to make its core brands self-sustainable by generating consistent and long-term revenue through higher-margin retail channels, while reducing reliance on lower-margin revenue streams.

Contract Brewing

Contract brewing provided a crucial revenue source for many breweries, despite its low margins. Wellington Brewery provided its production facility and expertise, at a cost, to breweries that did not have their own brewing premises, which helped counter lower-than-expected sales of its own product. However, contract brewing did introduce various challenges. The process was labour-intensive and tended to require extensive mentoring, especially for less established contract breweries. There was also a potential impact on Wellington Brewery's financial situation if a contract brewery was unable to pay for the services rendered.

From a list of up to eight contract brewery prospects, Wellington Brewery narrowed its focus on only a couple of well-paying partners, which provided both significant benefits and potential risks. For example, despite a favourable working relationship with one major contract partner, Wellington Brewery suffered a revenue shortfall when the contract brewery's production was unexpectedly reduced to 60 per cent of its 2019 forecast, as a Wellington Brewery senior executive explained:

We were actually able to negotiate a really good rate. Because they are so big, their beer is cheaper to make per litre than some of our other contracts in the past, and we actually didn't have to eat too much on the margin to get this huge sum of volume. The problem is, it leaves us very much exposed. [If] they don't get their forecast right, it has huge implications for your financial forecasting, and that's basically what happened.

E-Commerce

The introduction of e-commerce as a new off-premises retail option was both beneficial and challenging for craft breweries. Difficulties included regulated mandatory shipping through Canada Post, standard shipping fees added to orders (as opposed to being built into the selling price), the cost of packaging, and the labour-intensive processing of online orders, which required different packaging and shipping processes than the company's usual format. Wellington Brewery initially chose to use Shopify Inc. (Shopify) as its e-commerce

platform and engaged in benchmark research to generate ideas for the packaging, processing, and shipping of beer. The brewery was still looking for ways to improve the end consumer's online ordering experience when customers purchased Wellington Brewery products. For example, through Shopify's data analytics services, Wellington Brewery identified a recurring issue with dropped online shopping carts during the checkout phase. The company assessed the problem and addressed the issue by finding a mutually beneficial revenue and costs solution involving shipping and processing fees, which was passed onto the consumer.

MANUAL PROCESSES AND INSIGHTS FROM DATA

Wellington Brewery conducted various manual processes to support routine tasks and operations. The manual processes included tracking inventory on paper and then physically verifying the amounts, forecasting sales using Microsoft Excel, recording licensee payments using Excel and telephone calls, recording production amounts on paper and in Excel, and extracting sales data from the brewhouse point-of-sales system (TouchBistro) and inputting it into Excel. Wellington Brewery deemed these manual processes suitable and efficient because new beer recipes were frequently created and modified, which was convenient for its current legacy systems to create in-depth reports. Additionally, manual processes enabled interaction and promoted data analysis. However, with the organization's expansion and growth, automated processes would inevitably become critical to improve overall efficiency.

Davies was hoping to improve the manual processes by leveraging digital technology to increase efficiency, save time, and produce additional data. In recent years, Wellington Brewery had started using data for sales-based tracking and to identify comparable products for submission to the LCBO. For example, the company was using the DigThisData platform, a business software-as-a-service application for alcohol vendors, to regularly monitor LCBO and TBS data. The software provided performance, competition, and product data with a two-week delay. Wellington Brewery used the data to better position its products and improve sales forecasting. Wellington Brewery also used Ekos, an ERP system designed for the craft brewery industry that involved complex implementation and time-consuming project management. However, Davies was not sure the Ekos ERP system was the most suitable choice for the company's needs.

