

The Center for Hospitality Research

Hospitality Leadership Through Learning



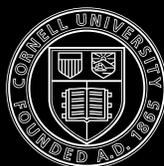
The Ithaca Beer Company: A Case Study of the Application of the McKinsey 7-S Framework

Cornell Hospitality Report
Vol. 12 No. 7, April 2012

by J. Bruce Tracey, Ph.D., and Brendan Blood

20th
1992 - 2012
ANNIVERSARY

All CHR reports are available for free download,
but may not be reposted, reproduced, or distributed without the express permission of the publisher.



Cornell University
School of Hotel Administration

Advisory Board

Niklas Andréen, *Group Vice President Global Hospitality & Partner Marketing, Travelport GDS*

Ra'anan Ben-Zur, *Chief Executive Officer, French Quarter Holdings, Inc.*

Scott Berman, *Principal, Real Estate Business Advisory Services, Industry Leader, Hospitality & Leisure, PricewaterhouseCoopers*

Raymond Bickson, *Managing Director and Chief Executive Officer, Taj Group of Hotels, Resorts, and Palaces*

Stephen C. Brandman, *Co-Owner, Thompson Hotels*

Raj Chandnani, *Vice President, Director of Strategy, WATG*

Eric Danziger, *President & CEO, Wyndham Hotel Group*

Benjamin J. "Patrick" Denihan, *Chief Executive Officer, Denihan Hospitality Group*

Chuck Floyd, *Chief Operating Officer–North America, Hyatt*

RJ Friedlander, *CEO, ReviewPro*

Gregg Gilman, *Partner, Co-Chair, Employment Practices, Davis & Gilbert LLP*

Tim Gordon, *Senior Vice President, Hotels, priceline.com*

Susan Helstab, *EVP Corporate Marketing, Four Seasons Hotels and Resorts*

Paul Hineman, *Executive Director, National Restaurant Association*

Steve Hood, *Senior Vice President of Research, STR*

Jeffrey A. Horwitz, *Chair, Lodging + Gaming, and Head of Private Equity Real Estate, Proskauer*

Kevin J. Jacobs, *Senior Vice President, Corporate Strategy & Treasurer, Hilton Worldwide*

Kenneth Kahn, *President/Owner, LRP Publications*

Keith Kefgen, *Chief Executive Officer, HVS Executive Search*

Kirk Kinsell, *President, The Americas, InterContinental Hotels Group*

Radhika Kulkarni, Ph.D., *VP of Advanced Analytics R&D, SAS Institute*

Gerald Lawless, *Executive Chairman, Jumeirah Group*

Steve Levigne, *Vice President, U.S. Strategy & Insights, McDonald's Corporation*

Mark V. Lomanno *Executive Board Member, newBrandAnalytics*

David Meltzer, *Chief Commercial Officer, Sabre Hospitality Solutions*

William F. Minnock III, *Senior Vice President, Global Operations Deployment and Program Management, Marriott International, Inc.*

Mike Montanari, *VP, Strategic Accounts, Sales - Sales Management, Schneider Electric North America*

Shane O'Flaherty, *President, International and Ratings, Forbes Travel Guide*

Chris Proulx, *CEO, eCornell & Executive Education*

Cyril Ranque, *SVP, Global Market Management, Expedia, Inc.*

Carolyn D. Richmond, *Partner, Hospitality Practice, Fox Rothschild LLP*

Susan Robertson, CAE, *EVP of ASAE (501(c)6) & President of the ASAE Foundation (501(c)3), ASAE Foundation*

Michele Sarkisian, *Senior Vice President, Maritz*

Janice L. Schnabel, *Managing Director and Gaming Practice Leader, Marsh's Hospitality and Gaming Practice*

Trip Schneck, *Managing Partner, District Hospitality Partners*

K. Vijayaraghavan, *Chief Executive, Sathguru Management Consultants (P) Ltd.*

Adam Weissenberg, *Vice Chairman, Global and U.S. Travel, Hospitality & Leisure Leader, Deloitte & Touche USA LLP*



*The Robert A. and Jan M. Beck Center at Cornell University
Back cover photo by permission of The Cornellian and Jeff Wang.*

Cornell Hospitality Reports,
Vol. 12, No. 7 (April 2012)

© 2012 Cornell University. This report may not be reproduced or distributed without the express permission of the publisher.

Cornell Hospitality Report is produced for the benefit of the hospitality industry by The Center for Hospitality Research at Cornell University

Rohit Verma, *Executive Director*
Jennifer Macera, *Associate Director*
Glenn Withiam, *Director of Publications*

Center for Hospitality Research
Cornell University
School of Hotel Administration
489 Statler Hall
Ithaca, NY 14853

Phone: 607-255-9780

Fax: 607-254-2922

www.chr.cornell.edu

The Center for Hospitality Research

Hospitality Leadership Through Learning

Thank you to our generous Corporate Members

Senior Partners

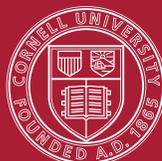
ASAE Foundation
Carlson Hotels
Hilton Worldwide
National Restaurant Association
SAS
STR
Taj Hotels Resorts and Palaces

Partners

Davis & Gilbert LLP
Deloitte & Touche USA LLP
Denihan Hospitality Group
eCornell & Executive Education
Expedia, Inc.
Forbes Travel Guide
Four Seasons Hotels and Resorts
Fox Rothschild LLP
French Quarter Holdings, Inc.
HVS
Hyatt
InterContinental Hotels Group
Jumeirah Group
LRP Publications
Maritz
Marriott International, Inc.
Marsh's Hospitality Practice
McDonald's USA
newBrandAnalytics
priceline.com
PricewaterhouseCoopers
Proskauer
ReviewPro
Sabre Hospitality Solutions
Sathguru Management Consultants (P) Ltd.
Schneider Electric
Thayer Lodging Group
Thompson Hotels
Travelport
WATG
Wyndham Hotel Group

