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Entrepreneurship and entry of small firms into a mature industry: the case of microbreweries in Italy

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Abstract.

This paper investigates the motives behind the entrepreneurial activity in the Italian beer industry between the late 1980s and mid-1990s. The paper argues that the evolutionary dynamics of the new producers (microbreweries and brewpubs) must be connected to the dynamics of consumption, which have gradually changed consumer preferences and lifestyles since the 1980s. On the one hand, increasing revenues, growing interest in food knowledge, and the rise of new cultural and social meanings attached to food consumption generated a new demand for variety. On the other hand, international integration increased the knowledge of beer typologies and styles. These changes enabled new small firms to enter the market and produce differentiated specialised products. This paper suggests that more research is required on the role of demand to interpret the dynamics of industries. The argument and discussion are based on original in-depth interviews with the pioneering entrepreneurs in Italy's craft beer segment.

Keywords: microbrewery; entry; industrial dynamics; consumer preferences.

JEL codes: L26, L66, Q02

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1. Introduction

Italy has always been oriented towards wine production and consumption. In 1980, per-capita beer consumption in Italy was 16.7 litres, whereas per-capita wine consumption was 92.9 litres; beer production was 8,569,096 hl while wine production was equal to 86,545,000 hl. Although Italy remains a wine country, the scenario has significantly changed over the last 30 years: in 2012, per-capita beer consumption had increased to 29.5 litres and per-capita wine consumption had declined to 39 litres; beer production was 13,482,000 hl and wine production was 41,074,000 hl. Notwithstanding the increase in the consumption and production of beer, the number of large factories sharply declined from 30 in 1980, to 20 in 1990, to 14 in 2012². These few data are enough to testify to the dramatic change in consumption habits and in the beer industry in Italy during the last 30 years. Among the significant changes is the fact that a wave of small producers entered the beer market in the 1990s: microbreweries and brewpubs.

Considering the beer industry as a mature industry characterised by high barriers to entry and a form of oligopolistic market, according to the classical view of the structure of markets, the entry of new firms in the industry would be a phenomenon rather a rarity. In the presence of a high degree of concentration and high entry barriers, the traditional economic theories would predict the absence of new entrants (Bresnahan and Reiss 1991; Sutton 1991; Baldwin 1995). Yet since the late 1980s, more than 600 new businesses have emerged in the Italian brewing industry. These are new organisational forms competing alongside the traditional industrial producers (national and multinational) and differing in their methods and scales of production and distribution.

The purpose of this paper is to explain the birth and diffusion of these micro-producers of beer in Italy, understand how and why the microbreweries and brewpubs started to proliferate in the 1990s in a country like Italy, without a beer tradition. This has been so far an unexplored case. In addition, the Italian case is an important case in the international panorama because of its tradition in the production of food and beverages and because of its conservative behaviour and habits regarding food and beverage consumption. The diffusion of new organisations and forms of production, then, is even more striking in Italy than elsewhere.

The explanation in this paper relates to the claim that in the 1980s–1990s, there was a gradual change in consumers' preferences with regard to beer, as well as other products

² Source: Birra e Malto (1984), Ismea, Assobirra Annual Report (various years).

within the food industry. We provide evidence that the demand developed more complex characteristics and more sophisticated features due to closer attention to the origin and naturalness of the products. Our discourse, then, stresses the need to research the changing demand patterns and ways of consumption in order to find the real source of the generation of new business opportunities in the Italian brewing industry, which were seized by the micro firms which pursued strategies of product specialisation and differentiation. This ingredient, combined with a process of legitimation feeding the phenomenon of the entry of a new type of production, such as craft brewers, explains the wave of new micro entrants from the 1990s to today in beer brewing in Italy.

The argument and discussion of this research are based on original in-depth interviews that I personally conducted with the first pioneering entrepreneurs who entered the craft beer segment in Italy³.

The paper is structured as follows. The next section describes the relevant characteristics of the Italian brewing industry. This is followed by a discussion of the logic behind the relevant changes in consumers' attitude during the 1980s–1990s and the consequent entry of micro producers of beer. The final section concludes the paper.

2. Trends in the Italian brewing industry

2.1. Relevant industry background

The story of the Italian brewing industry after World War II is similar to many other industrialised countries. During the 1960s, 1970s and 1980s, the bigger national firms emerged and dominated the market, pursuing mainly external growth strategies through mergers and acquisitions of the plants and brands of smaller companies. In the 1960s, the four largest national groups, Peroni, Wührer, the Luciani Group (Pedavena-Dreher) and Birra Pirelli, held a market share of more than 60% (Colli 1998). The 1980s and 1990s marked a further step towards increased concentration in the market. These are the years in which, on the one hand, firms began implementing restructuring processes and automation in production (Brignone 1995), and big, foreign groups began entering the Italian market. In 1981, the French Danone acquired a 30% stake in Wührer, which, shortly thereafter in 1988, was

³ The interviews were conducted between 2013 and 2014 with Gianfranco Oradini, Renzo Aramini, Adis Scopel, Giovanni Turbacci, Agostino Arioli, Giampaolo Sangiorgi, Guido Taraschi, Enrico Borio, Alessandro Borio, Nicola Gabrielli, Rino Mini, Stefano Sausa, Gabriele Tonon, Gianni Pasa, Modesto Bottone.

completely acquired by Peroni; in 1982, a 50% stake in Poretti was acquired by the Danish United Breweries (Carlsberg and Tuborg) and the acquisition was completed in 1998, renaming the Italian Poretti in Carlsberg Italy; in 1974, Heineken acquired Dreher; in 1994, the Canadian Labatt acquired Moretti, which was later taken over by Heineken in 1996; and finally, Peroni in the 1980s began entering into a series of business relationships with multinational companies, stipulating a distribution agreement with Heineken's Amstel brand in 1980, approving an important trade agreement with BSN (Danone) in 1988, making a deal with Anheuser-Busch in 1995 and finally being acquired by SABMiller in 2003 (Brignone 1995; Airoidi 2002; Peroni 2008).

The structural evolution of the last few decades of the Italian brewing industry, as well as in almost all other countries inside and outside of Europe, has therefore been strongly shaped by a continuous increasing integration of national markets and by the creation and consolidation of multinational enterprise groups that led to a sharp increase in the degree of market concentration (Table 1). At the same time as the concentration increased, the number of firms, as well as the number of production units located around the country, gradually and steadily declined, as shown in Figure 1 (Brignone 1995).

