



## TELL ME WHAT YOU DRINK, I'LL TELL YOU WHO YOU ARE

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### ABSTRACT

**Objective:** The present case was developed in order to provide discussion about the strategic positioning of a company that undergoes scenario changes.

**Method:** Teaching case coming from real facts based on experience in management and consultancies.

**Originality/Relevance:** The case portrays the activities of The Brewpub Factory with a differentiated proposal, starting with the place of service, inside a farm, and arrives at the menu, where they are offered the increasingly requested, craft beers produced in the local and sold exclusively on the premises, as well as burgers and steaks.

**Results:** João Paulo, owner of the site, after four years of activity, faced a situation where there is a conflict of choice: producing and selling differentiated beers, special styles and high prices for the product, still working for a more select audience, but with less movement in the pub? Or produces cheaper beers, focusing on cost and lower end price, with fewer varieties and less complex styles, but with more movement and full house every week? Which strategy to adopt?

**Theoretical/methodological contributions:** To develop in students the ability to read the environment to identify competitive advantages and above all, strategies, being cost leadership or differentiation, which will be more coherent for companies to stay in the market in a sustainable and profitable way?

**Keywords:** Price. Differentiation. Brewpub. Strategy. Teaching case.

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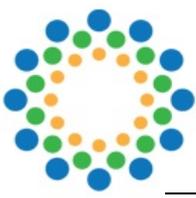
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## 1 CONTEXTUALIZATION

By the end of the day, it was already 1:30 a.m. on a Friday morning and after a busy day with full stocking at The Factory Brewpub. Of the 90 seats available, all were filled. Some people still stood outside on makeshift desks, drinking and eating snacks from the house. After collecting the last customer, John Paul sat at one of his pub tables and among the empty glasses, he lowered the sound, pulled the vouchers from the credit card machine, counted the money, and closing the box commented with the house manager:

*- I'm worried, I'm not really sure what to do.*

The manager Matheus replied:

*- About this movement? Will we have to enlarge, put more tables or even look elsewhere?*

*- Actually, that's not quite it. Did you notice the cause of the increase in movement in the last three weeks? Considered João Paulo.*

The manager even commented:

*- I noticed this considerable increase, it seems years ago when we started. At that time, it would have been so. I do not know why, I think it's normal, a cycle.*

And João Paulo answered:

*- In fact, I do not believe in cycling, this movement started after we did the promotion on the price of beers. Look at the consumption, it fired. We did the beer promotion and this attracted a lot of people, the reserves closed quickly, many old customers told me they came back because of the price of beer.*

*- But is not that good? Asked the manager.*

*- So that's exactly what I'm concerned about... Concluded João Paulo.*



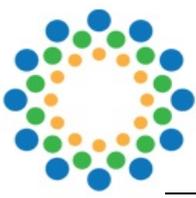
## 2 THE HOUSE

The Factory is located in Brusque/SC, a city with Germanic culture, fruit of its colonization and currently part of the Beer Route, the brewing script of the state of Santa Catarina.

The Factory is a brewpub with a distinct proposition. Located within a farmhouse, 5km away from the city center and with the particularity of the beers served, they are produced on the spot, in the style of American brewpubs. Joao Paulo, in assembling and registering the brewery, preferred to market and distribute his special beers only in the pub's own consumption instead of marketing his beers in the market. This decision meant that the company could maintain a small production and a lean team of employees, with low costs compared to larger breweries. Moreover, this limited production makes the beers offered by the pub acquire an exclusive product character, which is highly valued by pub goers.

Regarding the ambiance, all the decor of the pub refers to the brewing universe. Several bottles with beer labels from around the world decorate aerial shelves positioned near the ceiling, bottle caps are exposed in frames. The walls of the pub are lined with plaques with creative and humorous phrases about beers plus panels and pictures framed with pictures of beer, many of them also brought from travel and carrying some information or remembrance.

Other decorative accessories demonstrate the brewing process, to inform the regulars how the beer production process takes place. João Paulo has always been very concerned about having good parameters to compare the sensorial aspects of his beers and so he has visited several parts of the world in his research trips and this aspect is also demonstrated in the decoration of the pub: souvenirs that refer to the brewing aspects brought of the several places that have passed are scattered in various places from the walls to the ceiling, bottle openers of famous breweries are in exhibitors, and still other objects of the visited breweries are exposed by the pub.



One recent situation that contributes to the pub's unique ambiance is that the customers themselves, when making their trips, end up bringing some souvenir or element that refers to the brewing universe and that is exposed in the place next to the decorative pieces of the space, all these elements add an air of exclusivity to the pub. João Paulo defines the pub as:

*- The goal is for the customer to feel at a legitimate American tavern, or a brewpub, where the customer can relate to beer. Most American breweries have this and people go sightseeing to meet, talk to the brew master, be guided by a sommelier. It is experience, we are more than just a bar or a hamburger. We have soul, we have story to tell.*

Regarding the products offered by the pub, the beers are a separate chapter. With twelve taps connected, stored inside a cold chamber and ready to fill the glasses. Every week new styles are plugged into the taps and can be tasted by the regulars, in a movement of constant innovations in relation to the products offered. Pilsen, Weiss, Stouts, Porters, APAs, IPAs are some of the various styles of beers produced by pub brewery. Belgian, English, German, American brewing schools are well-exploited and lately have been gaining company with experimental beers with new styles and sub-styles such as Juicy IPA and Imperial Stouts, plus beers with added fruit, essences and aged in wooden barrels are and available for experimentation and consumption.

Another peculiarity that is part of the ambiance of the pub is that the taps are fixed on one of the walls of the pub and the client himself at the moment you wish to go to the taps and he himself serves, taking himself beers from the taps and filling his cup. There is no The Factory in the figure of the waiter who presses consumption. Still, it is important to note that for each style of beer there is a specific and special type of glass, to preserve the peculiarities and aromas of the style and that are informed in the sheet that is next to the specific tap with information on the available style.



A point commented by customers and everyone who knows the pub is that next to the taps space there is a table where the customer himself notes his name and he himself notes the quantity and style of the beers consumed, the customer even chooses his beer, fills his glass and marks what he consumed.

