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Networks and relationships in SMEs - a content analysis of microbrewery relationships

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Introduction

"Man is by nature a social animal" - Aristotle

Academic research is quite unanimous about the importance of creating efficient networks for starting and operating a successful business (Harris, Rae & Misner, 2012). Internal and external network connections are deemed especially critical for new, small businesses (McGrath, Vance & Gray, 2003). Moreover, Zontanos and Anderson (2004) argue that in small firms it is difficult to distinguish the practice of relationship marketing from entrepreneurial action and consequently, they suggest that relationship marketing could be considered as a facet of entrepreneurship. It seems that networking, that is, the formation of formal and informal personal relationships, is inherent in operating a small firm. As the way entrepreneurs run their businesses is dependent on their traits, styles, competencies and behaviours (Martin, 2009) these also affect the way they form relationships. In addition, their business motivations help to explain to what extent, why and how they engage in networking (Kuhn & Galloway, 2015). One of the main characteristics of networks is that there exist various relationships, including personal and professional (Ceci & Iubatti, 2012). The goal of this paper is to map out the relationships that SMEs have and to study how these relationships have affected these companies.

To achieve this, the booming craft brewing industry has been selected as the empirical context of this study. The number of breweries across Europe has witnessed rapid growth in the 21st century. In 2009 there were 3468 active breweries in Europe (EU-28) and in 2015 almost 7500, meaning more than 100 per cent growth in six years (Brewers of Europe, 2016). Most of the growth is based on microbreweries which have increased from 2123 to 5845 (Brewers of Europe, 2016). Microbreweries or craft breweries are very much characterised by strong relationships as co-distribution and co-brewing are common practices. However, we have not had insights into microbrewery relationships before this study.

Theoretical background: Relationships and networks in SMEs

Networking enables small firms to gain access to resources that might otherwise be out of their reach (Harris, Rae & Misner, 2012). Individual networks can offer ready access to information and assistance needed in quick response to opportunities and difficulties that arise while running a business (McGrath, Vance and Gray, 2003). For small business owners, it is thought to be critical to find people that complement their missing skills and know. (Harris, Rae & Misner, 2012). In many cases peers can create an important resource for small business owners, because professional advisors may be less feasible or affordable (Kuhn, Galloway & Collins-Williams, 2016). Contrary to their larger counterparts, small firms do not have the benefit of large corporate networks, but they often attend trade shows that offer possibilities to meet peers and they can also use the internet to seek advice from their peers (Kuhn, Galloway & Collins-Williams, 2016). All in all, advice sharing is common and essential for new and small firms that lack a large, developed internal structure and resources to provide information that enhance decision making (McGrath, Vance & Gray, 2003).

Social network refers to the ways people are connected to one another through various familiarities ranging from casual acquaintances to close family bonds (Harris, Rae & Misner, 2012). Martin (2009) found that the effective use of these personal contact networks and excellent communication skills play a focal role in firm success. In small firms, entrepreneurs' contacts are often informal, work or non-work related, including professional networks, friends and colleagues from earlier jobs (Greve & Salaff, 2003). Most small business owners have also received advice from peers (Kuhn, Galloway & Collins-Williams, 2016). These social networks operate on multiple levels and they affect the way problems are solved, how businesses are run and how individuals are able to achieve their goals (Harris, Rae & Misner, 2012). With their network members, entrepreneurs discuss different aspects of

establishing and operating a business (Greve & Salaff, 2003). Although advice seekers tend to turn to people who they know well, with whom they have formed relationships through previous work settings, educational settings or mutual contacts (McGrath, Vance & Gray, 2003), studies have shown that the most useful network member is usually not a friend, but an acquaintance of a friend or a friend of an acquaintance, thus emphasizing the significance of weak ties (Harris, Rae & Misner, 2012).