Friends

4Hoteliers.com • Berkshire Healthcare • Center for Advanced Retail Technology • Cleverdis • Complete Seating • Cruise Industry News • DK Shifflet & Associates • ehotelier.com • EyeForTravel • Gerencia de Hoteles & Restaurantes • Global Hospitality Resources • Hospitality Financial and Technological Professionals • hospitalityinside.com • hospitalitynet.org • Hospitality Technology Magazine • HotelExecutive.com • International CHRIE • International Hotel Conference • International Society of Hospitality Consultants • iPerceptions • JDA Software Group, Inc. • J.D. Power and Associates • The Lodging Conference • Lodging Hospitality • Lodging Magazine • LRA Worldwide, Inc. • Milestone Internet Marketing • MindFolio • Mindshare Technologies • PhoCusWright Inc. • PKF Hospitality Research • Questex Hospitality Group • Resort and Recreation Magazine • The Resort Trades • RestaurantEdge.com • Shibata Publishing Co. • Synovate • UniFocus • Vantage Strategy • WageWatch, Inc. • The Wall Street Journal • WIIH.COM



Cornell University
School of Hotel Administration

The Ithaca Beer Company:

A Case Study of the Application of the McKinsey 7-S Framework

by J. Bruce Tracey and Brendan Blood

EXECUTIVE SUMMARY

An analysis of the Ithaca Beer Company demonstrates how the McKinsey-developed 7-S model can be used to assess a company's competitive and strategic position. The model itself proposes that the following seven key points should be in alignment: strategy, structure, systems, staff, skills, style, and shared values, the last of which is central to the other six elements. Relatively small by the standards of the U.S. brewing industry, Ithaca Beer Company (IBC) is a craft beer brewer with a gradually expanding regional distribution. Based on interviews and other analysis, four of the seven factors in the 7-S model clearly are aligned and critical for this company's success. They are strategy, staff, skills, and shared values. Briefly, IBC's strategy is one of community involvement and careful attention to distributors, retailers, and customers. Its relatively small staff is enthusiastic about the product, has strong skills, and works collaboratively. Although the other three S factors do not seem to be so critical at the moment, they may come into play as IBC continues to grow and expand. Thus, while the 7-S analysis is useful in highlighting a company's strengths and challenges, a contingency approach may be the most appropriate, with certain factors being more salient than others at any particular time.



ABOUT THE AUTHORS



J. Bruce Tracey, Ph.D., is associate professor of management at the Cornell School of Hotel Administration and is editor of the *Cornell Hospitality Quarterly* (jbt6@cornell.edu). He has conducted research on a wide range of strategic and operational-level HR topics, including the impact of training initiatives on firm performance, employee turnover, employment law and leadership. He has presented his work at numerous regional, national and international conferences, and his research has been published in diverse outlets such as the *Journal of Applied Psychology*, the *Cornell Hospitality Quarterly*, and the *University of Pennsylvania Journal of Labor and Employment Law*. His recent sponsors for research and consulting include Four Seasons, Hilton, ClubCorp and Uno Chicago Grill, and he has been cited in the *New York Times*, *USA Today*, and the *Orlando Sentinel*, among other popular press outlets.



A graduate of the Cornell University School of Hotel Administration, **Brendan Blood** is a systems integration consulting analyst at Accenture Education based in New York City (brendan.blood@accenture.com).

The Ithaca Beer Company:

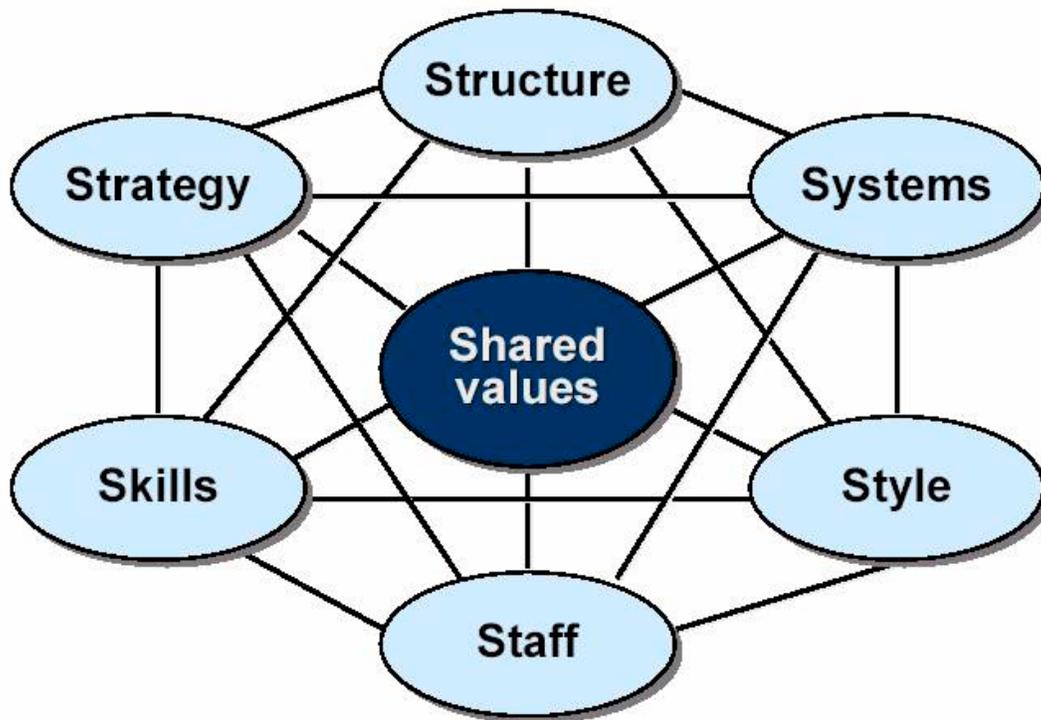
A Case Study of the Application of the McKinsey 7-S Framework

by J. Bruce Tracey and Brendan Blood

A clear understanding of a firm's competitive position is essential for facilitating growth and achieving high levels of performance. Such clarity is particularly important for firms that are competing in emerging industry segments where the environmental dynamics are typically quite turbulent and ambiguous. One framework that has been widely used to assess a firm's competitive position is the McKinsey 7-S framework. The premise of this model is that the seven "S" factors contained in the model must be aligned so that a company may effectively cope with the myriad of competitive forces that affect performance.¹ Despite its wide application in the three decades since its introduction, no research has established the relative importance of the seven factors in the 7-S framework. So while this model may have substantial utility for diagnostic purposes, it lacks prescriptive guidance for understanding priorities and action steps that may be necessary for sustaining and enhancing firm performance in highly competitive environments.

