

From Bland to Grand: Path Creation and The Rise of Craft Beer

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ABSTRACT

The rise of craft beer in the United States reflects the interplay of demand-side and supply-side forces. Most studies of this development have focused on the supply side, discussing the key role played by entrepreneurial brewers. Yet, an equally important part of the story concerns how and why consumer tastes changed away from mass-produced lager-style beer in favor of the wide range of styles developed through the craft beer revolution. This paper develops a path creation analysis to explain how and why craft beer emerged in the United States.

KEY WORDS

Path Dependency; Path Creation; Brewing; Craft Beer

For much of the 20th century, American beer made headlines more for its consistency than its taste or flavor. While economists often lauded the industry for its size and operational efficiency, many consumers and brewers lamented the boring sameness of its best-selling brands. Eric Idle, in a famous 1982 Monty Python routine, joked that American beer was like making love in a canoe since both were “f***ing close to water.” A few years later, Michael Jackson (1988), a well-known English beer journalist, echoed this sentiment, though in slightly more polite language, asserting that “[The big U.S. brewers] first intention is to win widespread acceptance. They seek to offend no one, therefore offer little to excite anyone. Should any drinker nonetheless become excited, there is always the option of an even lighter-bodied version of the same style.” A decade later, the prominent US industrial economist, F.M. Scherer (1996) continued this critique, writing that “the leading U.S. premium brewers have deliberately chosen formulas sufficiently bland to win a mass following among relatively inexperienced consumers and (through repeat purchase) consumers acculturated to bland beers.” More recently, Choi and Stack (2005), set out to explain how and why “American beers...become less flavorful and less distinguishable during the 20th century.”

Yet, in a completely unanticipated development, the seeds of a beer revolution had begun to take root in the US during the 1970s and 1980s. Drawing inspiration from fuller-bodied, more flavorful European beers they had tasted while traveling abroad or had consumed in the US as imports, a handful of entrepreneurs opened what came to be called microbreweries, very small operations typically brewing hundreds or thousands of barrels of beer as opposed to the tens of millions of barrels brewed by large scale industrial operations. Rather surprisingly, microbreweries slowly caught on and by the 1990s and 2000s, they had spread throughout much of the US. In an amazing turn of events, by the 2010s, many of the world’s leading beer commentators argued that the US, once mocked for the homogenization of its mass-produced beer, had emerged as the world’s most varied and interesting beer market. The speed of this development was quite amazing: by the mid 2010s, craft beer accounted for more than 10% of volume of sales and close to 25% of the total value of sales.

Yet, thus far, discussions of this revolution have focused more on the what than the why. Elzinga et al (2015) and Elzinga et al (2017) discuss the craft beer revolution, but reflecting their roles as industrial organization economists, they focus primarily on supply side factors. Hindy (2015) and Acitelli (2013) provide excellent general overviews of the craft beer revolution, but again, the focus is more on supply than demand. Hindy writes from his perspective as a cofounder of Brooklyn Brewery while Acitelli examines this development as an informed beer journalist. Both books provide detailed chronologies of the who, what, and where of the US craft beer revolution; however, they do not focus as much on the why: how did a nation that had developed a well-known taste for bland beer suddenly go in the opposite direction and become host to (arguably) the most diverse, most unique, most creative beer scene in the world? To help answer this question, this paper situates the craft beer revolution within the broader context of changing attitudes and understandings about food and drink in the US during these years. It examines developments involving brewers, consumers, and other complementary forces which combined to help foster this radically new market.

The article begins with a brief overview of the concepts of path dependency and path creation and it then explores how these ideas can help account for the emergence of the craft beer revolution in the US.

PART I: FROM PATH DEPENDENCY TO PATH CREATION

Social scientists have introduced a raft of models and techniques to study markets. Many standard economic models have been criticized for being ahistorical (for not exploring how and why a market changes over time) and for assuming a high degree of market efficiency (that natural forces automatically lead to superior market allocations and efficient outcomes). An alternative approach to studying market developments come through the literature of path dependency and path creation. Path Dependency stories focus on how inefficiencies and sub-optimality can become

locked-in as industry standards, while Path Creation analyses highlight the role entrepreneurs play in shaping new market boundaries and possibilities. Insights from both of these lines of thought can help explain the how and the why of the craft beer revolution.