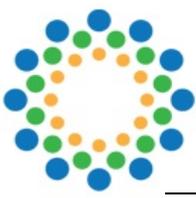
Each style has a cost, so a specific price, so the customer fills his glass, checks the value of the beer chosen in the price panel and notes in the table his consumption next to his name. At the time of closing the account, the customer goes to the cashier next to the table, then adds the values of the beers consumed written by the customer, add to the values of the snacks or dishes tasted and closes the account. This is another proposal, unique to the pub in the region, leading the consumer to a relationship, according to João Paulo, of trust and commitment of the client to the pub. This proposal is highly praised by clients for giving them, according to reports, freedom and feeling a sense of trust.

When questioned, about possible frauds, or even clients who do not record their consumption, João Paulo believes that there may be some random cases, but it minimizes the problem, considering that they are isolated cases and that the clients themselves feel responsible for supervising and monitor the process so that this form of work is maintained by the pub.

Another point raised by João Paulo, refers to the costs, once you change the procedure and hire waiters to serve the drinks, you would need to have two or three new employees burdening the process. João Paulo, whenever asked respond almost automatically:

*- Today, this system of the client himself serve himself and write down what he consumes, he is already part of the house, he could not modify it now, besides compensating in costs. This is another difference in the house.*

Also, in the view of the owner, this relationship of the customer with beer through the information available and the amount of styles always available to tasting



will educate the customer about the beer, its aromas and flavors. Particularities of a new aesthetics of consumption. On this, these are the words of João Paulo:

- *It is not just drinking, it is tasting, feeling, forming opinion, building taste, that is the beauty of the business. It's a novel starting.* Summarize João Paulo always very excited about the business.

Accompanying the beers, the pub also serves food, mainly burgers and steaks, which are the dishes indicated for accompaniment with beers. Both meats and burger are made in an open flame grill, preserving American inspiration. Every week a choice of steak or burger is offered. This form of work is necessary because a part of the clients attend the pub every week and this variation in the menu guarantees that the customers always have a new flavor every week.

The variation is made on steaks with a different cut of meat or accompaniment; in the burgers with new combinations of inputs, which include salads, cheeses, sauces or even meat blends (mixtures of meats that form the burger). But the biggest concern of the pub is the perfect harmonization of the ingredients used with the letter of beer of the week. In this way, the customer always has news to taste. The kitchen follows the current standards of the gastronomy business with glasses, where the client observes the entire process of preparation of the dishes, already part of the environment, in a proposal to a certain extent new to the city that was accustomed to traditional restaurants.

João Paulo is an active participant in the process, with three more helpers. He helped him in the barbecue, sometimes in the assembly of the dish, worrying to give an exclusive touch. The snacks turned out to be an attraction. João Paulo perceived an interesting and disturbing point; the fact that more recently a part of the new customers started to go to the pub more for food than for the beers themselves or for the environment.

In the perception of João Paulo, movement is never bad, but the visitor who comes to the pub only for food, presents a medium ticket (R\$ 29.80/month) lower than those who seek the experience and beers (R\$ 68.20/month). In addition, this



client that only seeks the snacks wants much more agility in the service, which, with the current structure (physical and people) is not possible to be worked, and this structure in the current location is impossible to be enlarged.

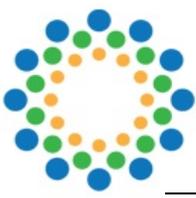
*- We are looking to sell entertainment and environment. We want the customer here for several hours, in a friendly atmosphere with friends and watered the good beer and delicious dishes, and especially paying special attention to the beer letter. We are not and do not want to be just a hamburger, we sell more than just snacks. Snack bars and hamburgers already exist to the hills in the city and because it is a sector with low entrance barrier, any one at any moment can open another enterprise. Therefore, we have to explore what we have of different, our environment, our beers, in short, the experience of the place, which is complemented by delicious snacks, that is a sustainable competitive differential.*

The Factory also differentiates itself in relation to the service to the public. Opens only Thursdays at night for male audiences, Fridays at night and Saturdays for all audiences. The pub works in the reservation system, i.e. to attend the pub, it is only possible with prior reservation.

Every Monday, João Paulo sends the contacts the invitation by electronic means, with the menu of the week for each of the days that opens, besides the letter of beers. In this way the customer reserves the number of seats and chooses the desired dish. The intention of the owner is to avoid wastage and to assemble exclusive and fresh dishes with a touch of craftsmanship.

For the attendance, João Paulo personally engages himself. He is in the house every day, welcoming the customers, participating in the process of elaboration of the dishes, in some opportunities, he even serves the dishes and at the end he looks for a time to sit down to talk with the customers.

João Paulo believes that the possibility of customers having the opportunity to talk to the brewer, to know the history of each beer, the combinations, manufacturing processes and flavor inspirations, will generate an additional



enchantment in the experience. In addition to the work itself, the owner has two more people fixed to assist him in cooking and preparation. In the days of movement above the normal one counts on the help of relatives, behaving the demand of the house.

### 3 HOW IT ALL BEGAN

João Paulo was a business consultant and university professor. As a hobby, in the few vacant hours, he would enter the world of gastronomy, cooking for family and friends. In 2008, at age 27, when attending his favorite restaurant, he first tried a different style beer, a Weiss.

On seeing the menu, he asked suspiciously, but when he took the first sip, he was enchanted. When leaving the restaurant went to the internet to search about craft beers, but very little information on the subject was in Brazil, making João Paulo had to resort to international sites. Finding a label to buy on the market shelves was difficult.

Another year passed and talking about it in forums on the subject on the internet, João Paulo discovered a course that would happen in São Paulo. He enrolled and traveled to take the course. It was two intensive days, but João Paulo learned the basics to start making the dream beer.

Arriving in Brusque began the assembly of his equipment and in three weeks was already inaugurating, making its first blaster. The equipment was well-crafted, even improvised, but served for him to produce his first beers. The place chosen was the farm of the parents of João Paulo, for having quality water from an artesian well beyond the space needed to accommodate all equipment.