¹ T.J. Peters and R.H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies* (New York: Harper & Row 1982); and R.H. Waterman, T.J. Peters, and J.R. Phillips, "Structure Is Not Organization," *Business Horizons*, June 1980, pp. 14-26.

The 7-S framework



That said, the model provides a framework that allows a structured analysis of a company's competitive position. In this paper we demonstrate a 7-S analysis by presenting the results from a case study of the Ithaca Beer Company (IBC), which examines the relative importance of the 7-S factors. IBC is competing within a new, growing, and increasingly challenging segment of the hospitality sector, the craft beer industry. We challenge the focus on alignment of the 7-S factors, and demonstrate a multi-level model that accounts for the differential impact and importance of the various 7-S factors. By doing so, we offer a more detailed explanation of how the 7-S framework can be used to better understand a firm's competitive position, and demonstrate how this framework can be applied to improve decision making effectiveness and efficiency—and, indeed, offer a prescriptive analysis.

We begin by presenting an overview and critical analysis of the 7-S framework, followed by a discussion of the primary competitive challenges within the craft brewing segment. Next, using the 7-S model to analyze the competitive position of the Ithaca Beer Company, we discuss the roles and relevance of each factor. The results demonstrate support for a conclusion that four of the 7-S factors are aligned and germane to IBC's competitive position. We conclude by offering a contingency explanation of the 7-S model that can be applied and validated in other hospitality contexts and segments.

The 7-S Framework

The 7-S framework is a diagnostic model that attempts to identify the factors that are necessary for effective strategy execution. As we said above, the model is predicated on the principle that the seven factors are inter-related and must be aligned to enhance and optimize organizational performance.² Exhibit 1 presents a graphical representation of the model.

Three of the factors—strategy, structure, and systems—are known as hard Ss. Strategy reflects the planned or intended actions of the firm for responding and adapting to the competitive influences in the external environment. Structure represents the coordination mechanisms of the firm and is defined by the division of tasks and labor, as well as the hierarchy of power and reporting relationships. Systems are the mechanisms used to manage organizational processes and procedures, such as financial planning and internal controls, staffing and performance management, and information technology.

The remaining four factors, called the soft Ss, are staff, skills, style, and shared values. Staff describes the individuals who perform the work of the firm—their backgrounds,

² M.E. Porter, "What Is Strategy?," *Harvard Business Review*, November-December 1996, pp. 61-78.

experiences, and capabilities. Skills reflect what the organization does best—the collective competencies that are utilized to manage organizational systems, processes, technology, and customers. Style represents the culture of the firm and is characterized by collectively held assumptions, values, and normative behaviors. The shared values factor, which is at the center point of the model, reflects the superordinate goals of the firm and provides employees with a sense of purpose.

As noted above, the 7-S model is widely used in practice and considered to provide a robust approach for examining organizational alignment.³ Strangely, despite the length of time since the model was introduced, little evidence supports the utility and veracity of the framework, although a few studies have examined the content validity of the model. For example, some scholars have argued that the model omits consideration of variables that should be included, such as strategic execution, which reflects the primary outcome of the alignment among the other 7-S factors.⁴ However, most scholars and practitioners have apparently assumed the model's validity and simply utilized it as a guide to inquiry.⁵

Although we question the premise that all seven factors may be equally relevant, we adopt the framework for the following reasons. The efficacy of the 7-S model has been supported indirectly by research findings across several academic disciplines. For example, studies published in the economic and strategic management literatures, including some that have focused on the hospitality industry, have shown that the alignment among the three hard Ss has a significant influence on firm competitiveness.⁶ In addition, there is evidence in the human resources, organizational behavior, and psychology literatures regarding the integrative requirements among the soft Ss for promoting firm performance. For example, there is fairly strong and consistent evidence that the alignment of key policies, practices, and procedures

within a firm's human resources function—from staffing to compensation—is linked to firm performance.⁷

Given that the 7-S model does not specify the contingencies that may dictate the relative importance of the various 7-S factors, we wanted to see which of the factors might be most salient for a relatively new company. To address this gap and provide insights regarding the use and utility of the 7-S framework, we used the model to examine the organizational alignment and competitive position of the Ithaca Beer Company, a relatively new and successful company that is competing, as we said, in a growing and increasingly challenging segment of the hospitality industry. Based on this analysis, we identify the primary 7-S factors that appear to be critical for managing IBC's current competitive challenges and sustaining longer-term growth, and in turn, may have applicability to similar firms operating in similar environments.

The Competitive Context

To be classified as a craft brewery in the United States, the brewery must be small, independent, and traditional. As defined by the U.S. Brewers Association, “small” indicates that the brewery produces less than six-million barrels per year; “independent” means that less than 25 percent of the brewery is owned or controlled by an alcoholic beverage industry member that is not a craft brewer; and “traditional” means that the brewer has either an all-malt flagship (the beer which represents the greatest volume among the brewer's brands) or has at least 50 percent of its volume in either all malt or in beers which use adjuncts to enhance rather than lighten flavor.