The use of networks varies during different phases of entrepreneurship and, for example, entrepreneurs tend to talk with more people when planning (Greve & Salaff, 2003). Furthermore, the findings of McDonald and Westphal (2003) suggest that informal network ties can play a focal role in strategic outcomes of a firm such as firm performance. They also argue that informal social ties can have effects that simultaneously enhance and weaken firm performance (McDonald & Westphal, 2003). For small businesses personal relationships are important in developing a customer base and often personal relationships are also their unique selling point (Harris, Rae & Misner, 2012). In Zontanos and Anderson's (2004) case study it was pointed out that relationships were used innovatively to add value to the customers' perception of the business operations. Eberhard and Craig (2013) found that both inter-personal and inter-organizational networks affect positively on SME internationalization, but within different time horizons. Furthermore, rapid-growth business owners seem to understand the importance of networking and they are active in acquiring and assessing different sources of support and advice, although they prefer to obtain advice from their peers (Fischer & Reuber, 2003). Peer networks offer benefits that relate to e.g. emotional support, business management, creative ideas and joint promotions and depending on their commercial motivations small business owners value these benefits differently (Kuhn & Galloway, 2015). Generally it is believed that an open network with diverse connections creates better opportunities for business success than a network with many connections but within a single or closed network (Harris, Rae & Misner, 2012). Negative sides of networking are that they can increase costs through risks involved in knowledge-sharing, they may restrict strategic options to the boundaries of the network and the costs induced by the investment of time and resources to maintain the network may actually exceed the benefits (Eberhard & Craig, 2013).

Online and offline networking are not exclusive and many practitioners are fluent in both (Harris, Rae & Misner, 2012). Social tools enable to maintain a larger network, but the downside is that it requires a lot of time and learning to master them effectively (Harris, Rae & Misner, 2012). However, this might pay off as Kuhn, Galloway and Collins-Williams (2016) argue that the use of online-only advisors is associated with business growth.

Study methods

To study the networks and relationships of SMEs we conducted 13 in-depth interviews with various microbreweries located in northern England. Interview durations ranged from one hour to two hours. Interviews discussed company history, company marketing, company management, relationships with different stakeholders, exporting and marketing insights. All the interviews were recorded and transcribed. First, we highlighted every passage that was somehow connected with relationships or networks in the data. Then we analysed the relationship data using content analysis. The aim of the content analysis is to build a model of relationships that affect SME business. Inductive approach was used, in consistency with work by Ceci & Iubatti (2012). The data was coded, grouped, categorized and abstracted into relationship categories (Elo & Kyngäs, 2008).

Results

We identified altogether 13 different actors that microbrewery SMEs are involved with. These relationships seem to define how the SMEs operate and affect various parts of their business.

Friends impact microbreweries and their brewers. Many microbreweries are based on friendships. Beer is also a topic that creates friendships and brings people together. Brewers had met new friends that are also beer geeks and started businesses with them. They also often meet other brewers over a pint of beer and upkeep thus their relationships. Friends have helped the brewers to start their business by investing in them and friends are also helping microbreweries with exporting. Many export opportunities have opened up for these companies because of their friendship with someone in another country. Also on several occasions new brewers were able to secure their first sales through their friends that operated for example pubs, bars or clubs. Friends have also helped these companies with their marketing efforts and even helped to find a suitable place where to start brewing beer. Friends in right positions are also important source of market income and brewers often turn to their friends that live for example abroad to get market information from that particular country. Friends also help brewers to connect with experts such as consultants or experienced brewers in many instances.

Family relationships also play a central role in these SMEs. Family members have invested money in breweries and sometimes the brewery is started right from the beginning as a family business, bringing income for the whole family. Family and extended family have also been important buyers and testers of products, especially at the starting period of the business. Family members have also helped with marketing, website design, designing products and packages and even exporting.

Relationships with various *customers* are also often mentioned. These customers are typically bars and pubs but also clubs, shops, restaurants and wholesalers. Many brewers spend considerable time with their customers and build various kinds of relationships with them for product development, sales, market information and branding. Very often brewers know personally the owners of the pubs and bars where they deliver their products and can even decide not to sell to a place in case they are on the same page with a potential customer.