Paul David (1985) and Brian Arthur (1989, 1990) published the first path dependency papers: the basic assertion in these and related essays is that suboptimal or inefficient technologies can become locked in as industry standards and, in instances where there are significant network effects, these inefficiencies may persist for extended periods of time (Garud et al., 2003; Stack and Gartland, 2003).

During the 1990s, Robin Cowan provided additional examples to support David and Arthur's work (1990, 1996). In his 1990 essay on nuclear power reactors, he argues that light water reactors emerged as the dominant technology despite the fact that it was "not the best technology, either economically or technically" (Cowan, 1990, p.541). Cowan asserts that when there are competing technologies and strong increasing returns, sub-optimal technologies may become locked-in as industry standards (Cowan, 1990).

While the path dependency literature is best known for these examples of technology lock-in, there are in fact two other important dimensions of path dependency: regulatory lock-in and behavioral lock-in. Malone & Gomez (2019) examine the market for hemp in the US and explain how and why the particular regulatory system for hemp emerged in the US. They show why hemp, a product described by some as "no more harmful than industrial switchgrass" came to be classified and regulated as a Schedule 1 drug (Malone and Gomez, 2019). As a result, they conclude that although there is broad bi-partisan and industrial support for reclassifying hemp, the regulatory lock-in that has been set in place for over seventy years has proved very difficult to overcome. Regulatory lock-in can prove just as difficult to overcome as technical lock-in.

A third type of lock-in deals with institutional, firm, and individual actions. Behavioral lock-in occurs when a producer or consumer becomes "stuck" in some sort of inefficiency or suboptimality due to habit, organizational learning or culture. Once a product has become established as an industry standard, and once consumers or users have invested time or money in learning a particular system or becoming comfortable with a traditional practice, they will be less likely to try a rival process, even if over time it proves superior.

Historians and sociologists of food have argued that people develop deep-seated roots to the particular foods, tastes and flavors they grow up with (Hess and Hess, 1977; Levenstein, 1993). As a particular food or beverage takes root in a culture, it can become very difficult to alter prevailing perceptions about what this product is and what it could or should be. This may diminish the willingness of consumers to try new foodstuffs, especially if they look, smell and taste different from more familiar offerings (Krugman, 1998). Stack et al (2016) utilized a path dependency model to explain how the lock-in of brand preferences in national beer markets has impeded efforts to create truly global beer brands. They showed that while a handful of breweries have grown into very large global breweries, the strong cultural preference for beer brands that consumers grew up with has stymied the emergence of true global beer brands.

While path dependency stories are tremendously important for highlighting the role of history and for showing that sub-optimal processes may become locked in as industry standards, some scholars have developed a related line of thought that they have termed path creation. These authors seek to combine the insight of sub-optimal lock-in with an emphasis on the active role firms play in shaping their external environments. This perspective highlights the role of entrepreneurs and firms in shaping and interacting with their environments (Garud and Karnoe, 2001).

Two ideas in particular help differentiate path creation from path dependency; real time influence and mindful deviation. In contrast to path dependent stories, path creation narratives focus on the real time effects firms can have on their surroundings. According to Garud and Karnoe, "entrepreneurs meaningfully navigate a flow of events even as they constitute them . . . entrepreneurs attempt to shape paths in real time, by setting processes in motion that actively

shape emerging social practices and artifacts, only some of which may result in the creation of a new technological field” (Garud and Karnoe, 2001). This is quite different from the post-hoc explanations that characterize path dependent arguments.