From then on, every week new beers were produced, experimenting and testing malts, hops and ferments to get to know the flavors and improve their productions. After almost a year of producing beers, the news spread throughout the city and out of curiosity, many people, especially the friends, wanted to try the beers



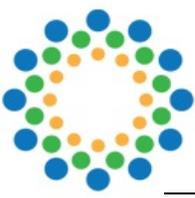
produced in the "factory" of João Paulo. It was from this term, popularly called by friends, that later came the name of the pub.

Then João Paulo in one of his nights off, invited his friends and created a brotherhood, where, each week, one of them presented a dish and that was harmonized with the beers. In addition, he promoted guided tastings to introduce the new flavors to friends. But what was initially a gathering of a few friends started to grow and soon the model of brotherhood was no longer appropriate. At that moment that João Paulo took advantage of the growing movement and decided to bet on a new business starting with the records processes of the brewery and pub.

Almost two years after entering the registration process due to bureaucratic procedures, João Paulo had all the documents and releases necessary to begin the work. At that moment the renovation of the space began: an old party area of the farm became a space planned to receive customers. In May 2012, The Factory opened to the public in a small space to accommodate 60 people.

It did not take big investments in advertising, since the place was already frequented, the product was already known and word of mouth was already happening. In the first week, still only opening on Thursdays and for the male audience, the house practically filled. There were only sixty seats, but every Thursday there were sold-out reservations.

In 2014 another enlargement, and this time the house started to count with 90 places and began to meet in the current format, Thursdays to the male public, Fridays and Saturdays, all public. With the expansion, almost of course, the extra places were filled. Thursdays continued to be crowded, and on Fridays and Saturdays the movement was no different. So, it was throughout the year of 2014 and went to the year 2015. In this last year, even with more places and new days of service, the investment in advertising and publicity continued low, limiting itself to a work in social networks.



Still in 2015, after the renovations, João Paulo began to realize that a new public came to attend the pub and this new customer already had some kind of knowledge about beers, different from the initial public. While sitting down and chatting with some of the new patrons, João Paulo saw in the conversation about beers a solid knowledge, with some people citing particularities of flavors, beers savored on travels, and comparisons of beers from The Factory with other labels.

This began to worry him about improving the beer portfolio, and so the pub went on to develop even more elaborate and complex beers in flavor and ingredients used. In addition to the standard beers, Imperial IPA, Baltic Porter, Russian Imperial Stout, Sessions, Single Hop, Dry Hop, fruit combinations, barrel maturation and oak chips were all produced, all shown in Figure 1. Other styles and new combinations have become the new vocabulary used inside the pub and brewery. The quest for new flavors and new styles of beer was the new challenge. For João Paulo, this was the peak of the process.

STANDARD	MORE DEVELOPED		MORE DEVELOPED PREMIUM	
<ul style="list-style-type: none"> <li>• American Light Lager</li> <li>• Pilsen</li> <li>• Standard American Lager</li> <li>• Blond Ale</li> <li>• Kolsh</li> <li>• Weiss</li> <li>• Pale Ale</li> </ul>	<ul style="list-style-type: none"> <li>• American IPA</li> <li>• Vienna</li> <li>• American Pale Ale</li> <li>• Belgian blond</li> <li>• Heller bock</li> <li>• Porter</li> <li>• Stout</li> <li>• Witbier</li> </ul>	<ul style="list-style-type: none"> <li>• Session IPA</li> <li>• Munich Helles</li> <li>• Strong Bitter</li> <li>• Weizenbock</li> <li>• Irish Red Ale</li> <li>• Belgian Pale Ale</li> <li>• Dunkel</li> <li>• Marzen</li> </ul>	<ul style="list-style-type: none"> <li>• New England IPA</li> <li>• Imperial IPA</li> <li>• Iperial Stout</li> <li>• Dubbel</li> <li>• Trippel</li> <li>• Quadrupel</li> </ul>	<ul style="list-style-type: none"> <li>• White IPA</li> <li>• Catarina Sour</li> <li>• Wood Age Beer</li> <li>• Barleywine</li> <li>• Rauchbier</li> <li>• Belgian Strong Golden Ale</li> </ul>

**Figure 1. Chart of beers produced and marketed at The Factory**

Source: Prepared by the authors.

*- I am happy, customers are understanding our proposal. We sell experience, a type of entertainment linked to beer. When you arrive at The Factory it is a trip of flavors and discoveries.*

João Paulo heard a lot of compliments from the newcomers and the pub became more and more a point of reference for beer enthusiasts. The owner also began to realize that the average customer consumption ticket went up. At first, people went to the pub and spent an average of R\$ 40 a night, with food and drink, then, with the most elaborate beers, the average ticket went up to R\$ 65. That is,



people were drinking less and spending more. At that moment, João Paulo had the perception that the positioning that had defined and worked for the pub had consolidated. He had thought of a number of differentials for the pub, captured from the yearnings of the market, something customers had not experienced in the town until then. Result: they perceived and valued the proposal.

#### 4 CONSEQUENCES OF CHANGES AND MARKET MOVEMENTS

Like all changes, some consequences are inherent. With the development of differentiated products the company had to add higher costs in the production of beers, and those that were previously sold for R\$ 5 the 400ml glass, until the middle of 2015, had their values high for prices ranging from 8 to 12 with some options of taps with beers of R\$ 13, R\$ 15 and up to R\$ 18 . They were fair prices, considering the special styles and complexity of the production processes that took more expensive inputs. Nevertheless, it was a considerable increase, from the point of view of price. Table 1 shows, in summary, the production cost for 100 liters of the three types of beer produced by João Paulo (see Appendix, full table).