Many brewers were also engaged with various *networks and organizations* such as local and national brewing association and regional network of food and beverage companies. These networks and organizations provide SMEs many useful opportunities to build relationships with each other and potential customers as well as experts.

Relationships with *suppliers* can be critical for microbrewery businesses. Having a good relationship with supplier can mean that a company receives much needed ingredients quicker or much more conveniently. Good relationship with the supplier delivery team can mean that the team designs routes to better suit the company and increases delivery flexibility. Suppliers are also used to bounce off ideas for example about new products.

One of the most interesting relationships to examine in case of microbreweries was their relationships with *competitors*. Despite naming other microbreweries their competitors, many also mention that they collaborate a lot with them. One brewer stated that there is such a good collaboration between microbreweries as they all have a common enemy, namely generic, multi-national businesses with their generic lagers. Microbreweries are aiming to increase the quality and the taste of the beer people drink and thus have a common goal. Competitors often exchange ideas and practices, bounce off ideas, brew and drink beers together and exchange beers to sell and even supply each other with ingredients in case someone has run out of something.

Relationships with *landlords* also came up in the interviews. One brewer stated that he already knew pub landlords before starting the company which enabled him to have a relatively strong position when starting a microbrewery. Several brewers are renting their

business properties where they brew their beers and close relationship with landlord enables businesses to better predict future developments.

It was very typical that a microbrewery was started together with a *brewing partner*. Relationship with someone who is as interested in the topic as you seems to be an important starting point for many microbreweries. Relationship with the brewing partner or partners is crucial for the start-up and development of the brewery.

Relationship with the *staff* of the microbrewery can open up for example export opportunities through employees' relationships and enable business development based on prior experience.

Relationships with *experts* provide microbreweries many opportunities. Knowing an experienced and renowned brewer can be tremendously helpful in case of problems or just to bounce back ideas. Knowing the right expert can help a company to gain important market insights. In one case a close relationship with a landlord gave the brewery important connection to a consultant who helped them to secure an important investment funding by helping out with the application.

Local community and relationship with them is important not only as a market but also as a source of employees. These microbreweries are part of the local community in many ways, but it was not that common that they had thought their role in it.

The microbreweries also had relationships with the *end users*, namely the people who drank their products. For example social media was often found useful way to keep in touch with beer enthusiasts and get their opinions on for example a new beer taste. Brewers also tend to talk with people when they are visiting a pub and using these conversations to collect market information.

Casual and various *acquaintances* and brewer connections with them also open up several business opportunities. These acquaintances are people brewers know or have met some time in the past during for example various trade events or trips to abroad.

Table 1. Examples of content analysis coding used to analyse the data

Quote	Sub-category	Generic category	Main category
<i>It is funny because technically they are competitors but it doesn't feel like competition because we work closely with them. Tomorrow we have got [three other microbreweries] all brewing with us here, we see them as friends in the industry but technically they are competitors because they are trying to get their beers in the same pubs as we are trying to get into but we can work with them. The places we want to knock off bars, the brewery beers that we want to knock off bars are your generic, multi-national businesses, so your generic lagers and your John Smith's etc</i>	Working closely with competitors. Brewing with competitors. Actually they have a common enemy, large beer companies and their tasteless lager.	Brewing with competitors	Competitors
<i>We met on a friend's stag do about four or five years ago, something like that, just got chatting about beer, talked more about beer and talked more about beer and realised that we were both complete geeks when it comes to beer, we have been great friends ever since</i>	Beer as a topic has created relationships between people	Creating friendships	Friends
<i>If we knew, for example, there is a bar in town that wants our beer in every other week, they don't want to stock us every single time then we can work closely with another</i>	Knowing the bars in town and working closely	Working together with pubs	Customers