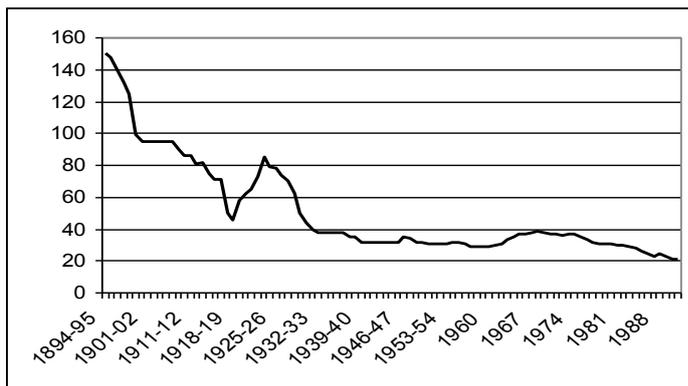
Table 1. Concentration, 1950–2010.

<i>Year</i>	<i>C4</i>	<i>C10</i>	<i>H</i>
1949–50	61.78%	88.06%	0.131
1959–60	66.34%	90.53%	0.152
1970	68.99%	92.25%	0.257
1980	68%	n.a.	n.a.
1990	84.75%	100%	0.257
2000	97.38%	100%	0.344
2010	89.37%	100%	0.298

n.a.: not available

Source: Author's computations and Colli (1998). Imports share excluded.

Figure 1. Number of production units 1894–1991.



Source: Brignone (1995).

In addition to mergers and acquisitions, the reasons for the increase in the degree of concentration in the brewing industry were mainly linked to the exploitation of economies of scale in production and marketing. Fierce competition to reduce unit costs by increasing the size of the production facilities has characterised the behaviour of firms in almost all international brewing markets. In a thorough empirical work about the U.S. brewing industry, Tremblay and Tremblay (2005) show that the minimum efficient scale has considerably grown over the decades, from 0.1 million barrels in 1950 to 8 million in 1970, to 16 million in 1980, to 23 million in 2001. Other studies refer the importance of economies of scale in other countries, such as Germany (Müller and Schwalbach 1980) and England (Gourvish 1994a, 1994b, 1998), as well as in Italy, where the average size of plants has increased from 156,000 hl in 1970 to 276,000 hl in 1980, to 507,000 hl in 1990 (Colli 1998).

Moreover, the ongoing diffusion of televisions after World War II and the consequent possibility of advertising campaigns at the national level stimulated an increase in the investment required for implementing a profitable advertising campaign. As a result, the need to spread the investment over a greater volume of output led companies to undertake investments and strategies to increase in size in order to exploit the effects of the economies of scale in marketing. Diverse empirical analyses show that the penetration of television in households in the United States contributed to the decline of local beer producers, due to the power that advertisements on television gave to large companies to exploit the economies of scale at the expense of smaller producers (George 2009). Sutton (1989, 1991) shows how in the high advertising-intensive (as well as in high R&D-intensive) industries, firms compete by investing increasingly in advertising, thus leading to a highly concentrated industrial structure, regardless of the size of the market. The brewing industry is an example of such an

industry (Robinson and Chiang 1996). Even in Italy, investment in advertising has been a strategic tool for firms to consolidate their position in the market. In fact, the leading brewing groups are among the top spenders in the beverage industry and, in line with the predictions of Sutton (1989, 1991), they are just two of the leading groups in the market to have devoted increasing resources to advertising in the past few years (Garavaglia 2009).

As a consequence, the structure of the industry in 1990 was composed of two large groups (Peroni and Heineken) which dominated the market together with four other medium-sized producers (Poretti, Moretti, Wunster, Forst), as reported in Table 2. The concentration consolidated in the subsequent decades, such that the market structure turned out to be almost a duopoly in the twenty-first century, as shown in Table 2. The data concerning market shares in 2010 report that the leader changed from Peroni to Heineken: Moretti was acquired by Heineken in 1996, Wunster was acquired by Interbrew in 1991, and Interbrew was acquired by Heineken in 1995 and Castello di Udine entered the market as a consequence of the acquisition of Heineken-Moretti by a decision of the Antitrust Authority.

Table 2. Market shares, 1990 and 2010.

<i>Producer</i>	<i>1990 (%)</i>	<i>Producer</i>	<i>2010 (%)</i>
Peroni	37.60	Heineken	44.75
Heineken	30.36	Peroni-SABMiller	28.31
Industrie Poretti	9.08	Carlsberg (Poretti)	8.59
Moretti	7.70	Castello di Udine	7.72
Wunster	7.32	Forst-Menabrea	6.72
Forst	6.11	Hausbrandt	0.22
Castelberg	1.44	Others	3.69
Menabrea	0.38		
Total	100.00	Total	100.00

Source: Author's computations of Assobirra data (various years). Imports share excluded.

The largest firms are multi-plant and multi-brand firms. However, even if firms sell several brands in the marketplace, the vast majority of beers are lager, and the main product of the major brewers is lager beer, which is pale yellow in colour, pasteurized and contains more or less 5% alcohol. This is the most diffused type of beer among consumers. Lager has historically become 'the beer' in Italy, following a tradition with origins which are close to the German culture, and whose first Italian brewmasters predominantly originated from

Germany or were inspired by the German knowledge of beer⁴. This tradition has continuously consolidated through the decades up to recent days, such that the diffusion of beer in Italy has always meant the diffusion of lager beer. The brands with the most sales in 1994, both among normal and premium beers⁵, were all lager beers (Table 3). In the 1990s, beer in Italy was still considered a refreshing product to consume principally during summer, in competition with non-alcoholic soft drinks: almost half of the consumption of beer has traditionally been concentrated only during the four-month period May-August, when the temperature is higher (Table 4).

Table 3: Most sold brands, style and market shares (1994) in Normal and Premium beer segments.

<i>Normal segment</i>		
<i>Brand</i>	<i>Style</i>	<i>Market share</i>
Dreher (Heineken)	Lager	18,1
Moretti	Lager	6,76
Peroni	Lager	24,16
Forst	Lager	7,16
Splügen (Poretti)	Lager	6,14
Wuhrer (Peroni)	Lager	4,93
Prinz (Moretti)	Lager	2,88

<i>Premium segment</i>		
<i>Brand</i>	<i>Style</i>	<i>Market share</i>
Heineken	Lager	20,6
Nastro Azzurro (Peroni)	Lager	17,7
Sans Souci (Moretti)	Lager	9,2
Kronenbourg (Peroni)	Lager	8,5
Tuborg (Poretti)	Lager	11,7
Stella Artois (Heineken)	Lager	4,9
Henninger (Heineken)	Lager	5,8

Source: Antitrust Authority (Autorità Garante della Concorrenza e del Mercato) – Provvedimento n. 4049 (C2347).

