

Teaching Note

Case Synopsis

The case details the evolution of Schilling Cider from a small regional craft cider producer to a national brand operating in thirty states in the hard cider industry. A major factor in their evolution was their early commitment to preprinted aluminum cans as a more sustainable and economical alternative to the standard packaging in the industry—bottles.

Having established itself it is now faced with a challenge. One of Schilling's main suppliers of the printed aluminum cans they rely on to package their craft hard cider has announced much larger minimums orders for a run of preprinted cans.

This has major implications for how Schilling manages their inventory and plans their product mix but does not threaten Schilling's business model as they are now large enough to meet the minimums. However, it has very profound implications for the sustainability value proposition of aluminum cans for the broader craft cider industry.

The announcement directed customers who could not meet its new minimum to a group of distributors with the ability to "shrink sleeve" cans. Preprinted cans have the logo and labeling of the product printed directly on the can. Shrink sleeving involves printing the logo and labeling on specially treated film and then using heat to shrink the film around the can. Unfortunately, shrink sleeving makes aluminum cans much more difficult to recycle greatly reducing the environmental benefits of aluminum cans vs. glass bottles.

As a major player in the hard cider business and one of the driving forces for the movement to aluminum cans Schilling has to decide how to respond to this change by its supplier.

Concepts and supplementary reading

This case takes the concept of corporate social innovation and applies it to an entrepreneurial venture adopting the effectuation view of entrepreneurship. As such it would be helpful if students had a background in these two concepts prior to reading the case.

- For corporate social innovation we recommend the following managerially focused readings as background:
 - [Porter, M. E., & Kramer, M. R. \(2011\). Creating shared value: How to reinvent capitalism—and unleash a wave of innovation and growth. Harvard Business Review, 89\(1–2\).](#)
 - Maltz, Elliot, and Steve Schein. "Cultivating shared value initiatives: A three Cs approach." *Journal of Corporate Citizenship* 47 (2012): 55-74.
 - For those who want to provide a more technical reading we recommend:
 - Maltz, Elliot, and Kawika Pierson. "Maximizing corporate social innovation to enhance social and shareholder value: A systems thinking model of industry transformation." *Journal of Business Research* 138 (2022): 12-25.

- For the effectuation view of entrepreneurship we recommend:
 - [Effectual logic: how entrepreneurs think, by Waverly Deutsch](#)
 - [Effectuation Theory of Entrepreneurship](#)
 - For those who want to provide a more technical reading we recommend:
 - Sarasvathy, Saras D. "Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency." *Academy of management Review* 26.2 (2001): 243-263.

Educational Objectives

1. Examine the concept of social innovation from the standpoint of an entrepreneurial venture.

The term corporate social innovation (CSI) refers to firms innovate in ways that create *shared* value. That is, create value that simultaneously accrues to the firm and to society ([Porter & Kramer, 2011](#)). Much of the work and cases focuses on how larger established firms should behave if they wish to create CSI's. Cases on how entrepreneurial ventures who wish to create social innovations should behave are scarce. This case offers the opportunity for students to understand how to structure entrepreneurial ventures to create economic success and at the same time create value for the broader society.

2. Consider how creating shared value goes hand in hand with developing a long term competitive advantage for an entrepreneurial venture.

The CSI literature highlights how maximizing shared value requires the firm to consider how its behavior affects a variety of other stakeholders (e.g. customers, suppliers, distributors and even competitors). This view fits nicely with the effectuation “crazy quilt principle.” Expert entrepreneurs build partnerships with self-selecting stakeholders. By obtaining pre-commitments from these key partners early on in the venture, expert entrepreneurs reduce risk and co-create the new market with its interested participants. The quilting partners provide additional means with which the team can be creative with and limit the risks of the new venture. This case offers students the opportunity to understand how selecting partners with social innovation in mind can result in long term competitive advantage in an emergent growth industry.

