



Black Sheep Breweries A: A Leadership Challenge

Case Study

*This case was written by **Scott Andrews**, International Case Tutor and Senior Management Consultant with SMART Partners. It is intended to be used as a basis for group discussion rather than to illustrate either effective or ineffective handling of a management situation.*

It was derived from published materials and personal experience, incorporating research conducted for Scott Andrews, now published at the Royal Agricultural College, Cirencester.



It is hard to imagine that so much activity could thrive around such a tiny village in the heart of the Yorkshire Dales in Northern England. Masham had always been an important landmark for UK brewing and the establishment of Black Sheep Breweries in 1992 had encouraged this long-standing tradition to continue.

You only had to take a sip of the cool brown ale to slip away into a nostalgic haze between reality and the rural idyll. However, times change and the dynamics of the UK brewery industry bring you reeling back to your senses, as Paul Theakston, company director, knows only too well:

"The Big Boys are fighting for market share, and therefore the discounts out there in the trade are becoming quite outrageous. We can't even begin to play in that game, but, nonetheless, we are having to stay in touch with it. It's a relativity thing."

The History of the Business

The story of the Black Sheep brewery is a true depiction of a 'country' brewery, in contrast with the macro-brewers or what Theakston termed " *the Burton and London biggies*." The brewing of all their beers used very traditional vessels and ingredients, and was fermented exclusively in Yorkshire slate squares. Only proven techniques that had been established for many years were employed and consequently they produced only real ales of an excellent quality.

The brewery was set up by Paul Theakston as a Business Expansion Scheme in 1992. Shares were allocated for sale over a two-month period, up to a maximum of £750,000. This scheme offered shareholders tax-free benefits for a period of five years, as well as enabling the brewery to be fairly well capitalised from the beginning. In 1993, a second business expansion scheme raised a further £750,000. The brewery grew to accommodate 690 shareholders, providing sufficient investments to permit all activities to be funded through the brewery's own earnings.

Paul Theakston himself came from a very long line of brewers. The brand 'Theakston's', that was eventually acquired by Scottish Courage, was traditionally brewed in Masham, by his father and uncle. Paul joined the family business at the Theakston's brewery, and only left there, after Scottish and Newcastle (now Scottish Courage) took them over in 1987.



The company's annual turnover grew to more than £4.5 million and in 1996 they invested £300,000 into the construction of a fascinating visitor centre, incorporating a large shop, bistro and video area. Between the brewery and the visitor centre, Black Sheep employed 62 people and their weekly output from the brewery grew to as many as 500 barrels.

The brewery was too large to be categorised as a *micro-brewery*, yet not large enough to fit into the classification of a 'full blooded' *regional*. Sitting at the helm, and slowly emptying the glass of the brown ale, Paul continued:

"We don't really fit into a specific slot - we are having to portray that although we are growing, we are still a very small company in terms of the high standards of service that we can offer i.e. we are not into this faceless monolith concept, however, we are big enough, to offer the services that the bigger breweries provide, such as cellar services and the installation and maintenance of beer pumps etc."

In the on-trade sector, their draught beer, which represented 70% of their total sales, was very much a regional brand of North Yorkshire, Newcastle, Huddersfield, M62 corridor etc., being sold to over 300 outlets within a 70 mile radius of Masham. Only one fifth of their draught beer production was sold to wholesalers - *"We are self-limiting concerning our on-trade sales, as we only have the fermenting capacity for a maximum of 500 barrels per week."*

In the off-trade sector of the market, Theakston stated, *"We have pseudo-national coverage."* 30% of their total beer sales was through the sale of bottled beer into the take-home sector. The main UK distributors of their products were Marks and Spencers, Sainsbury's, Tesco's, Waitrose, Asda, Safeways and Morrisons.

Marks and Spencers had been distributing their 'Special' ale for four and a half years. The deal itself was not hugely profitable, however the kudos associated with supplying such a reputable name, had a very significant effect on the reputation of the brewery....

"...this deal has stood us well, especially when trying to persuade other supermarkets to stock our beers. It has given us a seal of approval and a seal of quality."

Black Sheep beer was stocked in 150 Tesco's outlets nation-wide, located primarily in the bigger stores with greater shelf space and offering the widest variety of beers. Sainsbury's were by far the greatest distributor, with the majority of their stores stocking Black Sheep beers.



Marketing the Business

From an annual turnover of £4.5 million, Black Sheep spent approximately £65,000 on marketing the entire business. This was split between the main business and the visitor centre, the former representing £45,000 of this figure, and the latter £20,000.

The promotional split for 1996, was as follows:

Promotional Tool	%
Advertising	5%
Public Relations	5%
Sponsorship	5%
Point of Sale Material	75%
Direct Selling	10%

Advertising

Black Sheep had been in the enviable position of receiving high profile, free advertising and publicity through no conscious effort of their own. The business did not entertain any television or radio advertising, preferring to focus on press coverage. Occasionally this took the form of an advertisement in 'The Star' newspaper, but the majority of their press advertising in newspapers and local periodicals, was aimed at supporting specific events or activities, for example, supporting a particular promotional event in a pub etc. Theakston commented - "*We don't tend to do 'generic' advertising.*" He then continued to explain the predominant reason for their low advertising spend:

"I don't mean to sound arrogant, but we have always been faced with a very nice problem. Selling our beer has not caused us any difficulties because we have always been able to sell as much as we have wanted to - our problem, has been matching capacity with demand. Due to this, we have not really been pushed into a lot of advertising; we haven't needed to bump up our sales and so therefore have avoided a lot of expense."