In addition, path creation accounts highlight the process of mindful deviation. As noted above, path dependency does not focus on how entrepreneurs may actively shape their environment. By mindful deviation, path creation writers mean that entrepreneurs often need to change the endogenized social practice, regulations or institutions away from an accepted, comfortable or optimal structure. For example, the first generation of craft brewers who wanted to establish brewpubs (restaurants which also produce their own beer) had to change state regulatory laws which did not allow beer producers to also sell their beer directly to consumers.

According to path creation, the new technologies and production processes that win out in the marketplace reflect the dynamic interplay of producers, consumers, and regulators. According to this line of thought, industry analysis must be guided by detailed historical overviews of particular markets. It is not enough to assert that inferior technologies have become locked-in as industry standards; rather, the goal must be to demonstrate how strategic groups of firms or particular firms have interacted with their buyers, suppliers, and regulators to enable them to standardize what may have been and continues to be a substandard product or technology. Consequently, path creation stories highlight the active role of the entrepreneur and the firm, for it is these actors that help shape the evolution of markets and the rules by which markets operate. In essence, path dependency has the entrepreneur passively on the outside looking in, while path creation has the entrepreneur actively on the inside looking out (Stack and Gartland, 2003).

Path Creation has played a very important role in bringing firm agency into the story; however, existing path creation stories may be faulted for focusing mostly on the supply side of the equation and not devoting a commensurate amount of analysis to the demand side. New paths require buyers and sellers, and a key question that emerges is why buyers are willing to break from their established patterns in favor of a new product. This is particularly important in the area of food and drink when consumer tastes have developed over decades (even centuries in some cases), and efforts to explain changing consumer preferences most go beyond the role of entrepreneurs: that is, analysis of the supply side is necessary but not sufficient.

The rise of craft beer in the US clearly shows that the path dependent lock-in of bland, homogenous beer has been broken; the craft beer revolution can be viewed as a new path in which consumers increasingly value a wider array of beer styles and flavors. Yet, this process should not be viewed as the inexorable result of successful entrepreneurs creating a new supply for which demand miraculously emerged. The emerging market for craft beer in the US reflects the interplay of a number of forces, some operating within the traditional market for beer with others unfolding at a broader social level.

PART II: FROM PATH DEPENDENCY AND BLAND BEER TO PATH CREATION AND CRAFT BEER

In their analysis of the post-Prohibition US beer market, Choi and Stack (2005) highlighted the active role breweries played in helping to create and foster a demand for a particularly American type of beer. They examined a series of steps taken by a small set of firms that, in combination with a series of broader social and technological developments, helped lock-in a preference for blander, more generically-tasting, beer. Their story, though, basically ends in the 1980s: at this point the direction of the US beer market seemed pre-ordained and the only real question concerned the relative market share of the three largest breweries (Anheuser Busch, Miller and Coors) which collectively accounted for over 80 percent of total sales. Yet, in a development no one really anticipated, the 1980s and 1990s represented the last decades of beer monopoly and beer monotony in the US.

The Supply Side

Since path creation theorists have typically focused on the steps entrepreneurs have taken to (re)shape their competitive environment, this analysis will also begin on the supply side. From the vantage of craft beer's recent successes, it is sometimes hard to remember the amazingly humble roots of the craft beer revolution. It truly began with one very small brewery and it then took over a decade before any additional craft breweries entered the market. Fritz Maytag, the founder of Anchor Steam Brewing in San Francisco, is widely acknowledged to be the father of American craft beer. Anchor Steam produced a number of beers that greatly influenced the first generation of craft breweries in the US in the 1980s and 1990s. Closely following Maytag in importance are Ken Grossman, who established Sierra Nevada in 1981 and Jim Koch, who started Boston Beer Company in 1984. Grossman and Koch, in turn, both inspired many of the craft breweries that followed, though they took radically different paths on their way to market success. Koch was trained as both a lawyer and an MBA and was working as a consultant at BCG before forming Boston Beer Company. He pioneered the contract brewing model where he outsourced the physical brewing operations and concentrated his energies on branding and marketing (Koch, 2016). Grossman, by contrast, started as a homebrewer who was able to slowly but steadily expand his business behind excellent products and shrewd business dealings (Grossman, 2013). In direct contrast to Koch, Grossman notes in his memoir that he did not want Sierra Nevada to invest in marketing and advertising early on, viewing such expenditures as distractions from the real goal: brewing great beer.