Marketing Data

Wellington Brewery collected marketing data through its own monthly newsletter to customers, analytic data provided by the Shopify platform, and Google Analytics. The company's marketing department also remained abreast of new trends by monitoring secondary research data such as Beer Canada reports, US market reports, international trends, and relevant social media activity. The objective was to continue expanding strategically across the province and build the brand's reputation. Monthly campaign budgets were determined on an ad hoc basis, depending on current needs. Davies hoped to find creative ways to communicate Wellington Brewery's history and value proposition across the province, without sacrificing its strong local presence.

CONCLUSION

Wellington Brewery's business strategy was fluid. The company was proactive in assessing risk and in finding ways to improve cash flow. The major recent expansion had been successful, but it had required Wellington Brewery to incur considerable costs. The highest priority at this point was to recuperate those investment expenses. Davies was prepared to use all available information to devise a strategic path forward for his company.

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EXHIBIT 1: DOING BUSINESS IN CANADA

Canada was a North American country that shared its southern border with the United States. The country's demographics were diverse. In 2019, it had a population of over 37 million people, of which almost 90 per cent were either immigrants or descendants of immigrants. Canada's population included over 100 indigenous tribes comprising approximately 250,000 indigenous Canadians. Canada was a democratic country with a parliamentary system in a constitutional monarchy. As Canada was a member of the British Commonwealth, its reigning monarch was Queen Elizabeth II, although her role in terms of Canada was limited. Canada was organized as a federation, with 10 provinces and three territories, and three government levels: federal, provincial or territorial, and municipal. Canada had maintained strong political stability and was considered one of the safest countries in the world.

Canada was a good place to do business. It featured a growing global trade network that provided Canadians with access to global market opportunities. Specifically, Canada had 14 free trade agreements in place with 51 countries, giving it preferential access to international markets. The Liberal Party of Canada, led by Prime Minister Justin Trudeau, had been in power since October 2015, during which time several major regulatory laws and changes had taken place that impacted the food and beverages industry. Specific to the beer industry, policies governing alcohol availability were set and enforced by provincial liquor control or licensing boards. In all jurisdictions except the province of Alberta, these same provincial boards were responsible for the sale of alcohol through their own network of retail stores. Regulations regarding the sales of beer had been revised to allow beer sales in grocery stores and convenience stores in Ontario, starting in late 2015. Alcohol sale regulations varied widely across all Canadian provinces and territories, with Ontario having the most complex system. Therefore, doing business in multiple jurisdictions was usually limited to larger businesses and smaller craft breweries tended to sell their products only within their own province.

Canada was one of the top trading nations in the world. Canada's gross domestic product was expected to increase by 1.8 per cent in 2020 and 1.9 per cent in 2021, consisting of only minor improvements from the 2019 gain of 1.7 per cent. Healthy labour markets and modest increases in consumer spending were likely to benefit Canada's economy.

Labour laws and regulatory changes continued to have an impact on Canada's workforce. The government intended to modernize federal labour standards to benefit Canadian workers and assist employers. Existing and upcoming changes included improving eligibility for entitlements, helping with work-life balance, providing fair treatment and compensation for unpredictable (e.g., short-term, contract, seasonal) work, ensuring sufficient notice and compensation when jobs are terminated, and improving the administration of labour standards.

Business investments in Canada had trended downward in recent years, and Canada's trade sector would continue to be impacted by minimal global growth. In contrast, interest rates were not expected to change in 2020, as global economic conditions stabilized.

As one of Canada's key provinces, Ontario produced 37 per cent of the national gross domestic product and featured distinctive exports, manufacturing expertise, resources, and innovation trends. Ontario was known for its manufacturing industries, including medical devices, biotechnology, pharmaceuticals, and information and communications technologies. Additionally, the province was home to more than half of Canada's best farmland. It featured more than 50,000 farms that produced almost 25 per cent of all farm revenue in Canada.

Many of Canada's manufacturing sectors were shifting toward Industry 4.0 digitalization, automation, and data exchange in manufacturing technologies and business systems to drive innovation. It was becoming increasingly affordable for companies to make the digital shift, as consumers become more technology-savvy than ever.