The craft brewing industry is further segmented into four separate markets: brewpubs, microbreweries, regional craft breweries, and contract brewing companies. Definitions of each market are as follows:

- **Brewpubs:** A restaurant–brewery that sells 25 percent or more of its beer on site. The beer is brewed primarily for sale and consumption in the adjacent restaurant or bar. Where allowed by law, brewpubs often sell beer to go or distribute to off-premises accounts. Brewpubs whose off-site beer sales grow to exceed 75 percent of total sales are re-categorized as microbreweries.
- **Microbrewery:** a brewery that produces less than 15,000 barrels of beer per year and sells 75 percent or more of its beer off-site.
- **Regional Brewery:** A brewery with annual beer production between 15,000 and 6,000,000 barrels.

³ R.S. Kaplan, “How the Balanced Scorecard Complements the McKinsey 7-S Model,” *Strategy & Leadership*, Vol. 33 (2005), pp. 41-46.

⁴ J.M. Higgins, “The Eight ‘S’s’ of Successful Strategy Execution,” *Journal of Change Management*, Vol. 5 (2005), pp. 3-15.

⁵ For example, see: P. Guenzi, L.M. DeLuca, and G. Troilo, “Organizational Drivers of Salespeople's Customer Orientation and Selling Orientation,” *Journal of Personal Selling & Sales Management*, Vol. 31 (2011), pp. 269-285; R.A. D'Aveni, “Coping with Hypercompetition: Utilizing the New 7-S Framework,” *Academy of Management Executive*, Vol. 3 (1995), pp. 45-60; and I. Barcaly and M. Benson, “New Product Development: Theory into Practice,” *Leadership & Organization Development Journal*, Vol. 11 (1990), pp. 24-32.

⁶ C.A. Enz, “Commentary: Competitive Dynamics and Creating Sustainable Advantage,” in *The Cornell Hotel School of Hotel Administration Handbook of Applied Hospitality Strategy*, ed. C.A. Enz (Thousand Oaks, CA: Sage Publications, 2010), pp. 297-305.

⁷ J.B. Tracey, S.A. Way, and M.J. Tews, “HR in the Hospitality Industry: Strategic Frameworks and Priorities,” in *Handbook of Hospitality Human Resources Management*, ed. D.V. Tesone (Oxford, UK: Elsevier, 2008), pp. 3-22.

- **Regional Craft Brewery:** An independent regional brewery which has either an all-malt flagship or has at least 50 percent of its volume in either all-malt beers or in beers which use adjuncts to enhance rather than lighten flavor.
- **Contract Brewing Company:** A business that hires another company to produce its beer. The contract brewing company handles marketing, sales, and distribution of its beer, while generally leaving the brewing and packaging to its producer-brewery.

The craft brewing segment reflects a relatively small but growing part of the U.S. beer industry, which is otherwise highly concentrated. Two companies, Anheuser-Busch In-Bev (AB InBev) and MillerCoors, accounted for 80 percent of the industry's 2010 sales (estimated at between \$60 and \$97 billion depending on the source).⁸ About one-third of the remaining 20 percent of total sales, or 7.6 percent of total sales, is generated by craft brewing operations.⁹

The number of craft breweries has grown from fewer than 100 in 1985 to 1,753 in 2010.¹⁰ The expansion of the craft brewing segment was stimulated in 1979 when President Jimmy Carter signed a bill into law permitting the home brewing of small amounts of beer. In the 1980s, entrepreneurs opened hundreds of microbreweries to create and distribute their products. These breweries attempted to compete based on the characteristics and quality of their product rather than on price and marketing. Among the breweries launched in this period is The Boston Beer Company, which has grown substantially with its flagship Samuel Adams Boston Lager. Owner Jim Koch is considered a pioneer in the craft brewing industry.

Key Challenges

The success of Boston Beer Company notwithstanding, entering the beer brewing and distribution business is not for the faint of heart, due to the major companies' strength in marketing, distribution, and shelf space, as well as their pricing power.

MARKETING

The marketing power of the major breweries represents one of the most significant challenges for the craft brewing segment.¹¹ AB InBev and MillerCoors advertisements are

⁸ See: *2010 Beer Handbook* (Norwalk, CT: The Beverage Information Group, 2010); and www.reuters.com/article/2011/05/04/us-abinbev-idUSTRE7430VY20110504.

⁹ www.bizjournals.com/milwaukee/news/2011/03/22/craft-beer-sales-jump-by-12-percent.html.

¹⁰ www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts.

¹¹ T. Goldammer, *The Brewer's Handbook* (Centreville, VA: Apex Publishers, 2008).

ubiquitous, and these companies gain attention by sponsoring a wide range of events, including Major League Baseball games and even presidential debates.¹² The marketing budgets of AB InBev and MillerCoors exceed the value of most craft breweries. As just one example of this marketing strength, in 2010, AB InBev spent more than \$1 billion to make Bud Light the official sponsor of NFL for six years.¹³

DISTRIBUTION

Another key challenge for craft breweries is access to distribution channels, which are dominated by the major companies.¹⁴ Although distributors are, by federal law, separate companies from the brewers, many have exclusivity agreements. Under the current system the producers must sell their product to distributors, who sell their product to retailers, who then sell to consumers. As the craft segment continues to grow, thirty-one states have revised these post-Prohibition laws to permit small breweries to distribute directly to retailers. However, the National Beer Wholesalers Association (NBWA), which represents more than 2,850 beer distributors in the U.S., is itself a powerful force in regulatory politics and has taken a rather aggressive stance in strengthening the three-tier distribution system.

With many distributors not available due to exclusivity agreements, the space in remaining distributors' trucks is at a premium. In large part, the products carried on distribution trucks depend on which products the retailers choose to sell. So a small brewer that doesn't have access to the large-scale distribution channels must go door-to-door to encourage distributors to carry its product. Even so, the major players have so many brands that their products take up much of the space on even the nonexclusive distribution trucks. So with a limited number of distribution trucks operating in each region, craft brewers must battle for the remaining space left on these trucks in order to get their product to the consumer.