⁴ Traditional Italian producers had surnames which clearly display their foreign origins: Wuhrer from Austria, Wunster from Germany, Dreher from Bohemia.

⁵ The market segmentation according to the main segments in 1994 was as follows: normal 66.9%, premium 26.3%, specialty 5.3%, low alcohol and non-alcoholic 1.5%. Source: Antitrust Authority (Autorità Garante della Concorrenza e del Mercato) – Provvedimento n. 4049 (C2347).

Table 4. Seasonal sales.

<i>Year</i>	1993	1996	1999
<i>% May–August</i>	48.22	48.86	48.33

Source: Assobirra, Annual Reports.

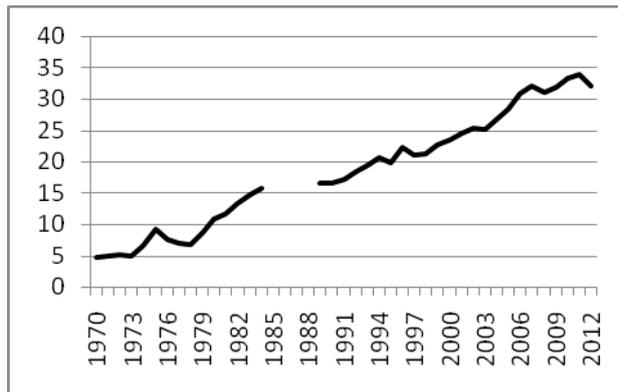
These data testify to how Italian consumers regarded beer in the 1990s, that is, refreshing and seasonal. There was still little emphasis on the attributes of the beer product, as beer was almost comparable with soft drinks. Accordingly, large producers constantly moved the consumers' attention from product attributes to extrinsic characteristics, as many advertising campaigns show. Beer has been often associated with a famous person or, alternatively, it has been advertised as the appropriate drink in particular situations, such as concerts and sport events. A study promoted by the National Association of Beer Producers in 1978 clearly reports the total lack of a beer culture among consumers in Italy; according to the study, beer was basically considered a drink for satisfying the physiological need of thirst, without evidence of the affection of the Italian consumers towards the product⁶.

The main conclusions of the picture which emerges from these data is that after World War II, lager beer increasingly dominated, following the German tradition, was produced by few multi-brand brewers and was mainly consumed during summer, with little or no attention to the characteristics of the product.

It is important note the significant and constant increase in imports throughout the decades: the percentage rose from 4.79% of total consumption in 1970, to 11% in 1980, to 16.5% in 1989, to 32.2% in 2012 (Figure 2). Among imported beers, again, German lager beer has been the most imported. However, imports of special beers from Belgium, Great Britain and Ireland also show a successful increase, thus demonstrating the rising interest of consumers in different typologies of beer besides lager.

⁶ Resarch Metra, in an unpublished thesis by Toso A. (1986) *Ricerca sul mercato della birra in Italia: problemi e prospettive*. University of Trieste, Faculty of Economics.

Figure 2. Import share (%) in the Italian beer market from 1970 to 2012.



Source: Author's computations of Assobirra data (various years). Years 1985–1988 were not available.

2.2. Recent dynamics, 1988–2012

Something started to change between the late 1980s and early 1990s, when the first group of entrepreneurs engaged with the first attempts of microbrewing in Italy. However, it was not until the mid-1990s when the influence of the first entrants on the evolution of the Italian microbrewery segment became visible.

The micro producers can be divided into two categories: microbreweries and brewpubs. These are craft enterprises which produce beer in limited quantities—typically less than 5,000 hl per year. A brewpub identifies a producer that sells beer only, or mainly, in the same place where production takes place. In general, this is a pub which is flanked by other spaces used for production. For the purposes of this paper, a microbrewery is defined as a producer whose production is mainly directed outside, to other restaurants, pubs or shops.

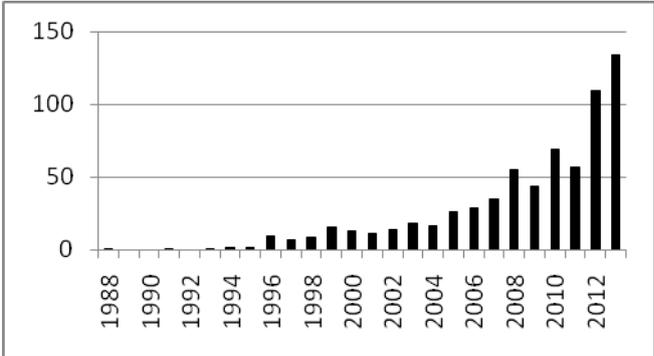
As regards the production of the beer product, it derives from a combination of four inputs: water, malted grains, hops and yeast. These ingredients are the basis for the production of both craft beer and beer brewed by large multinational manufacturers. What differentiates substantially the product of craft enterprises from that of large firms is the manufacturing process. The craft beer does not undergo pasteurization (i.e. a heat treatment in the packaging phase which increases the shelf life, however flattening some organoleptic characteristics of 'fragrance') nor, generally, micro-filtration. Due to the absence of these stages of production, the ingredients are combined in order to create a product with more aroma, flavour, colour and distinctive characteristics. In addition, it is believed that the craft beer of micro producers is more 'natural', due to the absence of additives or preservatives. All the first micro producers in Italy (and also the others which entered later on) produced a non-pasteurized,

non-filtered beer, thus supplying a ‘new’ product to Italian consumers which was distinct from the large firms’ standard beers.

The first micro producer (a brewpub) entered the market in 1988, and the microbreweries that emerged in the mid-1990s are still active in the niche market of craft production in Italy. The diffusion initially exhibited a certain slowness to flow in increasing numbers of new entrants in the years thereafter, but there was an exponential increase after 2000 (Figure 3). Since 1988, the number of micro producers significantly rose to 15 in 1996, 58 in 2000, 336 in 2010 and 607 in 2013. In 2011, the population of micro producers was divided into 65% microbreweries and 35% brewpubs (Cannatelli and Pedrini 2012). In total, up to 2013, 681 firms had entered the market and 74 had exited; thus, there are now 607 micro producers in total.

