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RESEARCH
ARTICLE

Microbreweries and finance in the rural north of Sweden — a case study of funding and bootstrapping in the craft beer sector

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ABSTRACT: This paper explores the growth of the craft beer sector in a northern Swedish rural setting, with a particular focus on how small-scale brewers manage to fund their activities and ventures. It connects craft brewing with the concept of bootstrapping, a theoretical foundation into understanding alternative paths of funding business operations. This study has used qualitative measures in order to reach a deeper understanding of the research field. More specifically, a case study has been performed in the peripheral, northern Swedish region of Jämtland. It is a comprehensive case study, including interviews with all of the 14 craft brewers in the region, as well as observations of brewing sites. The study established that most of the brewers have funded their business activities with alternative funding and bootstrapping methods. Also, the brewers try to keep external financing to a minimum, but it is an inevitable necessity for most of them to use some type of external funding in the start-up process. Contributing to the findings is also the frequency whereby the brewers use the regions other brewers as a resource network, thus elevating the social bootstrapping dimension to a highly important survival technique.

KEYWORDS: bootstrapping, craft beer, finance, micro- and small business

Introduction

The brewing industry has experienced major changes in the last decades, moving from strong centralisation characteristics, with rather few but very large breweries, to a situation where a great number of small craft beer producers have taken over parts of the market (Garavaglia & Swinnen, 2018). The starting point of this development is often referred to as the United States in the mid 1960s, where new styles of brewing (Sewell, 2014) and innovative beer festivals increased interest in the sector (Pascua et al., 2016). This development and restructuring of the beer sector has since spread throughout the world, with the number of breweries growing year by year, from North America, to the United Kingdom, Italy, and Sweden (Cabras & Higgins, 2016; Danson et al., 2015; Garavaglia & Swinnen, 2018; Sveriges Bryggerier, 2019). The emergence of this trend can be connected to the increased demand for more flavourful and particular types of beer, leading away from mass-produced, global brands that lack distinctive character (Gatrell et al., 2018; Nilsson, 2007). The rapid growth of the sector in the last decades has provided an opportunity for the creation of new business and employment opportunities, from metropolitan to more rural contexts. Particularly for rural and peripheral contexts, with a recent history of staggering demographic imbalances, outward migration and high unemployment rates, this developments represents an opportunity, since many of the breweries are rurally located (Skoglund & Sjölander-Lindqvist, 2019).

The growth of this sector has been studied by many, often with a connection to branding (e.g. Eberts, 2014), local identity and place development (e.g. Gatrell et al., 2018; Schnell & Reese, 2014), and the connection to tourism opportunities (e.g. Fletchall, 2016; Murray & Kline, 2015). During a business start-up phase or early years of activity, challenges are many. Poposka et al. (2014) and Winborg (2015) present studies that elevate the lack of financial resources as one the major issues in the development of entrepreneurial activities.

In terms of the continuously growing craft beer sector, studies of resource gathering for micro and small craft brewers have been undertaken by van Dijk et al. (2018), Cabras and Higgins (2016), and Mac an Bhaird et al. (2019). However, studies with a broader approach towards resource acquisition of these small, micro, and even pico craft brewers are needed in order to increase the understanding of early stage survival mechanisms in the sector. This need for further knowledge has laid out the foundation for this study, which aims to contribute with knowledge on funding and financing behaviour in the small-scale and micro-brewing business, and more particularly by connecting it to the bootstrapping methods of acquiring resources and financing.

In the next section of this article, a theoretical summary of this sector is included, with a particular focus on its financial

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dimension. The section that follows describes the qualitative case study method applied and after that the data from the craft brewers in the Region of Jämtland is presented. The last two sections include an analysis of the data and the theoretical framework, and the last sections reconnect with the purpose of the article providing conclusions and contributions.

The rebirth of brewing

The brewing industry has changed dramatically in many countries in the last decades, with the growth of the craft beer sector (Brewers Association, 2019; Sveriges Bryggerier, 2019). The definition of a craft beer business has been defined in the United States as including the following dimensions: It should have an annual production of 6 million barrels of beer or less; the ownership should be less than 25 per cent by a alcohol industry member that is not itself a craft brewer. It should also derive its flavour from traditional ingredients and their fermentation (Brewers Association, 2019; Cappellano & Spisto, 2019).