SHELF SPACE

Just as brewers must fight for space in a truck, so they must fight for retailers' shelf space. If a craft brewery does manage to get its product picked up by the distributors, the next challenge is getting and keeping their product on the shelves at retail outlets. The large brewers have a strong influence on how their products are placed at retail outlets, thus, giving their products the best visibility and promoting sales. Fortunately, some retailers understand craft beer's popularity and reserve a section of the store for these beers. Unfortunately, as we describe next, some of that space also is occupied by the major players.

¹² www.allbusiness.com/government/elections-politics-campaigns-elections/6370921-1.html.

¹³ sports.espn.go.com/nfl/news/story?id=5162445.

¹⁴ Goldammer, *op.cit.*



With both label design and beer names, Ithaca Beer Company evokes the relaxed vibe of its home town, as well as the rolling terrain of the Finger Lakes. For example, “CascaZilla” is a play on Cascadilla, the name of a local stream that plunges through a gorge to Cayuga Lake.

DIRECT THREAT FROM MAJOR PLAYERS AND NEW ENTRANTS

The recent success and continuing growth of the craft brewing segment has caught the attention of the major players, who have themselves launched products to capitalize on the growing craft segment and also to capture the business of consumers seeking different tasting beer. In response to consumers’ desire to try new and different brews, the major players developed or acquired brands that are disguised as craft beers. Wild Hop Lager, an organic beer that is sold under the Green Valley Brewing Company label, is owned entirely by AB InBev although that name cannot be found on the label. Likewise, the successful Blue Moon brand is owned by MillerCoors.

With that background, let’s discuss IBC’s competitive position using the 7-S framework to determine which factors may be most critical for the company to achieve its objectives.

Research Methods

Two primary sources of data were gathered and analyzed for this case study—first-person interviews and secondary sources. We also conducted a benchmarking assessment. We conducted semi-structured interviews with Dan Mitchell, founder and owner of IBC, and various IBC staff members during the spring of 2011. Questions focused on each of the 7-S factors. Examples include, “How would you describe IBC’s current business strategy?”; “How would you characterize the culture at IBC?”; and “What are some of the things that you, as a company, do very well?” Responses were reviewed and interpreted using an independent coding procedure in which we: (a) assigned content themes to interview responses associated with each of the 7-S factors;

and (b) compared the extent of agreement regarding the nature and importance of the themes. Inter-rater agreement exceeded 90 percent; remaining discrepancies were resolved through consensus-based discussion.

Secondary sources of data included web- and print-based information and collateral.¹⁵ The findings of the secondary research and benchmarking complement the interview results by offering additional insights regarding the nature and importance of the 7-S factors, and demonstrate the differential relevance of the various “hard” and “soft” characteristics for this company.

A Profile of the Ithaca Beer Company

Dan Mitchell founded the Ithaca Beer Company in 1998 with the intention of filling an empty niche in the craft brewing segment of the Finger Lakes region and upstate New York. Mitchell set out to capitalize on the attractive Ithaca market which has a relatively stable economy, favors local products, has a high number of restaurants per capita, and consumes a large percentage of beer compared to other regional markets.¹⁶

To minimize startup costs, IBC initially outsourced the production of its beer. Mitchell’s initial marketing and distribution efforts garnered a strong regional customer base, as he sold his beers one account at a time throughout the Ithaca market. As sales gradually increased, Mitchell obtained the necessary resources to purchase his own brewing equipment. Currently, IBC products are carried by over

¹⁵ See: T.R. Hinkin and J.B. Tracey, “What Makes It So Great?: An Analysis of Human Resources Practices among *Fortune’s* Best Companies to Work For,” *Cornell Hospitality Quarterly*, Vol. 51 (2010), pp. 158-170.

¹⁶ www.visitithaca.com/visitor-info/the-ithaca-experience.html.

thirty distributors and sold throughout many northeastern states (Connecticut, Massachusetts, New Jersey, New York, Pennsylvania, and Rhode Island), as well as Ohio.

Among IBC's diverse brews are pale ales, lagers of various flavors, seasonal beers, and some darker beers. Several of IBC's brews have won awards for their quality, including the light and spicy CascaZilla-Red Ale, Flower Power IPA, Excelsior! Brute, and Excelsior! alpHalpHa. In 2008, IBC was voted the best craft brewery in New York State.¹⁷

Going forward, IBC intends to expand its production capacity to expand throughout New York and into other neighboring states. Simultaneously the company plans to maintain a strong focus on community involvement and its casual, fun work environment. However, each of the challenges described above poses substantive threats to IBC's current operations and future plans. In our analysis of the 7-S factors, we saw four as being particularly applicable. Those are one of the hard Ss—strategy—and three of the soft Ss—staff, skills, and shared values. Let's look at each in turn.

Strategy

Mitchell started IBC with the aspiration of developing a concept that reflected the "Spirit of the Finger Lakes," as the company slogan goes. Based on this ideal, Mitchell states his primary business objective as follows: "to brew delicious beers for the purpose of making life more enjoyable. We strive to make this company better and build our brand name and good reputation among our customers."¹⁸ To support this goal, Mitchell has adopted a multi-faceted business strategy that focuses on differentiation through community outreach, with a special emphasis on philanthropy, and direct business-to-consumer sales and marketing.

As we indicated, community outreach and involvement is a fundamental and significant part of IBC's strategy. This focus enhances IBC's local visibility and provides Mitchell and his team with significant business intelligence. For example, IBC is a key sponsor for several local and regional events, including the Ithaca Brew Fest, which draws more than 3,000 people for beer tastings, entertainment, and educational programs. In addition, brewmaster Jeff "Chief" O'Neil is a regular guest speaker at beer and food events throughout the region. These efforts and related activities are central to promoting IBC and its products, and provide a primary basis for addressing the significant marketing challenges described above. Moreover, the emphasis on community involvement provides an important means for acquiring information about competitors' products and industry trends. Since many of the distributors also par-

ticipate in various special events that feature beer, Mitchell has developed the necessary relationships that are critical for getting his product to a wide array of retail outlets.