What Koch, Grossman and other early craft brewers shared in common was a frustration with the dominant homogenous beers in the US and a desire to offer something different. Collectively, these pioneering craft breweries helped to mindfully deviate from the established rules of the beer market. They offered a radically different type of beer and they challenged prevailing business models regarding how to get their beer to market; however, in this instance supply did not automatically create its own demand.

The Demand Side

While it is tempting to think that the biggest challenge to changing the market for beer in the US was simply to have entrepreneurs like Maytag, Grossman, and Koch work their magic and start selling their new beers, in fact, the biggest stumbling block to this reordering came from seventy years of entrenched consumer preferences for a specific style of beer. Over the course of the 20th century, beer, more than many products, came to have significant cultural and social allegiances. Many American beer drinkers developed deep brand loyalty during the middle-late 20th century, and the fact that most of them couldn't differentiate between competing brands in blind taste tests did not seem to matter in the marketplace. This presented the first generation of craft brewers with a tremendous challenge: even if they could successfully figure out how to brew quality craft beers and get them to market, would consumers drink them?

The craft beer revolution required both a new set of entrepreneurs and a changing consumer mindset. The issue of how and why tastes change is complicated, but two sets of interconnected factors helped shape changing consumer attitudes in the market for beer. The first set of factors reflect developments within the beer market while the second set reflected broader social-cultural developments. Part of the reason path creation stories have traditionally focused on the supply side is that it is relatively easier to identify and discuss the roles played by key producers: explaining why some brand-loyal consumers began to explore quite different alternatives is not nearly as straightforward.

There are three particularly important factors that helped contribute to changing consumer preferences within the beer market: a) the legalization of home brewing; b) the expanding portfolio of importers and distributors; and c) the quality and broader availability of beer journalism. In 1978, President Carter signed legislation that legalized home brewing: following the repeal of Prohibition, home brewing was technically illegal in the US, though small levels of home brewing

were tolerated. After 1978, however, the hobby and business of home brewing exploded in the US, and many consumers tasted their first craft beers at home. The home brew movement grew significantly following Charlie Papazian's publication of his highly influential *Complete Joy of Homebrewing* in 1984, a book that influenced future craft brewers and consumers looking for something different.

While discussions of the craft beer revolution typically focus on the birth and growth of US craft breweries, during the 1980s and 1990s, imported "craft" beers from the UK, Belgium and Germany played a very important role in exposing many Americans to new and different beer flavors and styles. During these formative years of the craft beer revolution, the annual production and geographic reach of America's new breweries was quite limited: more American beer drinkers had access to the increasing range of imported beers. While imported beers were not new, in the 1980s and 1990s, two importers in particular began to bring in a series of beers that were quite different from the light lagers that had dominated this market segment: Merchant du Vin in Seattle and VanBerg & DeWulf in New York.

Charlie Finkel founded Merchant du Vin in 1978 and he introduced several distinctive beers into the US including Samuel Smiths from England, Orval and Rodenbach from Belgium, and Ayinger and Pinkus from Germany. Don Feinberg and Wendy Littlefield founded Vanberg & DeWulf in 1982. A bit different from Merchant du Vin, they focused exclusively on Belgian beers, though they readily acknowledged the challenges with this strategy. Reflecting back on their experiences in the 1980s they explained: "It was the dark ages. People couldn't care less. Distributors actually spit out sour beer we presented to them, saying 'Don't ever bring me anything like that again!' Slowly, we were able to educate and expose people to the great brews of 'The Beer Country.'" (DrinkingBelgianBeer.com, 2013). Discussions about changing consumer preferences often gloss over how it happens, how slow it is, and how difficult it is for the pioneering firms.