The emergence of the craft beer sector has its foundation in the United States, where craft breweries started emerging as a response to stale brands and gigantic, large-scale, macro-breweries that had taken over the market completely (Gatrell et al., 2018). Some claim the origin of the craft beer movement was the Anchor Brewing Company in California, started in 1965 by Fritz Maytag who since is seen by many as the spiritual father of craft brewing (Sewell, 2014). Another landmark is the 1982 Great American Beer Festival in Boulder in 1982, which became an annual event, today hosting over 60 000 visitors and 800 breweries (Great American Beer Festival, 2019; Pascua et al., 2016). In the United States, the craft beer sector has exploded and changed the beer market, from hosting only around 100 breweries in total, to over 7 000 in 2018 (Brewers Association, 2019). This explosion has not only occurred in the United States, but also in the Netherlands, Canada, Italy (Garavaglia & Swinnen, 2018), the United Kingdom (Danson et al., 2015) and Sweden (Sveriges Bryggerier, 2019). For example, Italy has gone from 60 microbreweries in 2000 to 670 in 2015, Canada has gone from under 300 in 2010 to over 600 in 2015 (Garavaglia & Swinnen, 2018) and Sweden from only 20 breweries around 1990, to almost 400 microbreweries in 2018 (Sveriges Bryggerier, 2019).

The background of the emergence of the craft beer sector is often connected to the search for more exciting, alternative flavours from what the dominant large-scale brewers provide (Gatrell et al., 2018), as well as the raised interest in pairing food and beer (Bamforth & Cabras, 2016). Flack (1997) has elevated neo-localism, i.e. the search for uniqueness and local distinction, as an important factor for the growth of the sector. The neo-localistic movement is thus counteracting the mass culture and mass production through unique and local craft beer. Schnell and Reese (2003) follow this line of reasoning, highlighting the desire to break away from the homogenous, and away from the globalised economy, to instead reconnect with local cultures, communities, and places through their beer and ale. Garavaglia and Swinnen (2018) point out the importance of increased income in many industrialised countries, enabling more sophisticated consumption, including the generally high-priced craft beers. Cabras and Higgins (2016) and Capellano and Spisto (2019) include changes in policy in support of small entrepreneurs, including craft brewers, as another underlying reason for the rise in craft beer.

The craft beer sector has been studied from a variety of dimensions and angles. Included among the scholars that have studied sector are Danson et al. (2015), as well as Capellano and Spisto (2019), that have explored the innovative dimensions of the sector. The high potential of craft beer tourism and craft beer trails has been established by Duarte and Sakellarios (2017), Murray and Kline (2015) and Fletchall (2016). The implications for branding possibilities of places, regions, and communities have been researched in articles by Gatrell et al. (2018), and Eberts (2014), often referring to the use of the geographical locations in company names and beer labels, thus reconnecting to the studies on neo-localism and craft beer by, for example, Flack (1997) and Schnell and Reese (2003).

The growing number of craft brewers can also be attributed to the improved technical machinery (packaging, canning) available, allowing small-scale production. This has enabled the number of entries to grow (Garavaglia & Swinnen, 2018). At the same time, this equipment needs financing, and so do other aspects of entry and survival in the craft brewing sector. This scholarly field, financing in the craft beer sector, has been discussed in several studies, for example van Dijk et al. (2018), Cabras and Higgins (2016), and Mac an Bhaird et al. (2019).

Some of these studies touch on financing traditional large-scale breweries and their growth, whereas others focus more on findings on craft brewery funding. Within the craft beer sector, alternative sources are often used, of which crowd funding has been elevated as a relevant tool to raise capital, but also for use as a marketing tool (Mac an Bhaird et al., 2019). Crowd funding can be seen as a particular tool within a number of bootstrapping methods of financing (ibid.).