IBC also supports its brand-development strategy by connecting directly with consumers. For example, IBC is featured at the Brewmaster's Dinner, which is held in the New York Wine and Culinary Center located in Canandaigua, a little over an hour from Ithaca, as well as a Beer and Spirits Dinner at Craftbar in New York City. In addition, IBC's tasting room and brewery tours provide a direct and ongoing means for learning about customer preferences that help Mitchell and his team develop new products.¹⁹

Finally, IBC reinforces its strategy and has grown its brand by supporting a wide range of local charities and non-profit organizations. This includes in-kind donations that help raise money for organizations such as the Cancer Resource Center of the Finger Lakes and Loaves and Fishes, which is a soup kitchen that offers meals to needy individuals in the Ithaca community, and involvement in the Ithaca Practitioners of Ale-making, a local homebrewers association. The commitment to focus "on opportunities that bring our brewery, employees, and charities together"²⁰ is a key element of IBC's strategy and plays a critical role in enhancing its visibility and reach.

Staff, Skills, and Shared Values

The other three "Ss," in the form of IBC's staff, their skills, and shared values represent another reason for the company's success. As you will see in the following discussion, it is difficult to separate these three factors, which seem to be tightly aligned. Mitchell's current team of fourteen full-time employees is diverse, but each possesses a strong base of job-related experience and functional knowledge, and all have a genuine passion for craft beer.

Needless to say, the brewers play a key role in IBC's success. IBC has three brewers on its staff, with "Chief" O'Neil serving as the brewmaster. O'Neil joined the company in 2002 after spending nearly a decade learning how to make beer at award-winning breweries in California. O'Neil's expertise and efficacy is evidenced by numerous awards that IBC has received, including a gold medal in 2010 at the prestigious Great American Beer Festival for Brute, an American-style sour ale.

Given the difficult competitive environment and the push for community involvement, IBC's success also rests on its sales and marketing employees. The sales manager, Marc Schulz, came to IBC with fifteen years of experience in the brewing industry. Prior to IBC, Schulz worked at the Boston Beer Company and the Lake Placid Pub. He also has

¹⁷ www.ithacabeer.com/awards.php.

¹⁸ www.ithacabeer.com/index2.php.

¹⁹ See: J.L. Heskett, W.E. Sasser, Jr., and L.A. Schlesinger, *The Service Profit Chain* (New York: The Free Press, 1997).

²⁰ www.ithacabeer.com/outreach.php.

substantive experience as a restaurateur, and is a Certified Cicerone Beer Server, a formal designation that is awarded to individuals who are proven experts in selecting, acquiring, and serving a wide range of beers. Schulz's experience and knowledge are instrumental in developing and cultivating relationships IBC's distributor network and ensuring that IBC's products meet the varying demands of its diverse customer base. In addition, he maintains a close eye on all of the major retail outlets—primarily supermarkets and convenience stores—to ensure that IBC's products are highly visible and in abundant supply. Schulz noted, "Beer drinkers have more choices today than ever, so it's critical to work closely with all of our retail stores to make sure we're top of mind."

As head of the marketing function, Allison Graffin is responsible for planning events, public relations, and advertising. Facebook (and other social media) is essential to this effort because IBC can promote events and announce new product releases on its Facebook page, and it is also a key source of customer feedback. Graffin also manages IBC's Brewer's Blog, which promotes other craft breweries in the region, as well as IBC's brews.

A particular strength is the way the staff collaborates to fulfill their responsibilities and create a successful operation. The shared value, or superordinate goal, at IBC—"making your simple moments worthwhile"²¹—is fostered by a singular belief that people are the most important asset to the company's success. As such, all employees are involved in the day-to-day decisions that affect IBC's operations, as well as bigger-picture issues such as product development and promotional campaigns. Moreover, everyone is a craft beer enthusiast and "brings a zest for life to Ithaca Beer."²² Thus, a strong consensus has developed about the company's identity, which drives individual behavior in a consistent and highly productive manner. As Mitchell stated, "Most of all, I want to continue to wake up every morning and enjoy what I do, and hope my employees can do the same."

In sum, IBC's community-oriented, brand-focused growth strategy and people-first approach to operational management appear to be the primary drivers of IBC's success and keys to achieving the company's longer-term goals. In addition, each of these factors are clearly connected and aligned, which is consistent with the central premise of the 7-S model. However, while IBC's strategy, staff, skills, and shared values represent the most important priorities for coping with the firm's competitive environment, the remaining three 7-S factors provide another tier of support for IBC's continued success.

²¹ www.ithacabeer.com/index2.php.

²² www.ithacabeer.com/about.php.

Style, Systems, and Structure

Style is the manifestation of IBC's shared values that are supported by the intensely interactive work setting described above. In addition, Mitchell's open and engaging leadership is instrumental in promoting consensus about IBC's mission and has created a culture of continuous learning and improvement. For example, as the brewers learn more about their craft, they share what they have learned with the sales and marketing staff, which enables that group to work more effectively with the distributors and retailers and to learn about customers' evolving needs and demands. The sales and marketing staff then relay the feedback they receive from the distributors and retailers so that the brewers can further develop IBC's products. This ongoing exchange of information provides IBC with critical business intelligence and helps the staff adapt to the competitive dynamics in a timely manner.

Most of the systems that IBC has implemented to support its overarching strategy and help maintain an efficient, coordinated work setting are fairly informal. For example, IBC has adopted a "culture-first" approach to their staffing procedures. The process is not based on structured interviewing procedures or tests to make hiring decisions. Instead, Mitchell puts a premium on spending substantial time with individuals to determine whether they possess an authentic passion for craft beer and a sincere interest in working for a community-focused company. For example, Mike Benz was a frequent on-site customer and a regionally known beer enthusiast. The relationships that were created during Mike's store visits were the primary basis that Mitchell and his team used to hire him as the tasting room manager, a key customer-facing role that is important in maintaining and growing IBC's brand.