As a result, the Italian brewing industry now appears highly concentrated with a core of a few big firms producing the mainstream lager beer, in the presence of a large fringe of micro producers which differentiate themselves by producing a wide variety of types of craft beer. The degree of product differentiation is significantly higher than in the 1980s and early 1990s. To conclude, it is worth noting that while the total market is stagnating, the segment of micro producers is still growing.

Figure 3. Number of entrants in microbrewing, 1988–2013.



Source: Author’s computations.

3. Explaining the entry of microbreweries in the Italian beer industry

Many industries have experienced a rapid surge in the number of firms during the late stage of their evolution, such as the American brewing industry, telephone companies, winemakers, bank cooperatives, the newspaper industry, the early American feature film industry and

auditing firms in the Netherlands (Carroll 1985; Barnett 1991, 1997; Swaminathan 1995, 1998; Carroll and Swaminathan 1992, 2000; Mezias and Mezias 2000; Boone et al. 2000). This phenomenon is unusual, given that mature industries tend to exhibit high concentration rates and strong entry barriers, such that it is uncommon to observe an increase in the number of entrants. The Resource-Partitioning model (Carroll 1985) provides an explanation, distinguishing among the different types of organisations in a population of firms as ‘generalist’ and ‘specialist’ organisations⁷. In this model, economies of scale explain the decline in the number of generalist firms and the consequent rise in the concentration ratio. That is, smaller generalist firms face an economies of scale disadvantage and only few generalists survive and adjust their offers to the mainstream need and focus on the centre of the market (composed of mainstream tastes) following a massification strategy. Consequently, this process increases the opportunities for specialist organisations; with the increasing concentration, big generalist producers leave some resource space⁸ free for small specialist producers. Beside the typical standardised product of the generalist firms, then, small specialist producers exploit the opportunities for more specialised products. As a result, when concentration rises, new specialised small firms flow into the industry.

Notwithstanding the elegance and some empirical support for the Resource-Partitioning model (Carroll 1985; Swaminathan 1995; Carroll and Swaminathan 1992, 2000; Mezias and Mezias 2000; Boone et al. 2000), this paper contends that this explanation is too simplistic, and other relevant logic must be considered in order to understand the entry of microbreweries in the Italian beer industry and why this occurred during the 1990s. If the heart of the Resource-Partitioning explanation relates to the demand side rather than the supply side, then it could be argued, in an exercise of counterfactual analysis, that although the number of generalist firms (which produce a lager beer, pale yellow in colour, around 5% alcohol) would not have decreased, the opportunities for small new specialised entrants would have been generated anyway, because the consumer demand was seeking a higher degree of differentiation and product variety as compared to the standardisation of the product of all generalist firms. In other words, if consumers’ tastes (i.e. demand) had been exclusively in favour of the standard product, a significant increase in the degree of concentration (in the extreme case, a single firm) would not have created opportunities for new specialised

⁷ This is according to some criteria related to structure, scope, stated goals, core technology and marketing strategy.

⁸ For industries based on consumer products, the resource space is interpreted as consumer demand.

entrants. Hence, this paper argues for the need to focus the research investigations on the demand side in order to interpret the structural dynamics of the supply side of the market.

Given the impossibility of conducting a counterfactual analysis, this paper provides a robust argument of the dynamics underlying the emergence and spread of microbreweries in Italy during the 1990s, taking into account the fundamental role of demand. The argument, then, is that two main factors contributed to stimulate the birth and diffusion of microbreweries in Italy in the late-1980s and mid-1990s. First, something changed in the general attitude of consumers during and after the 1980s–1990s, and the brewing industry is part of this broader change. That is, new opportunities opened up for new businesses and organisational forms in beer brewing as well as in the broader agri-food industry. Second, the subsequent legitimisation and emulation effects played a key role in sustaining the diffusion of this new organisational form.

In order to understand which products consumers want and buy, we must understand the characteristics and changes of the environment/society, as consumers' purchase decision process is influenced by the characteristics of the environment (Nicosia and Mayer 1976). Consumption is more strongly influenced by culture than by biology, and consumers' preferences are shaped by social pressures and fads. Thus, to understand the birth and evolution of the craft beer market, we must first investigate which forces were behind the general social and cultural changes during the late 1980s to mid-1990s.

3.1. Broad social dynamics

Some key events and dynamics depict the social and cultural atmosphere of the period under study, and they inevitably affected and shaped consumers' patterns of behaviour.

3.1.1. Increasing revenue

Per-capita income in Italy had an upward trend from the 1970s to the 1990s. This factor led consumers to a slow but significant change in their attitudes and consumption choices. Referring to Maslow's hierarchy of needs (Maslow 1954), there was an identifiable change designed to satisfy the needs of a higher order than the basic physiological need. In this sense, we can consider the needs of status and belonging, which consumers can communicate through their consumption choices. Due to this gradual change, consumer demand would become more sophisticated, more refined and inclined to greater variety. This would enable

the consumers to communicate meanings beyond the realm of mere consumption. In some recent empirical works, Chai and Moneta (2012) and Chai (2011) show that as household income rises, total household expenditure is distributed across different goods in an increasingly even manner, and over time, there has been an acceleration in the rate at which household expenditure patterns become diversified as household income rises. Note that in Italy, during the 1980s–1990s, the demand shifted to seeking a large variety of products.

3.1.2. Food scandals and environmental concerns

Over the past few decades, a series of food scandals have exercised an important influence in the attitude towards food consumption in Italy. The methanol scandal in the wine industry in 1986 is the prime example of how consumers can suffer serious health consequences, including death, due to the consumption of unhealthy and uncontrolled food. This created significant consequences for consumers, generating scepticism and concern which led to growing attention on signs and information attesting to the safety of consumer goods. There have been further scandals over the years, such as mad cow disease during the 1990s and dioxin-contaminated chicken in 1998. In addition, in April 1986, the catastrophic Chernobyl nuclear accident in Ukraine had significant psychological consequences for consumers in Italy: the Commission of the European Community outlawed the import of some food products (e.g. milk, fresh vegetables, potatoes, shellfish, poultry) from the countries closest to Ukraine⁹, and the Italian Ministry of Health outlawed the retail of fresh vegetables and the feeding of fresh milk to infants (Campos Venuti et al. 1997). Similar cases obviously diminished consumer confidence in food products. Note that these events created the need for consumers to become more aware and conscious, in particular with regard to food products.