Table 1  
**Summary of the production cost of 100 liters of beers from The Factory (in Brazilian Real)**

STANDARD		MORE DEVELOPED BEERS		MORE DEVELOPED PREMIUM BEERS	
BEERS OF R\$ 5		BEERS OF R\$ 8 TO R\$ 12		BEERS OF R\$ 13 TO R\$ 18	
INPUTS AND YEAST		INPUTS AND YEAST		INPUTS AND YEAST	
Subtotal (a)	398.40	Subtotal (a)	723.00	Subtotal (a)	1252.50
VARIABLE COSTS		VARIABLE COSTS		VARIABLE COSTS	
Subtotal (b)	187.00	Subtotal (b)	267.00	Subtotal (b)	270.00
TAXES		TAXES		TAXES	
Subtotal (c)	409.78	Subtotal (c)	693.00	Subtotal (c)	1065.75
<b>TOTAL (a+b+c)</b>	<b>995.18</b>	<b>TOTAL (a+b+c)</b>	<b>1683.00</b>	<b>TOTAL (a+b+c)</b>	<b>2588.25</b>

Source: Prepared by the authors.

And it was precisely at this time, at the end of 2015, that other establishments began to appear in the market that started to compete with The Factory in the city (Table 2). In addition, as the number of breweries grew across the country, there was a profusion of distributors who began persuading the owners of other houses to market their beers, and these establishments began to include craft beers on their menus, either in bottles or even in the chop shape. Another point is



that homebrewers have spread widely in the region following a national trend of home brewing of the beer itself, and these same homebrewers started to invite friends and organize confraternities, making their beers available for consumption.

That exclusivity of point of sale and consumption of craft beers that once was of The Factory happened to be of smaller intensity. In a market without great difficulties for the establishment of new establishments, the movement of competition emerged rapidly. In Table 2, it is observed that even in a market where the Consumer Potential Index did not advance, on the contrary, it retracted, the number of direct and indirect competitors jumped during the years of operation of the pub.

Table 2  
Current distribution of competition in the city of Brusque

2010		2015	
Potential consumption index	2,16426*	Potential consumption index	2,10623*
* For UF=100. Note: the variation occurred was R\$ 621,755,399.			
TYPE	QTY.	TYPE	QTY.
PUB's	2	PUB's	6
Theme bars and little pubs	2	Theme bars and little pubs	12
Hamburger house	1	Hamburger house	10
Bars and similar	25	Bars and similar	29
Steak Houses	0	Steak Houses	3
Specialty Shops in beers	0	Specialty Shops in beers	4

Source: Prepared by the authors based on primary data and IPC Maps (2015).

In addition, the potential consumption index (IPC) (IPC Maps, 2015) of cities near Brusque, such as Gaspar, Blumenau and Itajaí can be highlighted. With the exception of Gaspar, which had a CPI growth in the period 2010-2015 (0.85464 to 0.99260), Blumenau, the second largest CPI in the state (in 2015) and Itajaí the fifth largest, had a drop in the CPI in the same period (6.18474 to 6.04330, and 2.97338 to 2.97013, respectively).

## 5 NEW TIMES: WELL GOOD, NOW NOT SO GOOD

Time passed, the year was already 2016, and the stocking of the formerly ordinary house became less frequent. Of the 90 places that once filled the environment, it started to register an average of 50 reservations per night, sometimes a little less. Following weekly data and raising the numbers he had, João Paulo began to be worried because he was not sure why the fall of the movement.



Commenting with his wife, who sometimes assisted him on more busy days, he questioned:

*- Is it a lot of competition? Did this recession in the country affect people's purchasing power and the first budget cut is being at leisure? Are our beers not appealing despite the compliments? Is it the fault of the menu or the service? Or is it the fault of beer, do we need even more unique styles and more creative flavors proposals? We need to reverse this picture, but I do not know where to start.*

Table 3 shows data from the months in which The Factory offered the most elaborate beer list.

Table 3  
The Factory monthly data

MONTHS WITH THE MENU OF MORE DEVELOPED BEERS	FEBRUARY 2016	MARCH 2016	APRIL 2016	MAY 2016
Average cost (400ml glass)	R\$ 6.73	R\$ 6.73	R\$ 6.73	R\$ 6.73
Average value (400ml glass)	R\$ 9.80	R\$ 9.80	R\$ 9.80	R\$ 9.80
Contribution margin (average)	R\$ 3.07	R\$ 3.07	R\$ 3.07	R\$ 3.07
Contribution margin per week (with beers)	R\$ 957.84	R\$ 767.50	R\$ 859.60	R\$ 902.58
Average consumption per customer (in 400ml glass)	6	5	5	6
House storage	52	50	56	49
Average ticket	R\$ 68.80	R\$ 66.20	R\$ 63.90	R\$ 64.90

Source: Prepared by the authors.

The wife suggested having a meeting with the team and putting the situation on the agenda so that those involved in the process could help him or her understand the situation and who could point out improvements. And so João Paulo did it. During the conversation, he stressed to the team:

*- What do we need to improve? If he questioned and asked his team, João Paulo.*

The employees also suggested increasing the customer service team and investing more in advertising to attract more customers, points that João Paulo has to analyze as well. He believed that the recovery of the movement would happen through internal improvements, products and services, tastier snacks, desserts included in the menu, improvements in service and especially more special beers.



It was a Saturday morning in early August of 2016 and still seeking to put into practice the improvements in beers with the production of new styles, João Paulo was to evaluate the stocks to account for the liters he had. With the decline in pub movement, the stock was crowded. All the storage equipment was being used, but João Paulo needed to make room for both the refrigeration and the barrels of draft beer for the packaging of the new beers.

The month of August, historically was a month of least movement in The Factory. There was always a slight drop. So, João Paulo thought of some alternatives to reduce stock and commented with Jorge, his assistant:

*- I'm thinking of doing a promotion to try and decrease stocks. First why our product is perishable and also why I need to release the barrels for beer storage.*

Jorge replied:

*- Sale? I've never seen a beer promotion, but if you think it might work, we can try.*

João Paulo separated the stocked barrels that had been waiting for the longest time, which were the standard beer styles. These styles are part of a group of few styles that are made with basic ingredients and simpler production processes, so called standard. He assigned a total of two thousand liters for sale and for that sale he set the price at R\$ 5 and the following Monday when making the invitation, along with the menu of the week and the beer letter, he informed:

*- During the month of August, to commemorate 4 years of our renovation, we will have three taps with styles of beer at R\$ 5.*

It was the first Monday in August, the invitation was posted at 9:30am and to the surprise of John Paul at 8:00pm, when adding up the requests, he had to close reservations, since he had already reached the house, for the 3 days of the week.