EXHIBIT 1 (CONTINUED)

Canadians were increasingly relying on mobile devices for everyday living—especially shopping. Increasingly, consumers relied on mobile payments, navigating the Internet on a smart phone, and numerous other mobile platform services. Software-as-a-service technology and data warehouse management solutions provided companies with new sources of data and analysis for higher efficiency and trend monitoring. Artificial intelligence and data analytics were key drivers of digital transformation and automation for businesses, both internally and throughout the supply chain.

Several cultural trends were likely to impact future Canadian businesses. First, millennials (people born between 1980 to 2000) were at the forefront of the consumer revolution and were often characterized as being frugal, shrewd, and lacking in brand loyalty. They were most likely to use smart phones, social networking, and online shopping. Increasingly, Canadians were seeking personalized and immediate interaction with instant access to information and goods, such as Amazon.com Inc.'s promise of next-day delivery on many of its products. Canadians were also exercising more, consuming more natural and organic products, and choosing products based on dietary restrictions.

Canada was North America's largest country by area, with vast natural open spaces. Despite some environmental concerns such as pollution of natural regions and rapidly changing weather patterns, numerous tourists chose Canada for its natural landscape and scenery. Climate change, clean fuels, carbon tax strategy, air quality, environmental testing, and renewable energy developments were among its environmental concerns. Businesses in Canada increasingly sought green options to become more environmentally sustainable with initiatives such as reducing single-use plastics, improved waste diversion, sustainable food initiatives, use of nuclear power, and electric transportation.

Source: e-Visa, "General Information about Canada," e-Visa.ie, accessed July 14, 2020, <https://e-visa.ie/canada/general>; Government of Canada, "Spotlight on Market Diversification," November 20, 2019, accessed July 13, 2020, www.tradecommissioner.gc.ca/guides/spotlight-pleins_feux/spotlight-diversification-pleins-feux-diversification.aspx?lang=eng&utm_source=business&utm_medium=slideshow-en; Government of Canada, "Prime Minister Justin Trudeau," June 9, 2013, accessed October 20, 2020, <https://pm.gc.ca/en/prime-minister-justin-trudeau>; "Beer Sales Guide to the Provinces and Territories," CBC News, April 16, 2015, accessed December 15, 2020, www.cbc.ca/news/business/beer-sales-guide-to-the-provinces-and-territories-1.3036387; Conference Board of Canada, "Canadian Outlook Summary: Winter 2020," December 17, 2019, accessed July 14, 2020, www.conferenceboard.ca/e-library/abstract.aspx?did=10543; Government of Canada, Employment and Social Development Canada, "Labour Program: Changes to the Canada Labour Code and Other Acts to Better Protect Workplaces," November 7, 2018, accessed July 17, 2020, www.canada.ca/en/employment-social-development/programs/laws-regulations/labour/current-future-legislative.html; Government of Ontario, "About Ontario," June 5, 2013, accessed July 14, 2020, www.ontario.ca/page/about-ontario; Tetra Pak, *INDUSTRY 4.0—Opening a Door to New Opportunities for the Food and Beverage Industry*, 3, accessed January 3, 2021, www.tetrapak.com/content/dam/tetrapak/publicweb/us/en/automation/tetra-pak-industry4-whitepaper.pdf; PwC, *Industry 4.0: Building the Digital Enterprise, Industrial Manufacturing Key Findings*, 5, accessed January 3, 2021, www.pwc.com/gx/en/industries/industrial-manufacturing/publications/assets/pwc-building-digital-enterprise.pdf; Business Development Bank of Canada, "5 Consumer Trends that Will Transform Your Business," 2017, accessed July 14, 2020, www.bdc.ca/en/articles-tools/marketing-sales-export/marketing/pages/5-consumer-trends-watch-out-for-2017.aspx; ECO Canada, "Environmental Trends 2020," blog, January 31, 2020, accessed July 16, 2020, www.eco.ca/blog/environmental-trends-2020.