Financial bootstrapping can, to a large extent, be seen as a result of information asymmetry between small businesses and external financiers, varying between the two depending on the level of aggregation. External financiers may have more or better information on an aggregate level, whereas the micro or small business at hand possesses superior information regarding the potential of their own ventures (Winborg & Landström, 2000). This can lead businesses to turn to alternative sources to secure the need for resources, at times even without this leading to a financial transaction, since needs may be resolved through non-financial measures. Financial bootstrapping can be regarded as a number of measures to resolve needs without external investments (Bhide, 1992; Winborg, 2015). One way of grouping these measures is to divide them into (1) an internal mode of resource acquisition, (2) a social mode of resource acquisition, (3) and a quasi-market mode of resource acquisition. The internal mode consists of minimising costs, delaying payments, and funding with private means. The social mode is characterised by personal relations as a way to absorb and borrow resources at no financial cost. The quasi-market mode represents bootstrappers using government subsidies and grants to secure resource needs (Winborg & Landström, 2000).

There is a history of studies of bootstrapping in micro and small business, from Bhide (1992) and Tomory (2011), to Winborg (2009; 2015), sampling tech businesses and incubator businesses. In the craft beer sector, there have been studies by Smith et al. (2010), and Mac an Bhaird et al. (2019) on alternative financing, mostly focusing on entrepreneurial marketing and crowd funding. The study at hand provides additional findings to these studies, but from a broader perspective on alternative financing, using the

spectra and grouping of bootstrapping dimensions of Winborg and Landström (2000) to analyse the craft beer sector.

Methods

This study can be characterised as a case study, focusing on the craft breweries located in the region of Jämtland in the north of Sweden. This region has long been considered one of the leading food and gastronomy regions of Sweden (Bonow & Rytkönen, 2012), and has established itself as having among the highest number of breweries per capita in the country. This development has taken place in a highly rural and peripheral part of Europe, with less than three people per square kilometre (Regionfakta, 2019). Hence, the context provides for a sample which can be related to a critical case dimension, which Flyvbjerg (2001) defines as having a strategic importance in relation to the general problem. In this study, the general problem is concentrated on establishing knowledge about small-scale craft breweries in rural settings, particularly focusing on the financial dimensions of this sector. It is also a comprehensive case study (Merriam, 1988), since the sample encompasses all commercial, up-and-running craft breweries in the region.

The case study includes semi-structured interviews with leading representatives or owners of all of the 14 commercial breweries in the region. Some were interviewed more than once in order to clarify aspects that initially were unclear. In addition, observations were performed at several of the breweries, and the findings have been presented in seminars where several of the interviewed brewers, as well as policy makers, participated. The interviewees were all informed of the purpose of the studies and given the opportunity to participate anonymously, which was not required by anyone throughout the study process, which continued between 2017 and 2018.

Craft beer in the region of Jämtland

This study has focused on the region of Jämtland, located in the north of Sweden. Jämtland has approximately 130 000 inhabitants and covers an area of 49 000 square kilometres, representing 2.7 inhabitants per square kilometre (Regionfakta, 2019). It is thus a very sparsely populated region, but geographically considerably larger than countries such as Switzerland or the Netherlands. It has one major city, Östersund, located in the centre of the region, consisting of slightly over 63 000 inhabitants. The west of the region is mountainous, whereas the rest is densely covered by forests and lakes. Large parts of the region are characterised by small-scale farming, including the more mountainous parts.

Jämtland has for quite some time been one of the leading regions in Sweden regarding food and gastronomy (Bonow & Rytkönen, 2012). While many regions of Sweden were heavily industrialised during the 20th century, including the production of food, Jämtland remained significantly less industrialised. Rolén (1990) also described the region as carrying a continuous small-scale farming and forestry character. In addition, in the most rural corners of the region, mountainside farms have survived or been resurrected, leading to a mix of traditional and innovative knowledge in the practice of producing small-scale food. This small-scale food production landscape has contributed to the regions strong tourism sector, where ski resorts for long have provided the most important tourism input, generating employment and income opportunities in this region's periphery (Rolén, 1990).

Beer was for a long time produced in each and every farm across the region, in so-called *Bryggstu*, a brewing cottage where brewing, baking and washing took place (Faxälv & Olofsson, 2007). The beer was often spiced for special purposes; examples include rosemary for melancholy or bayberries for a bad stomach and sweating (Oscarsson, 2007). The beer that was brewed in the region was normally of ale types up to around 1900, when lager types of beer were introduced from Germany. After this introduction, pilsner or lager types of beer have remained the most popular (ibid.).