3.1.3. Mass consumption

The 1980s may be considered the years of the fast food boom in Italy. The boom of the Italian fast food brand Burghy started in 1982 in Milan and rapidly diffused throughout the 1980s and 1990s; during the same period, the American Wendy's and Belgian Quick entered the Italian fast food market, and the first McDonald's restaurant opened in 1985. Fast food experienced immediate success in Italy; however, the model of mass consumption and increasingly globalized products that dominated the 1980s began to show its weaknesses

⁹ E.g. Bulgaria, Romania, USSR, Czechoslovakia, Yugoslavia, Poland, Hungary

shortly thereafter, in the 1990s. Similar to what happened in the United States during the 1970s and 1980s, when a shift in thinking brought about a new direction opposed to mass consumption, in Italy, there was a cultural shift in food consumption behaviours: consumers began using products to express their identities, and the consumer–product relationship started to reflect crucial life themes and identity concerns (Fournier 1998). The Slow Food movement was initiated in Italy in this context. According to the President of Slow Food International, one of the events that spurred the development of the association was the opening of a MacDonald’s store in the historic landmark in Rome (Rao and Giorgi 2006). Slow Food was founded in Italy in 1986, and it became an international association in 1989. This association clearly represents the change in consumers’ attitudes in the 1980s and 1990s. Slow Food is a non-profit, eco-gastronomic member-supported organisation that was initiated to counteract fast food and fast life, with the declared purpose of helping people rediscover the joys of eating and understand the importance of caring where their food comes from, who makes it and how it is made. Everyone in Slow Food has the responsibility to protect the heritage of food and the tradition and culture that made it possible to enjoy the food. Moreover, the diffusion of the Slow Food movement demonstrates the existence of a community of consumers who want to become a part of a broader process beyond mere consumption. Consumers are asked to ‘take care of producers that are marginalized by global, standardized commodity circuits’ (Sassatelli and Davolio 2010). Local food, artisanal producers, traditional cuisine and traditional modes of production are part of the community culture which Slow Food aims to preserve. Note that during the 1980s–1990s, consumers developed an attitude in favour of local production.

3.1.4. International integration

The 1980s and 1990s were crucial decades in terms of the international integration of people and economic relationships. In 1985, Belgium, France, Germany, Luxembourg and the Netherlands signed the Schengen Agreement, by which these states agreed to progressively remove controls at their common borders and to introduce freedom of movement for all citizens. The Schengen agreement has been extended over time. Italy signed it in 1990, although it did not go into effect until several years later. In addition, the mid-1980s marked the beginning of the process of the liberalisation of European air transport, with the gradual implementation of measures establishing different stages of deregulation between 1983 and 1992 (Arrigo and Giuricin 2006). The movement of people in Europe became gradually easier

and less expensive also due to the development of low-cost airline services which, for example, transported less than 3 million passengers in 1994, but rose to 14.8 million in 1999, 40 million in 2002 and more than 150 million passengers in 2007 (Cepollina and Parola 2008). According to Istat, during the 1980s, tourism for the first time began to play a role of social relevance. The costume and the type of holiday have changed from the past, and the number of citizens visiting foreign countries has constantly increased over the years. Note that during the 1980s–1990s, the internationalisation of people and communication contributed towards increasing consumers' knowledge about the existence of a great variety of food products which had previously been unknown or less known.

3.2. Consequences of the social dynamics: a new model of consumer

The abovementioned facts and social dynamics strongly impacted consumers' patterns of behaviour. During the 1980s–1990s, there was a gradual change in the overall consumer culture, with new progressively developing patterns of consumption which explain the emergence of new preferences and demand for new products. During this period, there was also a growing awareness among consumers of the importance of knowing the attributes and characteristics of their food. What emerged was a demand with different traits as compared to that in previous years. During the 1990s, consumers became more aware and more sophisticated, and they sought novelty and variety; on the one hand, new cultural and social meanings were attributed to consumption choices, while on the other hand, continuously growing attention was given to the certifications and guarantees of food safety, quality and environmental respect, with an attitude less prone to the dictates of consumerism and more interested in and motivated by the product's intrinsic characteristics. Cultural, social and environmental values were thus deflected to consumption activities (Nicosia and Mayer 1976; Fabris and Rullani 2007; Featherstone 2007), and consumers used their purchases to create their identities (Baudrillard et al. 1976). Some post-modern authors emphasise that consumers were no longer just consumers: consumption was not only for utility but also for experience, and consumers were in search of experience in food consumption (Firat and Venkatesh 1993, 1995; Firat et al. 1996; Fabris and Rullani 2007; Humphreys and Grayson 2008).

The renowned national research study of Censis (2010) perfectly describes the evolution of food consumption behaviours in Italy from the 1970s which reflects the broader economic and social evolutions in the country. Until the 1970s, there had been a continuous increase in the satisfaction of basic needs. During that decade, household budgets

progressively increased, as did the share of the budget spent in food consumption. During the 1980s, revenues and food consumption continued to increase, and the first signs of change in the consumption patterns emerged; people began eating out, looking for experimentation in food consumption and GDO started to consolidate. In the 1990s, eating out and eating at home were both considered important, and there was increasing attention towards quality, safety and the environmental and social impacts of food products. This analysis highlights how Italian consumers embarked on a gradual but significant change in habits and lifestyle in regard to food consumption which generated changes in the supply and production.

Some illustrations could provide evidence of the consequent dynamics relating to these broader social changes. Cuisine became a key component of lifestyle, and a field in which acquiring (and exhibiting) knowledge progressively diffused during the 1980s–1990s, together with the increasing consideration of food consumption in a more existential—an assertion of individuality—than utilitarian manner. The interest in preparing food expanded and also included male consumers. Food was thus ‘born again’ during these decades. Year by year, a new culture of conscious consumption assigned aesthetic, social and symbolic values to food. This new attitude is evident in the revival of the consumer magazine market dedicated to cooking since the early 1980s, and the boom in the next two decades (Figure 4). In addition, the diffusion of TV programmes dedicated to food, cuisine and agri-business experienced rapid growth in the 1990s (Davolio 2007).

Furthermore, during the 1990s, the interest in organic products began increasing significantly both in terms of consumption and land dedicated to the production of organic food (Figure 5). New legislation in defence of consumer rights also developed. In Italy, some local authorities (Regions) introduced new laws in the 1980s and 1990s¹⁰, and the national government enacted a law in 1998 (Law n. 281, 30 July 1998). PDO labels were established by EEC Regulation 2081/92 (recently replaced by EC Reg. 510/2006) and progressively diffused across countries. In Italy, there has been a rapid diffusion of PDO products. Moreover, the significant increase in the number of agri-tourism entrepreneurial activities during these decades exemplifies both consumer attention to food attributes and origin and the entrepreneurial opportunities for creating a new business in the agri-food sector (Figure 6). The Italian brewing industry is an example of this broader narrative.