However, when it comes to the brewing process, IBC has developed several formal procedures that ensure they develop the highest quality products. For example, IBC adheres to a strict 90-day bottle-to-sale standard. To comply with this standard, the brewers must determine how much of each type of beer they should produce. To do so in a timely and cost effective manner, the sales staff monitors weekly sales figures to determine how well the various IBC products are selling in each market. The sales staff then coordinates with the brewers, distributors, and retailers to maintain an appropriate supply—neither too large nor too small. This process requires a highly orchestrated effort, and the procedures that have been adopted in the forecasting, production, and distribution process are consistent with contemporary quality assurance programs that include process mapping and production and sales forecasting.²³

²³ See: J.M. Juran and A.B. Godfrey, *Juran's Quality Handbook*, 5th Edition (New York: McGraw-Hill Professional, 1998).

IBC's structure is a reflection of their systems. While the company is organized into six departments—administration, brewing, packaging, sales, marketing, and retail—these divisions are far from strict in light of IBC's collaborative approach. Moreover, the firm's collaborative work setting is characterized by intensive communication and ongoing professional development, which ensures that everyone maintains an unwavering focus on IBC's mission. The small number of full-time employees means that IBC can respond quickly to competitive changes, and fixed costs are low so that profitability can be achieved at a relatively low level of sales.

A Contingency Approach to for the 7-S Model

Our analysis of the competitive conditions in the craft brew industry and IBC's current position suggest that the alignment among strategy, staff, skills, and shared values are the top priorities for the company, although the other three 7-S factors are clearly relevant. The 7-S model implies that effective performance and alignment among all of the factors are required for maintaining a strong competitive position. This case study does not diminish that proposition, but it is evident that the four of 7-S factors that we highlighted are more important to IBC's success than the other three.

This analysis argues for a contingency perspective when utilizing the 7-S framework. In this case, IBC's strategy is the most important prerequisite for success since it provides a foundation for all other organizational functions—and other studies have come to similar conclusions.²⁴ Beyond strategy, the competitive nature of the craft brew segment and IBC's current position suggests that the 7-S factors that are linked to human capital—staff, skills, and shared values—are intertwined and critical in sustaining performance and enhancing future growth. This finding is consistent with human resources management research regarding the roles and importance of high-performance work systems,²⁵ particular those that have demonstrated the positive impact of employee involvement.²⁶

²⁴ See: Enz, *op.cit.*; M.P. Joshi, R. Kathuria, and S.J. Porth, "Alignment of Strategic Priorities and Performance: An Integration of Operations and Strategic Management Perspectives," *Journal of Operations Management*, Vol. 21 (2003), pp. 353-369; R. Kathuria, M.P. Joshi, and S.J. Porth, "Organizational Alignment and Performance: Past, Present, and Future," *Management Decision*, Vol. 45 (2007), pp. 503-517.

²⁵ See: B.E. Becker and M.A. Huselid, "High Performance Work Systems and Firm Performance: A Synthesis of Research and Managerial Implications," in *Research in Personnel and Human Resources Management*, ed. G.R. Ferris (Stamford, CT: JAI Press, 1998), pp. 16, 53-101; Tracey *et al.*, *op.cit.*; and S.E. Way, "High Performance Work Systems and Intermediate Indicators of Firm Performance within the U.S. Small Business Sector," *Journal of Management*, Vol. 28 (2002), pp. 765-785.

²⁶ Hinkin and Tracey, *op.cit.*; and S.J. Woods and T.D. Wall, "Work Enrichment and Employee Voice in Human Resource Management-Performance Studies," *International Journal of Human Resource Management*, (2007). Vol. 18 (2007), pp. 1335-1372.



With its "Partly Sunny" seasonal brew, IBC refers to a hoped-for but sometimes elusive weather forecast.

Our analysis is a snapshot, not a time series. Thus, it may well be that as the competitive conditions change, attention to the other three 7-S factors—style, systems, and structure—may be required for IBC. If IBC continues to expand, it may need to increase the staff size, which might make it difficult to maintain its intensely connected work environment. As such, it may be important to focus on IBC's systems (e.g., distribution) or structure (e.g., sales territories) to enhance coordination, and maintain operational efficiency and quality.

Conclusion

All firms face a multitude of environmental challenges. As such, the need to establish priorities is critical for creating and sustaining a strong competitive position. Our analysis has found that the 7-S framework provides an excellent starting point for analyzing the requirements for a company's success and growth. However, given each company's distinctive position, a contingency approach may be appropriate to 7-S analysis, as it was clear from this case study that some factors are more important than others. We hope that our assessment provides some insights and guidance for making choices and developing action plans for firms like IBC that are competing in emerging markets similar to the craft brew industry. ■

The Center for Hospitality Research

Hospitality Leadership Through Learning

20th

1992 - 2012

ANNIVERSARY

Celebrating 20 Years of Hospitality Research

Download our free research at:

www.chr.cornell.edu

489 Statler Hall · Ithaca, NY 14853

hosp_research@cornell.edu · 607-255-9780



Senior Partners

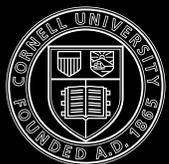
ASAE Foundation, Carlson Hotels, Hilton Worldwide, National Restaurant Association, SAS, STR, and Taj Hotels Resorts and Palaces

Partners

Davis & Gilbert LLP, Deloitte & Touche USA LLP, Denihan Hospitality Group, eCornell & Executive Education, Expedia, Inc., Forbes Travel Guide, Four Seasons Hotels and Resorts, Fox Rothschild LLP, French Quarter Holdings, Inc., HVS, Hyatt Hotels Corporation, InterContinental Hotels Group, Jumeirah Group, LRP Publications, Maritz, Marriott International, Inc., Marsh's Hospitality Practice, McDonald's USA, newBrandAnalytics, priceline.com, PricewaterhouseCoopers, Proskauer, ReviewPro, Sabre Hospitality Solutions, Sathguru Management Consultants (P) Ltd., Schneider Electric, Thayer Lodging Group, Thompson Hotels, Travelport, WATG and Wyndham Hotel Group