When industrialisation, even though it did not impact Jämtland as much as many other regions, struck the region together with raised taxes for beer, as well as a strongly evolving sobriety movement, the conditions for beer making changed. The many small-scale and family-run breweries were successively replaced by larger ones, and in the early 1990s, only one large brewery remained, TILL Brewery in Östersund. However, TILL was taken over by a larger, Southern Swedish brewery which eventually closed down TILL in 1992, leaving Jämtland without a single brewery (Berglund, 2007; Faxälv & Berglund, 2007).

This was the situation for four years, until a new brewery opened up its doors, Jämtlands Bryggeri, in the small town of Pilgrimstad in central Jämtland. This was the only brewery around until Klövsjö Gårdsbryggeri opened up in the small hillside village of Klövsjö in the southern part of Jämtland. The minor explosion of craft breweries started taking place around 2014, when entrepreneurs all over the region started breweries, and today, there are a total of 14 commercial breweries spread out from north to south, and east to west. The names of the breweries and the towns they are located in are as follows:

(1) Bakgårdens bryggeri, Revsund;
(2) Härjebrygg, Tännäs;
(3) Jormbryggeriet, Jorm;
(4) Jämtehed and Brande, Brunflo;
(5) Jämtlands Bryggeri;
(6) Klövsjö Gårdsbryggeri;
(7) Orsholms Brygghus, Lofsdalen;
(8) Ottsjö Brygghus, Ottsjö;
(9) Reinklou Ranch, Tullus;
(10) Revsunds Brewery, Pilgrimstad;
(11) Svartbergets Fjällbryggeri, Åre,
(12) Åre Bryggcompagni, Huså and Åre,
(13) Åre Ölfabrik, Åre; and
(14) Östersunds Ångbryggeri, Brunflo.

Along with these up-and-running commercial breweries, there are at least four others that have started up and are dormant or that brew occasional batches of beer for sale to mostly local restaurants and bars.

Results

Characteristics of the craft brewers of Jämtland

The characteristics of the breweries include some of the following attributes. They are all located in rural contexts. None are actually located in the city of Östersund, but rather in small villages spread out across the region. They are all small businesses, and some even call themselves pico-businesses, meaning smaller than a micro-business. None of them have more than ten employees, and several of them need to keep other jobs

in order to sustain their private economies. The volumes vary from year to year, but most of the breweries are experiencing a growing demand and hence growing production volumes. In litres, the largest brewery is Jämtlands Bryggeri which produces 1 000 000 litres per year, whereas the rest are considerably smaller and range from 2 500 litres per year to 40 000 litres per year. Some of the breweries also have cafes, bars or restaurants in conjunction to the brewing facilities, where they sell their products together with food. The breweries are considered to produce high quality beers, with Jämtlands Bryggeri leading the way, being the most awarded brewery in the whole of Sweden.

Moreover, a dimension that really characterises the craft beer sector in Jämtland is the close cooperation and networking among the companies. This networking is depicted by cooperation on logistics, which is particularly important since the region is remote and working together on deliveries to Stockholm, or even Östersund, can be of relevance. Several of the brewers also elevate the generosity of Jämtlands Bryggeri, who, for example, if other brewers run out, offers to sell some of their barley or hops, or has meetings with the other brewers. Other types of cooperation include hosting beer festivals together, running courses for each other, participating together in fairs or festivals in south Sweden, and even sharing recipes. The networking and cooperation also stretches to other actors into the gastronomy sector in the different villages and towns where the breweries are located, including, for example, selling or marketing each other's products.

> *The best part of the brewing business is the good atmosphere and helpfulness in the sector!* (Brewer 1, 25 years old)

Local engagement is also something describing the ventures and ambitions of the brewers, with many of them wanting to contribute to their local communities, for example, by donating parts of the beer sale revenues to youth activities, to the saving of the musk ox or the strife to establish better potential for work and employment in their communities.

> *We make one beer from which we donate part of the revenues to social projects in town, this type of action is sort of part of our philosophy.* (Brewer 2, 40 years old)

The underlying reasons for starting up breweries vary, but most of the brewers highlight inspiration coming from the global, and most of the time, American craft beer explosion, and the innovative use of hops in creating new and exciting pale ales. Hence, trying to craft better and better ales and beers is a major cause for starting up a business.