Overview of Discussion Plan

This case centers around the evolution of Schilling Cider from a small startup to a major brand within the craft cider industry. It is important to understand that initially the partners aspired to grow but to do so as sustainably as possible. In particular the company is convinced that the future of the industry is delivering hard cider in aluminum cans because it is more economical and creates a smaller carbon footprint than the incumbent packaging—glass bottles. Ultimately, the brand becomes large enough to accelerate the acceptance of cans by consumers of cider in the Northwest. Thus, the case illustrates a classic example of a social innovation which is on its way to becoming an industry standard.

The discussion can start with the early years of Schilling (2012-2014). This should highlight the initial vision for the company and the challenges Schilling faced in the startup phase (e.g., limited funding and distribution as well as an inconsistent message). During this phase of the class it is appropriate to highlight key concepts from the effectuation view of entrepreneurship which helped them overcome these challenges (e.g., affordable loss and crazy quilt)

The next section of the class should focus on the evolution from a startup just scrapping for business to the growth of revenues and the challenges Schilling faced as it struggled to rationalize growth to gain consistent profitability. Here it is important to highlight a struggle many entrepreneurial businesses face at this stage—distinguishing between investments in growth at all costs and investments in sustainable advantage and profitable growth.

The third section of the class is crucial to the students understanding of how a commitment to social innovation can translate into strategic competitive advantage. Up to now Schilling had stayed committed to aluminum cans and developed relationships which allowed them to create a profitable business. It was at this stage that they made a major investment to really leverage that canning commitment to move much of the process in house. In doing so, they developed a significant expertise which gave them a major cost advantage over competitors and allowed them to extend their sustainability ethic. Up to now the focus had been on simultaneously reducing costs and their carbon footprint. Now Schilling consciously extended their ethic to the human side of sustainable operations. That is, in building the canning facility they consciously thought about how utilizing technology they could make jobs less repetitive and more interesting. This allowed them to recruit more talented people. The combination of the technical expertise focused on reducing costs and carbon footprint and recruiting of better people gives Schilling an operational excellence competitive advantage.

Now that students really understand how Schilling evolved the discussion can now turn to how they should address the announcement by Ball which threatens the environmental advantage of aluminum cans for the industry. Here it is important to consider relationships Schilling has established, what Schilling currently stands for as a brand, and the competitive advantages it has established.

1. Schilling as a Startup (20 minutes)
2. The path to profitable growth (15 minutes)
3. Social Innovation as a path to strategic advantage (20 minutes)
4. Alternatives to the Ball announcement (35 minutes)

Assignment Questions

- 1) What challenges did Schilling face during its startup phase? How did it address these challenges?

The major challenges Schilling faced were not that different than the typical startup. It had very limited funding and no brand recognition. This meant they had to be very efficient in the use of those funds to create production capacity and gain distribution.

Here is where the students should highlight how using the principle of affordable loss and the crazy quilt principle guided their investments in production and distribution.

- Guided by the principle of affordable loss Schilling was very inventive in developing production capacity. For instance, they often used recycled, used and repurposed parts to create cider production capacity
- The crazy quilt principle also guided their production decisions as they looked to outside entities close to their base of operations to reduce fixed costs associated with production and canning of their cider. Most students will recognize the key role of Crown in the early years. Very astute students will highlight the role of VN Graphics in helping Schilling to understand the canning process and directing them towards other partners (e.g., mobile canners) to help embrace this principle.
- To increase brand awareness Schilling spent a lot of time building relationships with high profile restaurants and bars through tasting events.

2) What distinguishes a social innovation from other innovations firms may pursue?

From the outside reading students should understand that a social innovation explicitly articulates the economic and social value of the innovation. While a typical innovation focuses solely on the value to the firm. Should an instructor choose to pursue it they can highlight how the principle of affordable loss is often easily applied to social innovations as firms which utilize this principle often reduce costs the same way as Schilling—through reduce, reuse and recycling of material.

3) In your view, at what point in its evolution did Schilling actively start pursuing social innovation?