That same week, beer consumption shot up, but only on those promotional taps. Clients were lined up to serve, requiring that the more expensive beers be disconnected to plug in more taps with beers for promotion. Only in the first week 400



liters were consumed during the three days. And the same scenario was repeated in the next two weeks. Exhausted reservations already on the day of the disclosure and record consumption during the service. Still, it is known that The Factory's installed brewing capacity is 3,000 liters per month. Table 4 shows the receipts of The Factory in the weeks that promoted the standard beers.

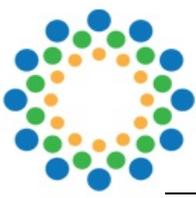
Table 4  
The Factory data in weeks, the month of the beer sale

WEEKS WITH BEER MENU SALE (STANDARD)	WEEK 1	WEEK 2	WEEK 3	WEEK 4
Average cost (400ml glass)	R\$ 3.98	R\$ 3.98	R\$ 3.98	R\$ 3.98
Average value (400ml glass)	R\$ 5.00	R\$ 5.00	R\$ 5.00	R\$ 5.00
Contribution margin (average)	R\$ 1.02	R\$ 1.02	R\$ 1.02	R\$ 1.02
Contribution margin per week (with beers)	R\$ 844.56	R\$ 881.28	R\$ 899.64	R\$ 856.8
Average consumption per customer (in 400ml glass)	9	9	9	8
House storage	92	96	98	105
Average ticket	R\$ 62.80	R\$ 65.20	R\$ 64.10	R\$ 61.75

Source: Prepared by the authors.

The first shipment of beers that had been separated for promotion was sold out in the second week. Other stock beers had to be separated, to hold the promotion throughout the month as promised to customers. In these promotion weeks the audience again changed and was made up of former pub customers and new customers who took notice of the promotion through friends but who did not understand much about beers and just wanted to drink in quantity and at the promotional price.

Already those customers who came to the pub, looking for more elaborate beers and who paid more for them, during this period of promotions, simply disappeared.



## 6 THE DILEMMA

With the value of R\$ 5, it would be impossible for João Paulo to produce different styles of beers, nor could he join the two public profiles in the house, satisfying both, since the productive capacity of the pub would not entail producing a significant amount of standard beers while producing a variety of more elaborate styles, both for the investment value and also for bureaucratic limitations regarding the litter limit for artisanal production accepted for pubs and similar establishments. João Paulo would have to decide: either one or the other. It was a difficult dilemma that would define the future of The Factory.

Talking with Matheus, his manager, showed his anguish:

- *We have to think about the pub's future, the sustainability of the business.*

- *I see that there are two clear paths, my boss.* It helped in the understanding the young Matheus.

- *Exact. In values, currently, the two proposals are equivalent, but what is better: focus on differentiation or price? Yes, and does it need to be analyzed in the sense of what will be the best option for the future of the pub? Which of the two proposals will make us survive in the market? Focus on the price and get customers' attention because we have the cheapest craft beers from Brusque or do, we focus on differentiation and added value and put ourselves as having a different proposal from what already exists in the market? I do not know what to do.*

- *But what I do know is that the consequences are: either we continue to produce and sell differentiated beers, special styles and charging more for the product, working for a more select audience but with less movement in the pub; or do we focus on producing cheaper beers, focusing on the final price, with less varieties and less complex styles, but with more movement and full house every week? I really do not know!*



**APPENDIX - 100-liter production cost of The Factory beers**

STANDARD				MORE DEVELOPED BEERS				MORE DEVELOPED PREMIUM BEERS			
BEERS OF R\$ 5				BEERS OF R\$ 8 TO R\$ 12				BEERS OF R\$ 13 TO R\$ 18			
INPUTS				INPUTS				INPUTS			
MALT	kg	R\$	COST (R\$)	MALT	kg	R\$	COST (R\$)	MALT	kg	R\$	COST (R\$)
Pilsen	16	5.00	80.00	Pilsen	18	5.00	90.00	Pilsen	21	5.00	105.00
Cara 20	1	9.00	9.00	Munich	1	8.00	8.00	Munich	1	8.00	8.00
Munich	1	8.00	8.00	Melano	1	8.00	8.00	Melano	1	8.00	8.00
				Cara50	1	8.00	8.00	Cara50	1	8.00	8.00
				SpecialB	1	9.00	9.00	SpecialB	1	9.00	9.00
				Biscuit	1	9.00	9.00	Biscuit	1	9.00	9.00
								Caramunich	1	9.00	9.00
HOP	g	R\$	COST (R\$)	HOP	g	R\$	COST (R\$)	HOP	g	R\$	COST (R\$)
Magnum	40	0.16	6.40	Magnum	300	0.16	48	Magnum	500	0,16	80.00
Saaz	50	0.30	15.00	Citra	200	0.50	100	Citra	300	0,50	150.00
				Amarillo	200	0.52	104	Amarillo	200	0,52	104.00
				Cascade	200	0.25	50	Cascade	300	0,25	75.00
				Simcoe	200	0.55	110	Simcoe	200	0,55	110.00
				Equanot	100	0.50	50	Equanot	300	0,50	150.00
								Mosaic	200	0,60	120.00
								Centennial	200	0,50	100.00
YEAST (fermentation)		R\$	COST (R\$)	YEAST (fermentation)		R\$	COST (R\$)	YEAST (fermentation)		R\$	COST (R\$)
Diamond (un)	10	25	250	Us05 (un)	5	19.80	99	Wyeast 1056 (un)	5	35.50	177.50
Water (l)	150	0.20	30	Water (l)	150	0.20	30	Water (l)	150	0.20	30
<b>Subtotal (a)</b>	<b>398,40</b>			<b>Subtotal</b>	<b>723,00</b>			<b>Subtotal</b>	<b>1252,50</b>		
VARIABLE COSTS				VARIABLE COSTS				VARIABLE COSTS			
ITEM	Qty	R\$	COST (R\$)	ITEM	Qty	R\$	COST (R\$)	ITEM	Qty	R\$	COST (R\$)
Gas (cylinder un.)	1	30	30	Gas (cylinder un.)	1	60	60	Gas (cylinder un.)	1	60	60
Manpower (1 employee)	1	137	137	Manpower (1 employee)	1	187	187	Manpower (1 employee)	1	190	190
Electricity			20	Electricity			20	Electricity			20
<b>Subtotal (b)</b>	<b>187.00</b>			<b>Subtotal (b)</b>	<b>267.00</b>			<b>Subtotal (b)</b>	<b>270.00</b>		
<b>Taxes (c)</b>	<b>409.78</b>			<b>Taxes (c)</b>	<b>693.00</b>			<b>Taxes (c)</b>	<b>1065.75</b>		
<b>TOTAL (a+b+c)</b>	<b>995.18</b>			<b>TOTAL (a+b+c)</b>	<b>1683.00</b>			<b>TOTAL (a+b+c)</b>	<b>2588.25</b>		