Friends

4Hoteliers.com • Berkshire Healthcare • Center for Advanced Retail Technology • Cleverdis • Complete Seating • Cruise Industry News • DK Shifflet & Associates • ehotelier.com • EyeForTravel • Gerencia de Hoteles & Restaurantes • Global Hospitality Resources • Hospitality Financial and Technology Professionals (HFTP) • hospitalityInside.com • hospitalitynet.org • Hospitality Technology Magazine • HotelExecutive.com • International CHRIE • International Hotel Conference • International Society of Hospitality Consultants (ISHC) • iPerceptions • JDA Software Group, Inc. • J.D. Power and Associates • The Lodging Conference • Lodging Hospitality • Lodging Magazine • LRA Worldwide, Inc. • Milestone Internet Marketing • MindFolio • Mindshare Technologies • PhoCusWright Inc. • PKF Hospitality Research • Questex Hospitality Group • Resort and Recreation Magazine • The Resort Trades • RestaurantEdge.com • Shibata Publishing Co. • Synovate • UniFocus • Vantage Strategy • WageWatch, Inc. • The Wall Street Journal • WIIWH.COM



Cornell University
School of Hotel Administration



Cornell Center for Hospitality Research Publication Index

www.chr.cornell.edu

Cornell Hospitality Quarterly

<http://cq.sagepub.com/>

2012 Reports

Vol. 12 No. 6 Strategic Revenue Management and the Role of Competitive Price Shifting, by Cathy A. Enz, Ph.D., Linda Canina, Ph.D., and Breffni Noone, Ph.D.

Vol. 12 No. 5 Emerging Marketing Channels in Hospitality: A Global Study of Internet-Enabled Flash Sales and Private Sales, by Gabriele Piccoli, Ph.D., and Chekitan Dev, Ph.D.

Vol. 12 No. 4 The Effect of Corporate Culture and Strategic Orientation on Financial Performance: An Analysis of South Korean Upscale and Luxury Hotels, by HyunJeong "Spring" Han, Ph.D., and Rohit Verma, Ph.D.

Vol. 12 No. 3 The Role of Multi-Restaurant Reservation Sites in Restaurant Distribution Management, by Sheryl E. Kimes and Katherine Kies

Vol. 12 No. 2 Compendium 2012

Vol. 12 No. 1 2011 Annual Report

2012 Tools

Vol. 3 No. 1 Managing a Hotel's Reputation: Join the Conversation, by Amy Newman, Judi Brownell, Ph.D. and Bill Carroll, Ph.D.

2012 Proceedings

Vol. 4 No. 1 The Hospitality Industry Confronts the Global Challenge of Sustainability, by Eric Ricourte

2012 Industry Perspectives

Vol. 2 No. 2 Engaging Customers: Building the LEGO Brand and Culture One Brick at a Time, by Conny Kalcher

Vol. 2 No. 1 The Integrity Dividend: How Excellent Hospitality Leadership Drives Bottom-Line Results, by Tony Simons, Ph.D.

2011 Reports

Vol. 11 No. 22 Environmental Management Certification and Performance in the Hospitality Industry: A Comparative Analysis of ISO 14001 Hotels in Spain, by María-del-Val Segarra-Oña, Ph.D., Ángel Peiró-Signes, Ph.D., and Rohit Verma, Ph.D.

Vol. 11 No. 21 A Comparison of the Performance of Independent and Franchise Hotels: The First Two Years of Operation, by Cathy A. Enz, Ph.D., and Linda Canina, Ph.D.

Vol. 11 No. 20 Restaurant Daily Deals: Customers' Responses to Social Couponing, by Sheryl E. Kimes, Ph.D., and Utpal Dholakia, Ph.D.

Vol. 11 No. 19 To Groupon or Not to Groupon: A Tour Operator's Dilemma, by Chekitan Dev, Ph.D., Laura Winter Falk, Ph.D., and Laure Mougeot Stroock

Vol. 11 No. 18 Network Exploitation Capability: Mapping the Electronic Maturity of Hospitality Enterprises, by Gabriele Piccoli, Ph.D., Bill Carroll, Ph.D., and Larry Hall

Vol. 11 No. 17 The Current State of Online Food Ordering in the U.S. Restaurant Industry, by Sheryl E. Kimes, Ph.D.

Vol. 11 No. 16 Unscrambling the Puzzling Matter of Online Consumer Ratings: An Exploratory Analysis, by Pradeep Racherla, Ph.D., Daniel Connolly, Ph.D., and Natasa Christodoulidou, Ph.D.

Vol. 11 No. 15 Designing a Self-healing Service System: An Integrative Model, by Robert Ford, Ph.D., and Michael Sturman, Ph.D.

Vol. 11 No. 14 Reversing the Green Backlash: Why Large Hospitality Companies Should Welcome Credibly Green Competitors, by Michael Giebelhausen, Ph.D., and HaeEun Helen Chun, Ph.D.

Vol. 11 No. 13 Developing a Sustainability Measurement Framework for Hotels: Toward an Industry-wide Reporting Structure, by Eric Ricourte

Vol. 11 No. 12 Creating Value for Women Business Travelers: Focusing on Emotional Outcomes, by Judi Brownell, Ph.D.

Vol. 11 No. 11 Customer Loyalty: A New Look at the Benefits of Improving Segmentation Efforts with Rewards Programs, by Clay Voorhees, Ph.D., Michael McCall, Ph.D., and Roger Calantone, Ph.D.

Vol. 11 No. 10 Customer Perceptions of Electronic Food Ordering, by Sheryl E. Kimes, Ph.D.

Vol. 11 No. 9 2011 Travel Industry Benchmarking: Status of Senior Destination and Lodging Marketing Executives, by Rohit Verma, Ph.D., and Ken McGill

Vol. 11 No. 8 Search, OTAs, and Online Booking: An Expanded Analysis of the Billboard Effect, by Chris Anderson Ph.D.



www.chr.cornell.edu