This is a potentially very interesting discussion to flesh out the student's understanding of social innovation. Some students will see Schilling's initial focus on aluminum cans as a typical way that a startup can take advantage of reducing costs to gain financial advantage. Others will maintain that the initial focus is part of a larger effort to create a sustainably focused company with an intent to shift industry practice. From a shared value perspective, a social innovation should not only reflect the firm's focus on sustainability but also reflect changes in the industry. One can see by looking at Exhibit 9 consumer behavior in Schilling's home market started to differ from the national market in 2015. That is acceptance of aluminum cans for craft cider started in 2015 and continued to accelerate faster than the acceptance across the country. Thus, one can make the case that Schilling's initial efforts were bearing fruit relatively early but their continued commitment accelerated the diffusion of the innovation.

One way to motivate this discussion is to take a poll in the class on when the social innovation really started. Some students will see it as starting early while others will argue that it was really not started until they aggressively incorporated the sustainability of cans into their marketing materials. That the early focus on cans was strictly driven by their effort

to create a cost advantage. Still others will say the real commitment to cans was when they made a major investment to take the canning line in house. An instructor can call on the appropriate students to reflect different points of view.

- 4) How did the pursuit of social innovation combine with the crazy quilt principle of entrepreneurship to help create competitive advantage for Schilling?

Note that the crazy quilt principle, which urges entrepreneurs to aggressively pursue partnerships not only provide resources and know how, but also can influence the firm to innovate in ways that they may not have imagined.

By pursuing partnerships with social innovation in mind Schilling developed the know how to ultimately develop an operational excellence advantage around the increasingly important option of marketing and producing craft cider in cans. They leveraged their partnerships with VN Graphics, Ball, and Crown to gain access to a wide range of world class canning facilities. This afforded Mark Kornei the ability to think creatively about how to build a customized canning plant that fit the smaller volumes, and the environmental and human resource sustainability ethic that really makes Schilling unique among cider brands.

- 5) How should Schilling respond to the Ball announcement?

As with any good case there is no one “right” answer here. A number of options are provided to consider. Students should take into account the investment risks and brand implications as well as the potential revenue opportunities. They should also consider what capabilities Schilling has to implement the alternative. TN Exhibit 1 offers a set of factors to consider for each option.

In 2022 a Canadian company, Solucan, introduced an economical digital that required no minimums <https://solucan.ca/>. Thus, Schilling decided to pursue a communication campaign to raise awareness of the issues with shrink sleeving to both consumers and other cider producers.

TN 1 Options Analysis

Option	Investment Risks	Brand Implications	Revenue Opportunity	Capabilities
Develop a New Technology in Conjunction with VN Graphics	Large investment, uncertain market	Could enhance the link between Schilling and Sustainability	Large if successful	Mark has already demonstrated a penchant for operational innovations
Work with Can Manufacturers to eliminate the need for shrink wrapping	Smaller Investment because can producers could take on much of the investment	Could enhance the link between Schilling and Sustainability	Smaller as Can manufacturers are much bigger and have leverage in the split of revenue	Schilling is a small customer for can manufacturers so have limited leverage. They would have to convince them to consider this as part of their “push to increase sustainability as an advantage of aluminum cans.
Lobby Regulators to Limit Shrink Wrapping	Limited Investments	Since up to now Schilling had not emphasized sustainability in their messaging could be seen as self serving greenwashing without other concurrent “sustainability” investments	Could enhance the market share for Schilling as it would limit competition.	Colin has existing relationships with regulators and state legislators in Oregon and Washington
Educate the Public on Shrink Wrapping	Marketing investments and changing behavior of existing clientele is notoriously difficult and expensive	Since up to now Schilling had not emphasized sustainability in their messaging Could be seen as self serving greenwashing without other concurrent “sustainability” investments	Could enhance market share for Schilling if successful in linking to sustainability	Unclear that they have the marketing competencies to make this kind of change.
Do Nothing	None	None	None	Could hurt their “human resource sustainability effort” as employees could see a disconnect between saying they are sustainable and being sustainable.