Finally, the emergence and rapid growth of quality beer journalism helped inform and entertain consumers looking to better understand how the market for beer was changing. While writers had been chronicling wine, wineries, and the market for wine for decades, this type of analysis only began for beer in the 1980s and 1990s. Michael Jackson, a British writer, pioneered serious and systematic beer journalism. Combining a voracious curiosity with a detailed understanding of beer and beer styles, his writings introduced brewers and drinkers throughout the world to the wide array of beer traditions, many of which were scarcely known outside of their local community. In 2011, *Brewery History (BH)* dedicated an entire issue to the impact Jackson and his writings had on the development of craft beer. Jackson was a skilled writer, a great story-teller, and his influence cannot be underestimated: in some ways, he was as influential on the demand side as Fritz Maytag was on the supply side. Over time, a number of other talented writers entered the field, and through these collective efforts a growing number of consumers began to learn about brewing, techniques, and styles through expertly written and produced magazines, books and videos.

However, as important as these industry-level developments were, it can be argued that an even more transformational process was unfolding at a broader socio-cultural level. Several writers have discussed the wide-ranging changes that transformed food and drinking tastes and trends in the US over the 20th century (Hess & Hess, 1977; Kamp, 2007; Levenstein, 1993). Beginning in the early 20th century, Americans slowly but steadily came to prefer the convenience of packaged (frozen, canned, bottled) foodstuffs over fresh. Large processed food companies helped transform American cooking and eating habits over the course of the 20th century; it is not surprising that mainstream American beer become more homogenous and more dependent on branding during this period (Choi and Stack, 2005). However, beginning in the 1970s and 1980s, new trends emerged in American cooking. The increasing number of farmers markets, the emergence of farm-to-table restaurants, the popularity of cooking shows and celebrity chefs combined to redefine food preferences. The emergence of the craft beer revolution cannot be understood apart from

these broader social and cultural changes. In fact, the influence was two-way: for some consumers, their exposure and interest in craft beer heightened their willingness to try new foodstuffs.

PART 3: CONCLUSION

This paper has set out to explain how and, more importantly, why tastes for beer have changed in the US. It is clear that craft beer represents a clear and decisive break from the homogenized, industrial lager that dominated the market for decades following the repeal of Prohibition. However, most discussions regarding the rise of craft beer have focused on the supply side. This risks a Field of Dreams, “if you brew it, they will drink it” interpretation of this phenomena. While craft beer entrepreneurs were obviously an essential part of this process, the creation of this new path required commensurate developments on both the supply and demand side.

Stack (2020) discusses the interesting case of the Celis brewery in Austin, Texas in the 1990s. Pierre Celis was an important brewer in Belgium who helped revive the traditional witbier at his Hoegaarden brewer. In the early 1990s, Celis moved to Austin, Texas where he opened a new brewery. While his beers won critical acclaim--Michael Jackson awarded the Celis White, a perfect 4-star rating (Kitsock, 2011), the brewery was not successful, and it closed in 2000. The following year, a reporter argued that consumer tastes in Austin and Texas during the 1990s were not ready for Celis: “the kind of beer Texans overwhelmingly prefer is the antithesis of the kind of beer Pierre Celis spent his life perfecting” (Lisher, 2001). According to this article, Texas was simply not a good market for craft beer. It is fascinating to look back and reflect on how quickly and significantly the US craft market has changed. Today, Austin is home to several highly regarded microbreweries, most notably Jester King which was founded in 2010, a decade after Lisher’s article. Jester King specializes in beers fermented with wild yeasts, a style that is seemingly much more challenging than Celis’ white ales. The failure of the Celis Brewery is an important reminder that during the 1990s, craft beer culture in the US was still relatively undeveloped. That a world-class brewer producing award winning beers failed in a city that a decade later was famous for boutique breweries shows how rapidly craft beer culture and awareness can evolve.

The history of Celis brewery is a cautionary tale for path creation stories that focus too much on the supply side of the equation. The creation of a new path in areas such as beer require balanced stories that integrate producers and consumers and that incorporate the interplay between broader social and cultural forces with internal market dynamics.

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