> *We've been running on this desire to brew better, and better, and more interesting beer all the time, and get some positive responses for our products.* (Brewer 3, 42 years old)

Another start-up reason is to manage to provide something which enables one to remain and create a life in the small places where the breweries are located. The strong local connection theme comes back in most of the brewers' ambitions to also provide for better possibilities to work and live your life in these small places and communities. As noted, these ambitions are manifested through activities that often have social benefits, or the benefits of the community highly prioritised. In that sense, they relate, in many ways, to the concept of community entrepreneurship, as the main visions and objectives of the businesses are often split between making profits for the business and creating better social conditions in their local community contexts, for example by enabling new local employment possibilities. As for the business goals and visions of the ventures they have started, many of them aim towards being able to be self-sustainable and not having to have other jobs supporting the brewery business. Another characteristic is that almost no one has direct financial goals that are being followed up on, or monitored.

The small focus on the financial dimension is something that goes for almost all of the brewing businesses in Jämtland. The passion for the creation of interesting new pale ales or lagers is big, therefore many are eager to stay in control of their breweries, thereby also keeping out external investors or venture capital, which could lead to a loss of control with a higher focus on higher revenues and better profit margins.

> *We haven't really had any financial or economical strategies, maybe we should have, and it would be nice to get to the level where we actually earn some money...* (Brewer 3, 43 years old)

Many of the brewers have started up without having the possibility or even attempting to get loans to start up their businesses, and have instead had to use other sources in order to sustain themselves. In addition, many of the brewers have resisted external capital as far as possible in order to be able to stay in control of the production.

> *Our main investment has been our time and savings, and we wanted to have as little external investment as possible to keep control of our production, but we eventually needed and were able to get a bank loan to purchase some of our brewing equipment.* (Brewer 4, 34 years old)

So, most of the brewers can be considered rather new in terms of age, only three of them has been around more than six years. The response from the brewers is that the initial approach has been to firstly avoid external capital, and there has also been a desire to avoid borrowing money from banks. Instead, the start-up processes have been characterised by using other mechanisms to get the business running and acquiring the necessary resources. Besides working hours and savings, a majority of the brewers are not taking out any salary from the brewing business. Except for one producer, which employs up to ten people, only the breweries that also run restaurants are able to extract a livelihood-covering salary. Another common way to survive is to cut costs as much as possible and try to make it on the wife's/husband's/partner's salary.

> *We've had other jobs, but last year I worked here full-time and then I had to be subsidised by my wife's salary.* (Brewer 5, 49 years old)

The majority of the brewers have also applied and received different types of governmental or EU grants. This is a possibility which some rural locations in the north open up, since quite a few grants are not possible to apply for in urban places.

> *The regional investment grant was needed in order get this business started, down south that would not have been possible.* (Brewer 6, 44 years old)

To reduce the highly expensive delivery costs to the south of Sweden, the breweries cooperate on transportation and logistics. This is something that all express as very important and necessary for survival.

> *We share the transportation costs with others and we also buy bottles together, the transportation costs are severe in connection with the low volumes we produce.* (Brewer 7, 49 years old)

None of the breweries spend much on marketing, but instead rely upon social media to reach out to their customers. Together with other regional brewers, another way of reaching out is to go to beer festivals, often arranged mutually with the other craft brewers. The design and logotypes of the bottles are also often produced by themselves, or by friends or acquaintances, leading to lower costs on the marketing expenditures. Moreover, the brewers cooperate on the raw materials in the shape of hops and barley. For example, if one runs out, they call another who is in possession of hops to purchase. Another type of cooperation, which occurs in order for the breweries to stay innovative and develop new and interesting products, is to share recipes, which further deepens the picture of the region's close and intense networking in the sector.

> *You can call your brewing colleagues, they are colleagues and competitors at the same time, if you run into trouble, you can order beer barrels together and such...* (Brewer 8, 46 years old)

Most of the brewers elevate how the possibility for growth demands more capital, and in this process, most declare that it is hard, but not impossible to attain bank loans. This possibility increases if they have a government grant or subsidy to support their business. As new machinery is often needed to grow, external funding is often required, even though most brewers declare a desire to resist this.

> *We got an EU grant via the regional government, which we were able to present in the budget to the bank...this made it easier to get a loan.* (Brewer 7, 49 years old)

Discussion

The importance of bootstrapping for craft brewers

When summing up the data, it is clear that the frequency of using alternative measures in order to attain the needed resources is very high. Below, the types of bootstrapping methods and behaviours are outlined according to the type of mode they belong to.