**7 TEACHING NOTES**

The teaching notes were prepared for the exclusive access of the teachers. This is a document that contains the characteristic of a "class guide" with considerations of how to conduct a lesson with this teaching case.



## 7.1 Data source

The information to elaborate this teaching case was based on the experience of the authors in management and consultancies made during their academic and professional careers. The company referred to in the case is fictitious, and has no registration. The characters created to form plot for the case. The script and events are real situations experienced by the authors.

The information and data of the tables are also true, when transcribed were adapted in a way to form a plot to achieve the methodology of a teaching case. The case was tested in a research group of graduate level, being participants of this, professors' doctors, masters and doctoral students. After the test, the case was improved based on the comments and suggestions received.

## 7.2 Learning Objectives

The presented case is indicated for undergraduate and postgraduate students, of courses of Administration and Management. It can be applied in the disciplines of Strategy and other correlated ones. If it is used for undergraduate students, it is suggested to read in full the references used in the construction of the case.

The present case was developed with the following objectives in order to base the theoretical discussion of the case and to provide, through the discussion, the learning about:

- Provide a discussion about the strategic positioning of a company that undergoes changes in scenarios, resulting from market contexts.
- Demonstrate to students the need to understand the concept of differentiation in relation to the various market elements such as products, service, environment and the concept of added value so that the company's proposal becomes more attractive than those of its competitors.



- To develop in students the capacity of reading the environment to identify competitive advantages that can be exploited in the face of competition, according to Porter's theory of competitive forces (1985).
- Evaluate, based on the information proposed in the case, which of the strategies (cost leadership or differentiation) will be more coherent for the company to be able to sustain itself in the market in a sustainable and profitable way.

### 7.3 Suggested Discussion Questions

#### Positioning Axis

1) From the point of view of Porter's strategic positioning (1996) strategy is to carry out activities differently or to perform activities different from those of rivals. At what points in the case did The Factory take advantage of this understanding?

2) Porter (1996) defined three forms of positioning: variety, need, access. Which one was used by João Paulo in The Factory? Why? It would be possible to combine the three?

3) What is the main motivator of João Paulo's dilemma in what strategy to use with beers (price or differentiation)? What are the positives and negatives in adopting the differentiation strategy? And the price strategy?

#### Strategy Axis

1) Why in the case of The Factory, for each of the strategies (price or differentiation) were the audiences different?

2) Based on Strategic Clock of Faulkner and Bowman, answer: a) In which quadrant was the brewpub when you started the activities? b) When did you start the promotion period? and c) In which quadrant of the strategic watch would John Paul position his business to keep the business enduring?

3) Using Porter's generic strategies or the Strategic Watch, identify examples of organizations following strategies of differentiation, low cost or low price, and in the middle or hybrids. How successful are these strategies?



## 7.4 Suggestion for class plan

As support for the professor, in the application of the case in the classroom, two suggestions for application of the case in the classroom are presented. Firstly, the following script is suggested, which is separated by section of the case. It is important to ensure that students carefully read the case prior to class. If this is not possible, you can set aside a time of 20 minutes at the beginning of the session for the students to read in the classroom. The suggested class plan (Table 1) is based on questions that can be used by the professor at all times in the main sections of the case.

QUESTIONS	SECTION
General presentation of the case, detailing its objectives and the dilemma.	Brief
In order to situate the criticality of the decisions made ahead, it is important to address the context. 1. What was going on differently in the scenario? 2. Were there better or worse prospects? 3. Is it possible to identify the decision that João Paulo would have to make?	Contextualization
Conceptualizing business, house, brewpub. 1. Is the differentiation strategy perceived by describing the elements of characterization of the house? 2. According to the text, do the differentiation proposals fulfill their role in order to differentiate The Factory in the market? 3. Has the owner put together an ambition proposal that is consistent with the target audience?	The House
Historical backgrounds are brought to class knowledge 1. Can João Paulo be considered an entrepreneur? 2. With the renovation, the number of places in the pub has increased. Is there an ideal number of stocking, according to the positioning of the house? 2. Was the decision to change the profile of the products correct with the perception that a new public came to attend the pub? 3. What was the strategy at the moment? Price or differentiation?	How it all began
The market is the main motivator for The Factory's strategic decision. 1. What was more important at the time, the positioning decision or worry about the competition? 2. Was there any feature that belonged only to The Factory?	Consequences of Changes and Market Movements
In this section, there is a decrease in results due to changes in product strategies combined with the intensification of competition. 1. Was João Paulo rightly concerned? 2. What decision would you make knowing about current events? 3. Why, in such a short time, has there been such a large increase in the size of the competition? 4. What strategy did João Paulo adopt to try to fill the house again? 5. So all customers just want to know the price? 6. Could João Paulo only work with low-priced beers in order to fill the house?	New times: Well good, now not so good
Finally, the dilemma is clearly presented through history. 1. What was João Paulo's long-term goal? 2. Was it clear whether the owner would earn more by filling the house than by offering differentiation? 3. What is the most appropriate strategy for the perpetuity of the business?	The dilemma

**Figure 2. Class plan by section**



Source: Prepared by the authors.

As a second suggestion, we present an alternative class plan, which can promote the discussion of the case in a more comprehensive way, taking into account the profile of the class, the number of students, among other characteristics.