<p><i>brewery we know and get them on a rotation so that we are basically working together and it is easier to put someone forward who you know their beer is similar to yours.</i></p>	<p>with them, working together</p>	<p>and bars</p>	
<p><i>There are a lot of beer geeks on Twitter, who use Twitter, and there is a lot of beer that is made to satisfy that thin slice of the market but they are the people, you are satisfying the people who do like to shout and make noises about certain beers, so it is quite good to service that part of the market but we are also aware that there is a huge chunk of the market where people go into a pub, they know what they like and if it is on, I will have four of those, or whatever, and they will always come back and so you have got to make sure that the quality and the consistency is there to satisfy their need, whereas also occasionally doing something that challenges us and also satisfies the thin slice of the market you would probably get a lot of noise created by.</i></p>	<p>Using social media to connect with beer geeks.</p>	<p><i>Relationship with beer geeks.</i></p>	<p>End users</p>



Figure 1. Actors and entities microbrewers have business relationships with

Discussion and conclusions

The aim of this study was to map out the actors that SME's in the case of microbreweries have relationships with and to study how these relationships have affected these companies. We identified altogether 13 different actors that these SME's are involved with. Understanding these relationships provide an important overview of how SME's are build upon relationships and networks. Mapping corporate relationships such as these are not

common in academic research even though this kind of study provides a strong starting point to understand how businesses work.

In academic research this study contributes to our understanding of how important networks and relationships are for SME's and provides a way to map these relationships. This study reinforces the theory that networks and relationships affect SME's significantly. What is new here is that relationships have even stronger effect than traditionally thought. They are not just part of everyday business but even define company existence. These companies are founded on relationships and many of the breweries would not exist without relationships that they have. This highlights the need to understand what kind of relationships and with whom SME's have those.

For practitioners the results provide a way to examine their relationships with various actors and organizations. These 13 relationships exist in the data set of many microbreweries. Not all have these relationships. Companies can map out their relationships and their importance on their business using the results of this study.

The first part of the study identified 13 relationships. Some parts of those relationships have been previously discussed in the literature, such as family members, friends, professional networks (Greven & Salaff, 2003), peers (Kuhn, Galloway & Collins-Williams's, 2016), acquaintances and experts (Harris, Rae and Misner, 2012; McGrath, Vance and Gray, 2003).

However, more importantly our study identifies seven additional relationships which were not given as much significance in previous studies. Those are customers (pubs, bars, clubs, wholesalers, shops), suppliers, competitors, landlords, staff, local community and end users. An explanation for those relationships could be that beer connects likeminded people which make the topic special.

The second part of the study identified the affect the identified relationships have on the breweries. Some of those affects have been supported by previous literature, such as help with starting a business, help with the marketing, finding the right locations to set up the business, offering market information, exchanging practices and bouncing off ideas (Harris, Rae & Misner, 2012; Greve & Salaff, 2003); helping to export the product (Eberhard & Craig, 2013); securing the first sale, offer information about innovations, get new ideas (McGrath, Vance and Gray, 2003); product development, sales, marketing information and branding (Harris, Rae & Misner, 2012); can offer advice and emotional support and exchange creative ideas (Kuhn, Galloway and Collins-Williams, 2016) and to add value to customers perception (Zontanos and Anderson, 2004).

But something which has not been covered by previous studies is that the topic beer is uniting people on different level. First beer geeks meeting another in their spare time or on events and then choose to start a brewery together to become friends in the process, families and friends actively helping in the product development process, suppliers helping to develop export relationships, and the close bond among competitors. Competitors feeling they are fighting against the large, multi-national larger breweries and in this fight the microbreweries teach each other how to brew, help another out with ingredients if one runs low, offer the chance to Kuku- or Gypsy- brew, bottle for each other, do beer swaps, brew together (innovate together) and warn another when one of the customers is not paying.

The results of this study show that we should examine SMEs whole business as a product of relationships, not just for example focus on relationship marketing. More work is needed to understand how these relationships affect the competitiveness of SMEs and the strength and quality of these relationships. This study provides an important starting point for us to understand microbrewery and SME business through multitude of relationships.

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