

## White Paper: Who is the Craft Beer Shopper?

Marcel Zondag, Ph.D.

Western Michigan University

Bart Watson, Ph. D.

Brewers Association

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### *Introduction*

Off-premise (retail) sales have become the leading factor in the growth of the craft beer industry. The shift to off premise sales has been a natural part of industry development. For smaller brewers, the majority of sales growth comes from on-premise sales. Craft Brewers typically build up a customer base from their brewpub or tasting rooms, one pint and one growler at a time. From there, the logical next step is to make that same draught production available to local on premise establishments. Breweries under 5,000 barrels of annual production (which is the vast majority of all breweries) average 70% draught production, versus only 30% packaged.

As the industry has grown, however, craft beer's rising popularity led to increased off-premise sales as consumers looked to enjoy craft beer outside of on-premise occasions. Brewers enjoyed the steeper growth curve achievable through distribution. More than 80% of the total US beer market volume is off-premise, so as craft's share of the overall beer market has grown, a progression toward more packaged distribution makes sense. Regional craft breweries (those with production greater than 15,000 barrels per year), only average 30% draught production, with the remaining 70% of production going into bottle or can packaging.

Although on-premise growth continues to be vital for the smallest brewers, off-premise now constitutes the majority of the total volume for craft brewers (65% versus 35%). Increasingly, craft brewers pursue a more balanced growth strategy integrating on-premise, with wider (regional) distribution, i.e. off-premise retail sales. Because craft brewers rely more on off-premise sales to achieve their growth objectives, there should also be more attention paid to the marketing levers that drive off-premise sales. Besides the practical (read: operational) issues connected with three-tiered distribution, merchandising, and category management, the primary driver for off-premise success is converting brand image, or as marketers call it "brand equity," from the (brew)pub to the grocery shelves. That turns out to be a more arduous task than you would think. Let's face it, the ability to communicate with patrons, discuss, suggest, and sample brews mostly disappear in retailing, where a craft beer becomes just another label or can amongst other craft, "near-craft," or "fake-craft" options for shoppers.

The challenge, therefore, is to understand not just craft shoppers' purchasing *behavior* (gathered through POS scan data and shopper panels), but also to learn more about who these craft shoppers are and how and why they make in-store purchasing decisions. For craft brewers, these insights are not only important when making decisions about styles and product portfolios. These are also the basis of making distribution and channel decisions and negotiations with retail buyers. Retailers are motivated more by shopper insights than the success of a limited, on-premise product release, which does not necessarily move the off-premise sales needle. With over 3,900 new beer items entering the off-premise market over the last

two years, 75% of which are craft beers, and slowing growth in the craft beer segment overall, it is now more important than ever to better understand and target off-premise craft beer shoppers.

Large retailers and brewers gather shopper insights but, for competitive reasons, are not in the habit of sharing the findings with the public. To better understand craft shoppers and make the information available to craft brewers, Western Michigan University in Kalamazoo, in cooperation and with the support of the Brewers Association and local retailers, conducted an in-depth study of 1019 Mid-Western supermarket shoppers who purchase beer, 590 of which were regular craft beer buyers. The results were eye-opening in the sense that much of what we know about on-premise customers and craft beer consumers in general, is not necessarily the same for off-premise craft beer shoppers.

### *Findings*

The first question we looked at is “who is the craft shopper?” It is important to recognize that a shopper for a product is not necessarily the same individual who consumes it. That seems obvious, but it is often overlooked. For instance, you market diapers to parents, not to babies. Craft shoppers are demographically different than craft consumers. For example, where the latter group is predominantly male (70%), off-premise craft shoppers are predominantly female (73% in our sample). Similarly, two-thirds of shoppers in our sample lived in a two-person household, whereas that describes only 35% of consumers. Other demographics show more similarities, including ethnicity, where 90% of shoppers are white versus 83% for craft consumers, and marital status (73% of shoppers are married versus 64% of consumers). For shoppers, millennials are the largest age demographic, with baby boomers a close second. Perhaps even more impressive is that the annual household income is relatively high, with over 60% of the respondents earning over \$50K per year.

A word of warning about sampling. We interviewed shoppers from six Mid-Western states, who we approached through loyalty programs. So, although well representative of grocery shoppers in general, our sample may not be representative of the entire US craft shoppers' population. Keep that in mind. However, it is clear that some of the differences we found between the "average" craft consumer and the craft beer shopper are real. 31% of shoppers who buy craft beer do not consume it personally. A recent Nielsen survey found that even among drinkers, only 51% say that they consume all or most of the craft beer that they purchase. Among females, that percentage drops to 29%. That means that marketing based on product attributes alone may not be the correct way to persuade shoppers to purchase a particular craft beer because the purchasing decisions of this group will not be based on any deep understanding of craft beer. The shift from on-premise consumption to off-premise, which we reported on in these pages before, continues. Enjoying craft beer at home for our sample (at 30%), was slightly higher than consumption in brewpubs. And, even though growing at a high rate, sporting venues and fine dining made up only 2% of the craft drinking occasions for our sample population.