¹⁰ E.g. Abruzzo in 1984, Tuscany and Lombardy in 1985, Emilia-Romagna and Liguria in 1992, Sicily in 1994

Figure 4. Sales of magazines dedicated to cooking, 1988–2012.

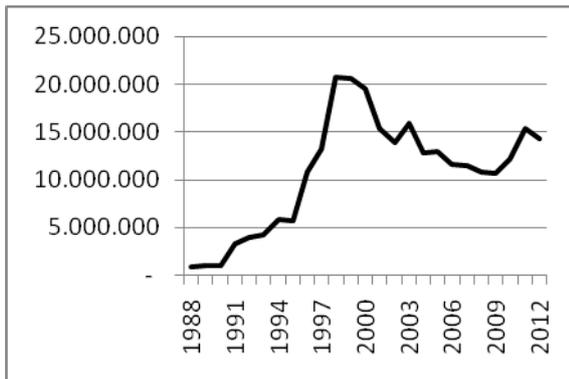


Figure 5. Land designated to organic production, 1990–2012 (000 hectares).

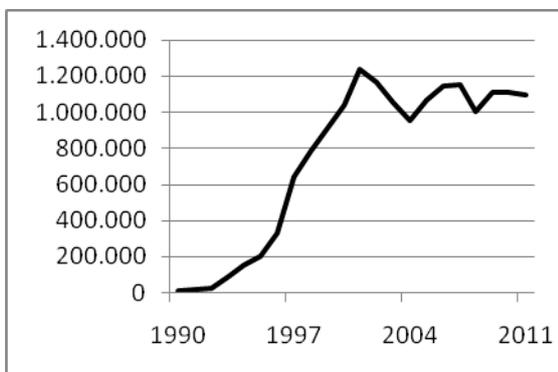
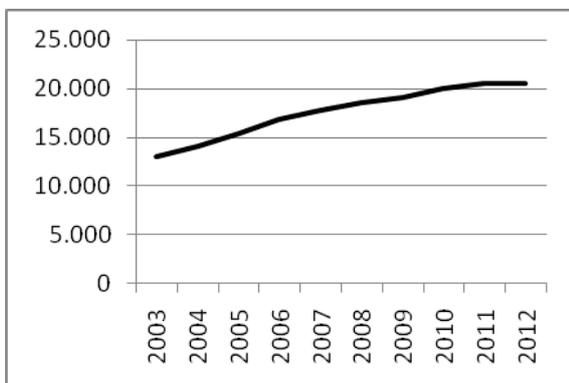


Figure 6. Number of agri-tourism businesses, 2003–2012.



3.3. A new beer consumer

Consumers of beer in the 1990s were notably different from those 10 years before. The increased income induced consumers to seek out greater variety, and the growing interest in food characteristics and safety, as well as in environmental issues, created more aware and demanding consumers. Further, international integration expanded consumers' knowledge

about beer; besides the standard lager beer described above, Italian consumers became progressively aware of new varieties, like the English ales, the Irish stouts, the Belgian trappist and Abbey beer. The feasibility of beer production on a small scale, with the distribution of beer at the local level, was a tradition in other countries like Germany, Belgium and Great Britain, whereas it was a ‘new’ discovery for Italian consumers, whose travels provided the opportunity to increase their knowledge of the drinking habits abroad. New models of consumption also diffused with the spread of a new form of distribution in contrast to the traditional Italian Osterie and Caffè Bars: pubs specialising in beer proliferated during the late 1980s and 1990s, further broadening the culture and knowledge of beer.

Since people were dissatisfied with the beer prevalent in Italy, imported beer and the number of pubs continued to increase. *‘It is objectively very difficult to distinguish a Moretti from a Peroni, a Beck’s from a Bud and so on: it is always a blonde beer, a lager, the taste of which is a reassuring standard and not at all surprising’*, reports the founder of Baladin craft brewery, Teo Musso, in his autobiography, *‘Uncorking a pasteurized beer or a Coca-Cola is the same: you know in advance what flavor you would have felt, without the possibility of surprises. For a long period, therefore, the standardization of industrial production has brought the beer to a level of prestige only slightly higher than that of the carbonated soft drinks’* (Musso and Drago 2013).

Giampaolo Sangiorni (Birrifcio Lambrate brewpub) and Agostino Arioli (Birrifcio Italiano brewpub) claim that pubs during the 1980s contributed towards communicating to young people that there were interesting beers around the world. Nicola Gabrielli (Arte Birraia microbrewery) believes that the 1980s–1990s were the first years in which young people started travelling around the world and experiencing the traditions of the local beers and pubs. According to Guido Taraschi (Centrale della Birra brewpub), *‘In those years, people were ready for something new and different; people were tired of the standard products’*.

People sought new experiences in beer consumption: the pleasure of tasting different and new flavours, sharing passion and experiencing cultural enrichment. ‘Craft consumption’ (Campbell 2005) also emerged as a new pattern of consumption, where consumers actively participated in the creation of products. In the brewing industry, this attitude materialised in home brewing; people started to produce beer at home for personal consumption, for personal pleasure, for sharing a passion for beer with friends, for showing off their competence and expertise and for controlling the naturalness and authenticity of the product. This phenomenon played an important role. In fact, on the one hand, home brewing was the first

experience of many entrants; many entrepreneurs who opened a microbrewery were also home brewers (Bottero 2005). On the other hand, the home brewers represent one of the main diffusion channels of the new beer culture; they have enabled a sort of face-to-face advertising which has helped to sustain the increase in interest and consumption of craft beer.

3.4. The pioneering entrants

The first four pioneers entered the market between 1988 and 1993. In 1988, Gianfranco Oradini and brothers opened the first brewpub in Italy within a multifunctional venue (SensoUnico) in Torbole (TN) on Lake Garda, where they produced the beer Orabräu, in collaboration with the famous Bavarian Luitpold which supplied the production equipment and know-how in brewing beer (Monarca 1991). In January 1991, Peppiniello Esposito opened the microbrewery St. Josef in Sorrento (NA) after working for several years in Bavaria, Germany (Nasini 1991), where he was inspired by the German culture and quality of beer. The third entrant was the microbrewery Aramini Brauerei, opened in 1992 by Renzo Aramini, a former bartender, near Asti (Bearzatto 1993). Lastly, I.B.S. (Industrie Birre Speciali) was founded in 1993 in Capoterra (CA) in Sardinia by Adis Scopel, a brewmaster who had worked in some breweries in Germany and for several years at the historic plant of Italian beer Ichnusa.