To start out, the internal mode of acquiring resources (Winborg & Landström, 2000), including measures such as using various types of private means, delaying payment methods, and minimising costs, is widely practised among the brewers. For example, through turning to savings, living on a partner's salary, but most of all having other employment that sustain their livelihood, and then working "overtime" hours with the brewery.

Secondly, the quasi-market mode of bootstrapping (Winborg & Landström, 2000), like in acquiring resources through government grants and subsidies, was used by a majority of the brewers, with many of them having received grants from EU applications and/or through subsidies from other regional government authorities. This also turned out to be highly favourable background as the brewers turned to look for bank loans, with banks looking more favourable at the requests if they have already received support from other actors.

Thirdly, the most valuable and most used bootstrapping method turned out to be the socially oriented mode (Winborg & Landström, 2000), which means using personal relations to cover the need for resources with small or strongly reduced financial costs. Under this method, much of the marketing efforts can be categorised, including labelling and design of bottles. Most valuable, however, is the network of brewers in the region and the functions this intense networking provides. This dimension covers examples such as transportation, sharing ingredients, cooperating at beer festivals, and even sharing recipes on occasions.

Together, these bootstrapping methods have been crucial for the development of the craft beer sector in Jämtland. In line with Mac an Bhaird et al. (2019), these findings are specifically relevant for the newest companies in the sector, the start-ups. This also matches the technology entrepreneurs use of alternative financing, as they are also particularly reliant upon bootstrapping methods in the very earliest stages of the business (Tomory, 2011). The largest and oldest producer, Jämtlands Bryggeri, has reached a level where it runs with a profit and has up to ten employees. The smallest ones are also more inclined to frequently use bootstrapping methods. The largest brewery also tends to function as a highly relevant resource for the newer and smaller breweries, helping these ones out with developmental as well as financial survival dimensions belonging to the socially oriented mode.

The local connection and willingness to contribute to local development in various ways also leads to cooperation with other local community actors, and these in turn create local networks, often in a broader gastronomy dimension, adding to the value of social bootstrapping in the sector. These local community gastronomy networks also add fuel to the discussion on the increased demand for authentic and exciting flavours (Bamforth & Cabras, 2016; Gatrell et al., 2018), particularly recollecting that several of the brewers attempt to resist the influence of external capital which could risk thir experimenting with new and unique flavours. This search for new flavours illustrates how the craft brewers of Jämtland also relate to the trend to break away from the homogenous and provide the customers with opportunities for neo-local experiences (Flack, 1997; Schnell & Reese, 2003).

Conclusion

The purpose of this study and of this article was to add to the knowledge about craft brewers and their ways of solving financial and resource acquisition, particularly connecting this to the theoretical framework of bootstrapping methods. As concluding remarks in this study, it is possible to establish how the growing craft beer sector in Jämtland continues to build on the same type of driving force and characteristics as described in earlier studies of craft beer in other geographical contexts. These include entrepreneurs driven by passion, their strive for authenticity and local distinctiveness in the beers, and also some signs of the developing pairing of food and beer, which connects to tourism possibilities. This study is also a contribution to the previous studies in these fields in terms of geographical context, since not much has been written in this field from the perspective of a Swedish context. The most valuable theoretical contribution, however, is the findings on the alternative financing solutions practised by the relatively new, very small, micro, or even pico, businesses in the craft beer sector. These findings point towards the relevance of bootstrapping methods in the sector, and most interesting perhaps is the weighting towards social bootstrapping, where one of the key factors is the intense networking the brewers maintain, with the oldest and largest of the breweries as the main node. The contributions may also be of value from a practical perspective, where for example government agencies providing grants, or aiming for

growth through gastronomy tourism, or simply making efforts to create more business in rural contexts, may use the findings in order to provide better support mechanisms for the sector's development.

In terms of further research, it would be beneficial to provide a more complete overview of the connection between craft brewers in their early stages and their connection to different bootstrapping modes, possibly in other geographical contexts and with alternative methods. Also, a relevant follow-up study would be to see how growth affects financing methods. This could further establish if and how they continue to use alternative financing methods, or if they tend, like many other small businesses, to turn to more traditional financing as they grow or develop strategic growth development plans.

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