ESTIMATED TIME	ACTIVITY	MOBILIZED CONCEPTS
10-20min	General presentation of the case, detailing its themes and main struggles.	Goals
30-40min	Discussion on the decisions made.	Context of the event from the opening of The Factory to the conflict of choice.
60-90min	Suggestion 1: Group formation. Distribution of questions to groups. They are asked to oppose or oppose the decisions of the company when answering the questions. Suggestion 2: Creation of groups, multiples of two, questions selected and distributed by the teacher. Half of the class is responsible for responding favorably to the price strategy and the other party responds favorably to the strategy of differentiation. At the end, a predominant outcome is sought, in which the teacher can insert the hybrid strategy as an innovative alternative.	Strategic Positioning Differentiation Leadership in Cost/Low Price
20-30min	Closing the class with reflection of the actions performed, other possible solutions and other hypotheses suggested by the class.	Decisions of brewpub, based on long-term business maintenance goal.

**Figure 3. Alternative class plan**

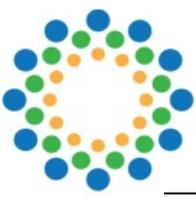
Source: Prepared by the authors.

## 7.5 Case analysis with targeting of answers to suggested questions

### Positioning Axis

1) *From the point of view of Porter's strategic positioning (1996) strategy is to carry out activities differently or to perform activities different from those of rivals. At what points in the case did The Factory take advantage of this understanding?*

It was used the search of people for more exclusive places, beginning with the establishment have a concept of nature, environment that sent relaxation. Bottles have been brought in with labels from around the world decorating shelves, as a way to showcase the accompaniment of the beer market. The client sought greater freedom, and so it was created is the system that the customer himself serves, removing himself beers from the coffins and filling their glasses.



2) Porter (1996) defined three forms of positioning: variety, need, access. Which one was used by João Paulo in The Factory? Why? It would be possible to combine the three?

The need was in the demand that people were looking for, something hitherto hard to find in the city. João Paulo elaborated a mix of Porter's three forms of positioning (1996), as can be seen from the table below, which also shows the application of each of the forms in The Factory's business.

MODE	MEANING	ENFORCEMENT
Variety	Rely on the production of a vast array of products or services from an industry.	For its various styles of beers, combined with the house burgers and steaks.
Needs	Serve most or all of the needs of a specific segment of consumers.	In the price segment, you gained consumers who drank by quantity, and in differentiation, those who prized for more elaborate beers beyond manufacturing know-how.
Access	Target customers who are reachable in different ways.	There are two segments created: (i) low priced beers and (ii) more elaborate beers with different styles, flavors and aromas.

**Figure 4. Positioning shapes**

Source: elaborated by the authors based on Porter (1996).

3) What is the main motivator of João Paulo's dilemma in what strategy to use with beers (price or differentiation)? What are the positives and negatives in adopting the differentiation strategy? And the price strategy?

The market began to have people who excelled at the more elaborate beers, and at a higher price, there was less movement. This fall of the movement that provoked a "snap" in João Paulo's thought, to the concern of fewer people, and how sustainable this would be for the longevity of the business.

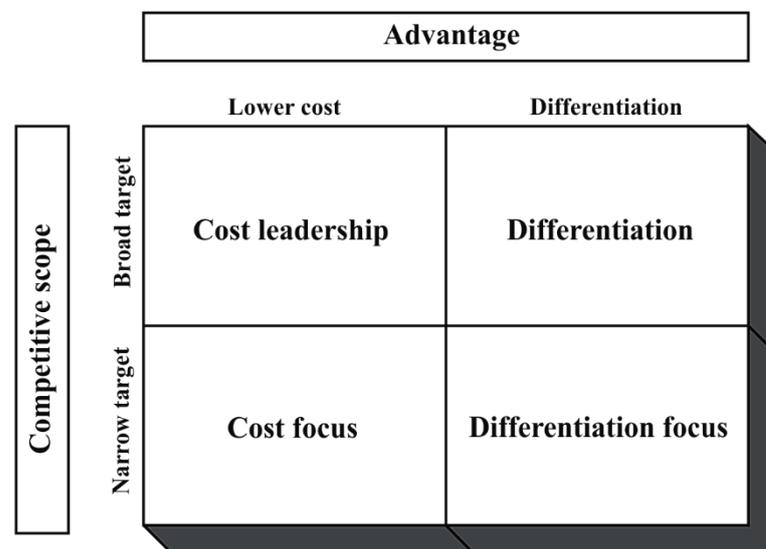
### Strategy Axis

1) Why in the case of The Factory, for each of the strategies (price or differentiation) were the audiences different?



The people who consumed for price, did not care for new flavors and style. They attended only for the price of the glass. They wanted to drink in quantity. However, the customers who stayed or even those who started to go home when there was a letter of the most elaborate and premium beers, they valued the pleasure of a special craft beer, enjoying flavors, aromas and styles.

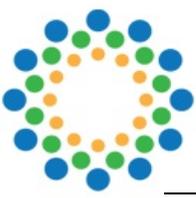
Porter (1985) argues that there are two fundamental ways to achieve competitive advantage. An organization may have structurally lower costs than its competitors, or it may have products or services that are differentiated from competitors' products or services so valued by customers that it can charge higher prices that cover the additional costs of differentiation. For a company to outpace rivals should preserve a unique feature will have to provide greater value to consumers, that is, differentiation, or create value at lower costs. Providing more value allows you to charge higher prices. Greater efficiency means lower unit costs. A trade-off was thus created. (Porter, 1996).



**Figure 5. Generic competitive strategies**

Source: Porter (1986).

Trade-offs arise for three reasons: The first is inconsistency in image or reputation. Second because they require different product configurations, different equipment, different employee behavior, different skills and different management



systems. And third, trade-offs arise from the limits on internal coordination and control. By choosing to clearly compete in one way rather than another, the most valuable suitability is strategy-specific because it optimizes position uniqueness and widens trade-offs (Porter, 1996).