These first entrepreneurs who entered the Italian craft beer market were directly or indirectly influenced by the foreign beer culture, through their travels to traditional beer-oriented countries (the United Kingdom, Germany, Belgium), where they were intrigued by the foreign experience of the existing microbreweries and where they came into contact with people working in the beer industry. The combination of the Italian food culture and the foreign beer culture established fertile ground for the emergence of the micro producers of beer in Italy. However, these four pioneering companies, for various reasons, closed after a few years of activity.

In the mid-1990s, the number of new entrants increased significantly. This wave included famous producers, like Turbacci (1995), Birrificio Italiano (1996), Baladin (1996), Birrificio Lambrate (1996) and Beba (1996), which remain at the top of craft beer production today, and some other smaller brewpubs and microbreweries, like Brew Mood Ale House (1993), Mastro Birraio (1994), Greiterhof (1995), Mastro Birraio Lind Beer (1995) and Centrale della Birra (1996). Many of these producers were also influenced by the foreign culture and by the new varieties of beer imported to Italy. Giovanni Turbacci was stimulated

by an article in a special review which explained the evolution of microbreweries in the United States. Teo Musso, founder of Baladin, was inspired by the varieties of beer which he had first discovered in Montecarlo (France) and later in Belgium. Agostino Arioli, founder of Birrificio Italiano, during his studies, spent some time in Munich, where he developed his technical knowledge of the production of beer. Modesto Bottone, founder of Brew Mood Ale House, learnt how to make beer during a period in Northampton, in the United States, where he knew the homebrewing movement and the Northampton Brewery. Giampaolo Sangiorgi, founder of Birrificio Lambrate believes that the diffusion of the new English and Irish pubs during the 1980s and 1990s in Italy contributed towards stimulating the interest and expanding the knowledge of beer among young adults.

Furthermore, according to Sandro and Enrico Borio, founders of Beba, there were no high-quality beers in Italy, and this created an opportunity for starting a new business in this niche. Guido Taraschi, founder of Centrale della Birra, believes that the Italian beer market was flat, and the unique new ideas of success were related to a franchising Irish or English pub; this stimulated the first wave of entrants to make something different but local.

However, initially, some of these firms faced difficulties in convincing consumers about the existence and quality of their products. *'[...] There were prejudices'*, reports the founder of Baladin, Teo Musso, in his autobiography, *'People tasted the beer with suspicion. [...] The obstacle was the fact that my clients were not accustomed to thinking about what they had in the glass. Despite they were accustomed to drink foreign beers for a relevant time, they could not accept that what they had in the glass was the result of a process that could be performed even in the garage next to the bar where they were drinking beer'* (Musso and Drago 2013).

Giovanni Turbacci, in a recent interview, shared an anecdote about how some Italian customers used to drink foreign beer in his brewpub immediately after it opened in 1995: only when they were accompanied by a German friend, who tasted the craft Turbacci beer and said it was good, did they begin to drink Turbacci beer brewed on site. This exemplifies the difficult beginning of the first brewpubs and microbreweries. Producers needed time to convince customers, on the one hand, and to refine their products, on the other. Agostino Arioli reports how tough the first year of the brewpub Birrificio Italiano was: people were distrustful because they found the beer's appearance too hazy, its temperature too warm and its taste flat in comparison to the standard beer. Nevertheless, consumers were ready to claim the success of craft beer: *'who decides in the end is always the consumer'*, concludes Gianni

Pasa, brewmaster of the historic plant in Pedavena. The roots of the new segment in the Italian beer industry were thus established.

3.5. Legitimation, emulation effects and the rise of microbrewing

However, planting the roots of a new path is not enough to create a sustainable new path; entrepreneurs must shape the current state to create new futures, deviating from the structures and boundaries in which they have been embedded so far. Mobilising human and economic resources, shaping consumers' preferences and interacting with consumers to define new preferences and interests in products' attributes are important strategic tasks for new forms of producing organisations.

The role of the pioneering firms was crucial, but insufficient for establishing a new, viable path. The followers defined and refined what the pioneers had created and explored. Thus, the role of the first followers became as important as the first entrants in shaping the path. Undeniably, the first entrants faced greater difficulties, since a particular organisational form initially follows a time process, during which it becomes increasingly considered the natural way of doing certain things (Carroll 1997). The first manifestation of a new organisational form lacks legitimisation, suffering the 'liability of newness' effect. This can be observed in different contexts. For instance, there might be general hostility from suppliers, customers and institutional authorities; further, workers might be hard to find, suppliers must be properly informed about the needs, customers need to be persuaded and, usually, capital resources are limited because of the risks and the reluctance of financing institutions associated with something new. As the organisational form proliferates, its legitimacy rises. Firms established during periods of rising legitimisation find it easier to attract capital and customers, to identify proper suppliers and employees, and they face fewer institutional impediments (Carroll 1997). While the legitimisation effect increases, opportunities associated with this organisational form open up.

In addition, when new processes and paths are initiated, there is higher uncertainty about future profitability at the moment of undertaking the entry decision. It is by observing the post-entry results of other firms that potential entrants disentangle their uncertainty about future profitability. Thus, a mechanism of informational cascade can explain further entry. That is, firms that initially may be pessimistic about the future, due to the fact that entry may prove to be unprofitable, can resolve their uncertainty and may decide to enter the market by observing the experience and the performance of the established firms: *'as more firms enter*

the market, more information gets released to potential entrants by their operations, speeding up the resolution of uncertainty and triggering additional entry whenever the likelihood of a good market increases' (Horvath et al. 2001). This process puts in motion a virtuous cycle in favour of the diffusion of the new organisational form of production.

The experience of the first entrants was promising. While some of them exited the market after a few years, others grew in size and the variety of beers which they produced. Year by year, the first decade of the microbrewery movement attracted the increasing attention of consumers to craft beer. Consumers' interest was piqued in the culture of beer, the story of these products, the use of the ingredients and in the stories of the Italian micro producers themselves. Consumers started to organise in local cultural associations and on blogs and websites about craft beer, discovering more and more new stories, new varieties of beer and new producers. There was active attention, far beyond the pleasure of consuming a good product, which gave the consumers a crucial role in contributing to the diffusion and maintenance of the microbrewery segment in Italy.