EXHIBIT 2: WELLINGTON BREWERY'S SALES CHANNELS

Criteria	The LCBO	Licensees	E-commerce	The Beer Store	On-Site (Brewhouse)	Contract Brewing
Description	Government-regulated retail outlets offering wine, beer, and spirits	Restaurants and bars	Online distribution	Government-regulated retail outlets offering beer	Selling at own brick-and-mortar store	Producing beer for other companies
Market potential	Provincial	Provincial	Provincial	Provincial	Local	N/A
Percentage of revenues	25%	30%	Negligible	10%	10%	25%
Profit margin	High	Low	Low	High	High	Medium
Ease of access to market	Difficult	Difficult	Easy	Difficult	Easy	Medium
Customer insights	DigThisData online platform analytics	Delivery and sales representatives	Shopify online platform analytics	DigThisData online platform analytics	Personal contact and TouchBistro point-of-sale system	N/A
Brand recognition	High	High	Low	Medium	Medium	None
Dedicated sales team	Yes	Yes	N/A	Yes	N/A	N/A
Opportunities for growth	High	Medium	Low	Low	Low	Low

Note: N/A = not applicable.
Source: Company files.

ENDNOTES

- ¹ All currency amounts are in CA\$ unless otherwise specified.
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- ⁵ Liquor Control Board of Ontario (LCBO), *LCBO Annual Report 2018–19*, accessed January 3, 2021, www.lcbo.com/content/dam/lcbo/corporate-pages/about/pdf/LCBO%20ANNUAL%20REPORT%202018-19.pdf; Euromonitor International, *Beer in Canada*, 1–2, country report, July 2019.
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- ⁷ Euromonitor International, op. cit., 1.
- ⁸ The Liquor Control Board of Ontario (LCBO) was created in 1927 as a regulated enterprise owned by the Government of Ontario. The LCBO sold alcoholic beverages (e.g., wine, spirits, beer) in over 660 locations in Ontario, in addition to later acting as a wholesaler to nearly 450 grocery stores. Until regulation changes took place, the LCBO was one of few options available for purchasing wine, spirits, and beer in Ontario. The Beer Store was the other primary retailer of beer and offered a selection of macrobrewery products and some craft products. Before 2016, only very few grocery stores sold beer and wine. These factors contributed to the LCBO's market share majority of alcoholic beverages in Ontario. "About LCBO," Liquor Control Board of Ontario, accessed January 3, 2021, www.lcbo.com/content/lcbo/en/corporate-pages/about.html.
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- ¹¹ Liquor Control Board of Ontario, op. cit.
- ¹² Government of Canada, Agriculture and Agri-Food Canada, op. cit.
- ¹³ Ibid.
- ¹⁴ Ontario Beverage Network, "Ontario Beverage Network FAQ," accessed June 23, 2020, <https://ontariobev.net/faq>.
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- ¹⁷ Government of Canada, Agriculture and Agri-Food Canada, op. cit.
- ¹⁸ Ontario Craft Brewers, "Ontario Craft Beer Facts and Figures," accessed November 3, 2020, www.ontariocraftbrewers.com/FactsAndFigures.html.
- ¹⁹ Brette Warshaw, "What's the Difference Between Ale and Lager? It All Depends on Yeast," Eater, September 13, 2019, accessed January 3, 2021, www.eater.com/2019/9/13/20863787/whats-the-difference-ale-lager.
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- ²¹ Nitrogenated beer used nitrogen, rather than carbon dioxide, in the carbonation process. Nitrogen was mostly insoluble in liquid, which produced a creamier consistency and more stable flavour compared to carbon dioxide, which was "pricklier" on the tongue; "Good Beer Gas: Nitro Beers Explained," CraftBeer.com, accessed January 3, 2021, www.craftbeer.com/craft-beer-muses/good-beer-gas-nitro-beers-explained.
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