*2) Based on Strategic Clock of Faulkner and Bowman, answer: a) In which quadrant was the brewpub when you started the activities? b) When did you start the promotion period? and c) In which quadrant of the strategic watch would John Paul position his business to keep the business enduring?*

When the company was born, the strategic focus was on differentiation. With the promotion period, the targeting started to focus on the low price of beers. As for the most appropriate quadrant, the teacher receives the clock in these notes, which suggests that, according to the lesson plan, insert after the discussion of differentiation or price, through a more innovative positioning for the company, in the middle of this dilemma.

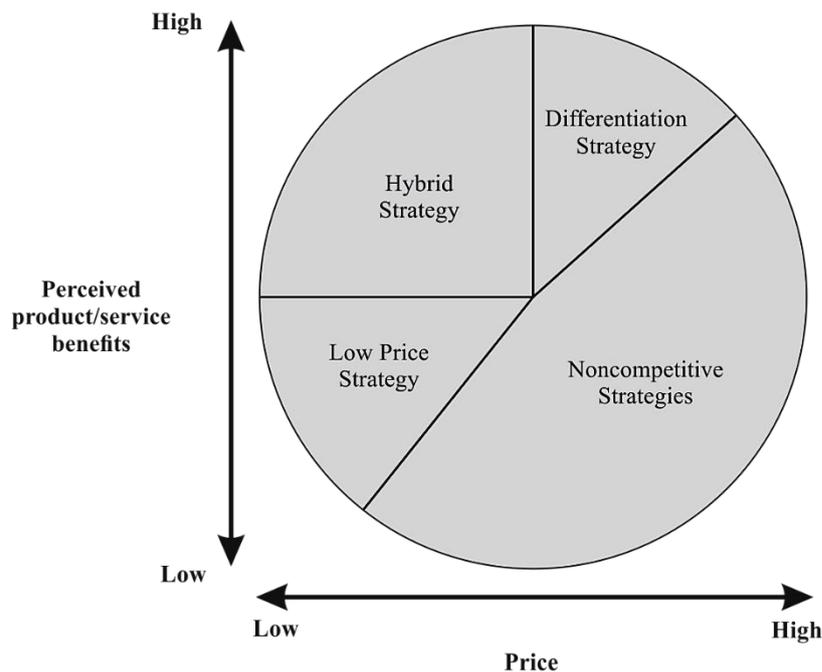
The Faulkner and Bowman (1995) approach to the Strategic Clock translates that the focus on price rather than cost alone and its scope for incremental adjustments in strategy provide a more dynamic view of strategy than Porter's generic strategies. Rather than organizations being reasonably fixed in terms of cost or differentiation strategy, they can move around all the time.

According to Porter (2007), there is considerable evidence that many companies consciously operate a hybrid strategy combining low-cost differentiated products or services and, instead of being stuck in the middle, they are highly successful.

In this sense, the Strategic Clock provides another way of approaching generic strategies, (as illustrated in Figure 2), gives more scope for hybrid strategies. There are two features: the first is focused on prices for customers rather than costs for the organization: because prices are more visible than costs, the Strategic Clock may be easier to use in comparing competitors. Second, the circular clock design



allows for more continuous options than Michael Porter's sharp contrast between cost leadership and differentiation: there is a full range of incremental adjustments that can be made between the 7-hour position at the bottom of the low-price strategy and 2-hour position at the end of the differentiation strategy. Organizations as they adjust their prices and differentiations can wander 24 hours a day (Johnson et al. 2016).



**Figure 6. Strategic clock**  
Source: Adapted from Faulkner and Bowman (1995).

For example, an organization can start with a low-priced strategy to gain market share, later switch to higher price differentiation with the premium strategy in order to reap profits, and then return to a hybrid strategy for defend of new participants. However, Porter's generic strategies remind managers that costs are critical.

Unless an organization has a certain cost-benefit advantage (such as economies of scale), a hybrid strategy of highly perceived benefits and low prices is unlikely to be sustainable for a long time (Johnson et al., 2016).



3) *Using Porter's generic strategies or the Strategic Watch, identify examples of organizations following strategies of differentiation, low cost or low price, and in the middle or hybrids. How successful are these strategies?*

We come up with two examples of big companies. Apple (a US multinational company that designs and markets consumer electronics) is positioned for differentiation strategy, while Ryanair (Europe's largest low-cost airline) is positioned for the low-cost leadership strategy price.

Leadership in cost is about minimizing the cost to the organization of delivering products and services. It involves being cost-effective in your market. Just being among the lowest cost producers is not good enough because you are left open to attack by other low-cost producers who can hurt your prices and therefore block your attempts to increase market share.

On the other hand, differentiation involves making your products or services different and more attractive than those of your competitors. How you do this depends on the exact nature of your industry and the products and services, but generally involves features, functionality, durability, support and also brand image that your customers value. Organizations need to stay agile with their new product development processes (Porter, 1986).

## **7.6 Suggestions for closing the case**

As a closing of the case, the teacher may come across some alternative strategies for John Paul, other than choosing between cost strategy or differentiation. However, the teacher should pay attention to chapter 6 in particular, which brings different information that directly impedes the possibility of profits by economies of scale or even to resort to financial institutions for investments.

The professor could also discuss the topic of pricing in order to bring the discussion more to the side of adding value to the glass, and not just in the discussion versus cost versus markup. This axis of discussion would take advantage

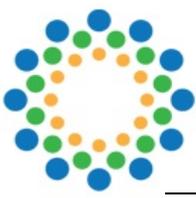


of the varied segments of customers, such as those (a) coming for food rather than beer; (b) some of the customers have a more elaborate knowledge of specialty beers; and (c) customers who like the atmosphere of freedom that The Factory system provides, since they are all embedded as Pub's strategy in a market of originally differentiated products. Therefore, it is recommended the three works below.

Bernardi, L. A. (2017). *Formação de Preços - Estratégias, Custos e Resultados*, 5ª Ed., Atlas.

Smith, T. J. (2012). *Pricing Strategy: Setting Price Levels, Managing Price Discounts, & Establishing Price Structures*, Cengage Learning.

Zale, J., Hogan, J., & Nagle, T. (2016). *The Strategy and Tactics of Pricing*, 5<sup>th</sup> Edition, Routledge.



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