In 1997, the pioneers of the industry founded a cultural association, named Unionbirrai. Soon, the association became a place where they could exchange ideas, share problems, help in the resolution of technical and bureaucratic impediments and be in contact with home brewers and consumers. The association has been a real form of collaboration among the first entrants, according to Sandro Borio (Beba) and Guido Taraschi (Centrale della Birra). After a few years, Unionbirrai grew and started to provide technical and bureaucratic advice to new entrants, organise events to promote craft beer, hold competitions and bestow awards for producers, thus spreading the knowledge of the new craft beers at the national level. Many microbreweries which entered the market after the first wave benefited from the advice and support of Unionbirrai.

Changes in Italian law were also crucial to the development of the microbrewery segment. The pioneers suffered from a lack of legislation concerning the production of beer on a small scale, such that small artisanal firms were subjected to the same finance laws and authorisations as the large national firms. Gianfranco Oradini (Orabrau) reports that finance officers had to remove the plumb at the beginning of each production day and replace the plumb in the end. In his book, Teo Musso (Baladin) shares that the finance officer's response to his requirement to start a new business in beer production was: *'it is not possible'* (Musso and Drago 2013). Furthermore, Adis Scopel (I.B.S.) says that the Italian regulation on beer production in 1993 was comparable to a medieval law. According to Enrico Borio (Beba), Beba brewpub opened in May 1996, but did not start to produce beer until September because

the local finance office was not ready to manage the authorisations for craft beer production. Two significant changes in the Italian laws removed some strict requirements, thus helping the micro producers to manage the bureaucracy. To comply with the European Union legislation, the tax regulation on beer was changed at the end of 1992 (Legislative Decree 27 November 1992, n. 464). This was a key moment for the discipline because it was decided that the detection methods would be changed in order to establish a system which takes into account the effective yield of the product. Therefore, a new, simpler method of taxation was introduced which created easier conditions for starting a new production site for brewing beer. The system passed from taxation on the intermediate product to taxation on the finished product. Until then, in fact, the measurements were made with a series of mechanical devices that calculated the amount of wort produced in obtaining the final product. Another crucial change occurred in 1995, when Legislative Decree no. 204 (26 October 1995) eliminated the requirement of the presence of a local finance officer during production and the practices surrounding the plumbing system after each production. These changes created a more favourable environment for the upcoming entrepreneurs.

The evolution of consumer preferences, the legitimisation effect, the emulation among producers, the simplification in the laws and Unionbirrai facilitated a virtuous cycle in support of the diffusion and success of the new organisational form for producing beer in Italy—the microbreweries and brewpubs. In 2011, there were 385 microbreweries and brewpubs. The average production was 411 hl, with production varying from 20 to 20,000 hl¹¹, and the total production of craft beer constituted only 1% of the total production of beer in Italy. Most of these firms are so small that it would be more appropriate to call them nanobreweries. An analysis performed by Unionbirrai (Cannatelli and Pedrini 2012) shows that 61.7% of the sample of interviewed firms produces less than 250 hl per year, 22.3% between 250 and 700 hl, and only 16% more than 700 hl. Production and the firm's age are positively correlated: older firms produce larger volumes. With regard to employment, 54.3% of the sample of microbreweries in 2011 had no employees, 41.5% had 1 to 3 employees and only 4.3% had more than 4 employees; the percentage of brewpubs with more than 4 employees is higher, at 18%. The variety of beer produced is wider for microbreweries (45.7% brew between 1 and 5 different beers, 32.8% between 6 and 10 and 21.5% more than 10) than brewpubs (58.3% brew between 1 and 5 different beers, 25% between 6 and 10 and 16.7% more than 10), while brewpubs supply stronger and complex beers. Even if these data report that the craft beer

¹¹ Source: Guida alle birre d'Italia (2013), Slow Food Editore. 20 hl are declared by Birra del Bracco (Modiglia, GE) and 20,000 hl by Amarcord (Apecchio, PU).

segment is still marginal in the Italian brewing industry, it is worth noting that while total beer consumption has been declining in recent years, the craft segment has registered a continuous increase in the number of entrants and the quantity produced.

4. Conclusions

This paper investigated the reasons behind the phenomenon of the entry of entrepreneurial new microbreweries and brewpubs in the brewing industry in Italy. It was demonstrated that the evolutionary dynamics of these new organisational forms need to be connected to the dynamics of consumption, which have gradually characterised the changes in consumer choices since the 1980s and 1990s. Increasing revenues, a growing interest in food knowledge, greater attention to safety and the authenticity of food and the rise of new cultural and social meanings attributed to consumption choices generated a new kind of demand for variety and new products. In addition, international integration created the possibility for consumers to increase their knowledge about the food habits of foreign cultures. The changes in the social and cultural scenarios also affected consumer preferences in relation to beer. The changes in the attitudes of consumers, who were no longer satisfied with consuming the prevalent standardised products and were looking for variety, and who were more aware of the importance of knowing about food, ingredients, origin, quality and attributes, opened up new opportunities for new firms and new niches in the market. Some mindful pioneering entrepreneurs exploited these opportunities and started to deviate their entrepreneurial choice from the taken-for-granted way of doing things, which, in beer production in Italy, had always meant a lager beer produced by a large firm. These factors created the conditions for the emergence of the microbrewery segment. In addition, a virtuous process of self-sustainment through the effects of legitimacy and emulation stimulated further new entrants. Furthermore, the analysis in this paper centred on original, in-depth interviews with almost all of the pioneering entrepreneurs in the craft beer market.

This paper has some implications for future research. The analysis in the paper represents an original contribution to the understanding of an unexplored segment in a mature industry, namely, the brewing industry in Italy. In addition, the original discourse should contribute to spurring further research into the role of demand in particular in the evolutionary economics field. The paper argues for the need to study the demand conditions in order to grasp the logic behind the birth and evolution of a new market. Evolutionary economics theories and studies in industrial dynamics have largely focused on the supply side of the

evolution of industries, while the role of demand has remained less explored. However, the analysis of the demand and of the related changes will also be fundamental for interpreting the evolutionary dynamics of the niche of micro producers over the next few decades, to explore if there will be a gradual consolidation of the largest producers in this market niche, if there will be a shakeout in a few years and if multinational companies will implement competitive strategies to respond to this growing phenomenon.

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