It was, however, the unintentional advertising coverage that Black Sheep received over it's lifetime, which had the most far reaching effects on it's success. The brewery's huge publicity was attributed to two major factors. Firstly, Paul Theakston himself, was a very respected and recognised name within the brewery industry. Secondly, Theakston set up the Black Sheep brewery literally a stones throw away from the old Theakston's brewery which was taken over by Scottish and Newcastle in 1987 - "*The huge publicity that we received was all to do with the 'David and Goliath' situation - we were setting up business next door to 'Big Brother'.*"



He continued:

"In the beginning, we were bombarded by every newspaper in the book as well as numerous television channels - it was all free! Although we cannot take the credit for the free publicity, we certainly did use it to the very best of our advantage."

It was this publicity, which was so very powerful in advertising the company when it was first established.

"It lifted the profile of our very young company, very quickly, and without us having to spend a penny of our own money."

Public Relations

Although the purpose of the Visitor's Centre had always been first and foremost to generate profit, it was also certainly the brewery's most efficacious PR tool. The centre had been designed to the highest of standards to provide an atmosphere most conducive for visitors to come and browse. Everything that the shop sold had a black sheep somewhere on it, constantly reinforcing the brewery image in the minds of the public. The restaurant served very high quality, freshly cooked food, and people would often visit the centre solely for a meal and a drink, which again helped to raise the profile of the brewery.

Tours were conducted around the brewery on a very regular basis, all year round, terminating in the visitor centre with a meal and a pint of Black Sheep ale. Throughout the run up to Christmas, the visitor centre was also a very popular venue for company Christmas parties.

One company shareholder, an executive producer of the TV programme 'Emmerdale', decided that it would be an ideal PR stunt to show Black Sheep on the set, in the 'Woolpack' – the TV serial's fictional public house. Black Sheep bar towels, beer mats, pump clips and bottles became all part of the Emmerdale 'stage furniture.'

Finally, the brewery made a concerted effort to support local craftsmen and other businesses, by stocking locally, hand-crafted items in the gift shop.

Sponsorship

Sponsorship had been encouraged to build positive relationships with the local community, whilst raising general public awareness for the brewery. Unlike most other breweries sporting events were avoided in favour of sponsoring the 'Arts'. A more recent campaign had involved the funding of a local theatre group, who were performing a play called: "Mac The Sheep Stealer"



Theakston explained - *"This seemed a more than appropriate play for us to sponsor. It not only gives us the opportunity to offer support to the local community, but it also helps to reinforce our image."*

Point of Sale Material

The brewery had placed a high priority on this promotional tool, and the materials used were to the highest standard. Beer mats, Bar towels, Pump clips to name but a few, had been distributed around public houses that serve their beers, to complement T-shirts for all bar staff which came with the logo: *"Baa Staff."*

All of the promotional themes and ideas were generated in-house - Theakston being very sceptical about marketing agencies, referring to them as *"a complete waste of money."*

Direct Selling

Before the brewery was opened in 1992, Black Sheep had employed a salesman in the previous summer, who spent a large amount of time out in the trade, looking for potential outlets in which to sell their beer. By the time production began in the following April, 75 public houses had agreed to trial it - 55 of those were still loyal customers 5 years later. Cold selling was then conducted for the next two years. Within 5 years the demand for their beer became greater than their brewing capacity, and as such, the need for direct selling diminished.

The success of the company.

Black Sheep has been an archetypal representation of a 'success story'. Theakston attributes their achievements to several underlying factors. Firstly he remarked:

"I personally started with an advantage from the beginning, due to my background. Over the last 5 years, Theakston's has become a truly national brand which has certainly helped to establish my name."

Secondly, Theakston explained that having been in the industry for such a long time, it was easier for him to avoid the common pitfalls, which people get entrapped in so very often. The two most common snares that people within the industry fall prey to are regarding quality and the speed at which the business grows:

"Sustaining beer quality is of prime importance. Many of the smaller breweries make the tragic mistake of 'finding out how to do it' whilst they are trading. Unfortunately, it only takes one or two 'duff' batches, before you really damage your reputation, especially during the 'tender flower stage'."



Black Sheep had an excellent record of maintaining consistency in their quality, and as a result, they soon developed a very good reputation for quality.

Regarding the speed of growth, Theakston explained:

"We are not growing too quickly on purpose. When I was at Theakston's, there were 3 or 4 years, where we grew exponentially, literally doubling our sales every year. It puts such a huge strain on everything - personnel, finances, quality standards etc."

Theakston noted that they had no urge for the brewery to grow too big, as they had no intentions of brewing off-site:

"We see ourselves as a single site brewery, and we intend to continue brewing Black Sheep only here in Masham. Theakston's is sold by Scottish and Newcastle, as a product of tradition and heritage, having it's roots firmly based in Masham, however, when they are producing 4500 barrels of it per week they are obviously not brewing it all in Masham by any means. If Black Sheep were not brewed in Masham, then it would not be the genuine article."

The Challenges for Tomorrow's Market

In conclusion, Theakston was the first to admit how successful the brewery had been during it's first 5 years. However, he illustrated that the harsh marketing environment had affected them over this period:

"The outlook we had when we begun, and the reality we have experienced regarding our profits over the last 5 years, have been greatly different. The greatest variance, has been regarding the 'bottom line' - it has not grown as fast as we initially anticipated, and this is all attributable to ever increasingly squeezed margins."

Pondering these thoughts for a few moments one began to wonder what were the real opportunities and threats that lay ahead for the company. A forthcoming meeting of the shareholders would be sure to provide the opportunity for some challenging questions and Theakston's vision for the future would play a critical role in encouraging ongoing shareholder investment.