Once we identified a clear difference between shoppers and consumers, a second topic we looked was “what else do craft beer shoppers buy?” To answer that question, we conducted a so-called “affinity” or “basket analysis.” For a 52-week period (between August 2015 and August 2016) we indexed all products found in 1,185,561 shopping baskets (or trips) that included craft beer (following the Brewers' Association definition of craft beer). What we found is that domestic and import beers, wine, liquor, deli, produce, and coffee are the most common categories of products found in a craft beer shopper's basket. Besides the obvious conclusion that the trip that includes craft is seemingly often in preparation for a party, it also

underlines how important a good selection of craft beer is for retailers. Craft beer shoppers buy products that are revenue and profit drivers for retailers.

Now that we know who the average craft beer shoppers are and what they buy, the next obvious question is “How do craft shoppers make a purchase decision?” We asked our respondents to rank the factors that play in their craft purchase decisions. We made sure to inquire about the effect of packaging and “local.” These are hot topics in our industry, so we wanted to make sure that we did not automatically assume that these issues are as front and center for craft shoppers as we industry insiders might think that they are. The results show that familiarity, i.e. repeat purchase, is the first deciding factor, followed by recommendations from friends and family. The third decision factor is beer style; fourth is familiarity from a previous on-premise trial, underlining the connection that still exists between on-premise and off-premise sales. Specifically, visiting a brewery has a direct effect on craft purchasing, more than half (55%) of brewery visitors purchase more beer from that brewery after the visit than before. Remarkably, this post-visit increase in purchases cuts across demographics, underlining the importance of tasting rooms and brewery tours. The price was only the fifth-ranked decision factor, again showing that craft beer is not as price sensitive as many other items in a grocery store.

It is important to highlight the combination of repeat purchase and family and friends' recommendations on craft purchases. These indicate that shoppers could be avoiding "the unknown" and are hesitant to experiment when selecting craft beer in the retail context. Craft beer can be a complicated choice for shoppers, in some ways our research overlaps with earlier research of the wine category, where a wide variety of styles and brands also result in a more difficult purchase decision. There are only limited opportunities to sample beer in-store and not everywhere can shoppers buy single bottles to try out unfamiliar beer. This offers a significant opportunity for education and advice at the point of purchase by both retailers and brewers, lowering shoppers' choice anxiety and increase trial purchases, which in turn will benefit the craft category as a whole.

Beer's origins, be it local or regional, was the eleventh decision factor only. We anticipated this to be more important than it turned out to be. However, it is in line with a recent survey the Brewers Association conducted, where we found more contradictions than agreement on what makes a beer “local.” We recently were shown data that seem to indicate that off-premise sales for small brewers reduced about 20% for every 50 miles away from the brewery location. This would mean that there is a 200-mile limit to the reach of small brewers. However, at the same time, the fact that beer is from a "smaller craft brewer" adds to a beer's attractiveness, meaning that additional marketing cues can compensate for distance, as proven daily by Brewers Association members' regional sales growth across (adjacent) state lines. It also remains unclear how shoppers perceive regional brewers to be "local." However, when we asked some more specific questions about Brewers, 57% of our shoppers told us that they prefer beer from “small” brewers, and 70% from “small local” brewers. We purposely did not define "small" in our question to get a true answer from respondents who are not necessarily familiar with the Brewers Association classifications or know if a beer is truly craft beer under the BA definition. What is important, however, is that adding the word "local" increases shoppers' preference for a beer. This finding is in line with similar national surveys. A June 2017 national survey of craft drinkers conducted by Nielsen, found that 60% stated that a product being “locally made” was somewhat or very important. In contrast, other brewery-related factors, such as sustainability, was important to only 31% of shoppers. In conclusion, the discussion of what constitutes "local" in the shoppers' mind remains unresolved.

Another hot topic in craft retail sales is the cold versus warm debate. Many in the beer community automatically consider cold a better sales option, if only for quality reasons. However, when asked, we found that the data is left-tailed with a neutral median and a mean of 3.5 on a 5-point scale. What that means in English is that craft shoppers are more indifferent on this issue than many of us assume. This may be a difference between shoppers and consumers preferences, as 77% of consumers said that it was at least somewhat important that craft beer in a store is cold (Source: Nielsen).

Further questions revealed that most all shoppers cold-store their craft beer when they get home, 46% in the kitchen and 28% in a refrigerator not located in the kitchen. About 8% of shoppers indicated to have a dedicated beer/wine fridge. Most shoppers (68%) will keep between 1 and 12 cans or bottles at home, 19% will have between 12 and 24 on hand. 9% of craft shoppers keep over one case in stock, a percentage close to the earlier mentioned 8% owning a designated beer fridge, so we can only speculate that these are real craft beer enthusiasts.

We know from an earlier Nielsen/Brewers Association study that packaging is another important marketing tool to drive sales at the shelf, where 71% of shoppers like bold and attractive packaging. So, the first function of packaging (mainly print on six packs and the label) is grabbing shoppers' attention, which is in turn essential for navigating a busy category's shelves and quickly finding one's favorite beer. After grabbing the shoppers' attention, the packaging has an important secondary function, persuading the shopper to purchase beer, but more about that below. We found that shoppers like colorful and funny labels, although the impact was not as big as we expected, with only 34% of shoppers preferring beer with attention-grabbing labels. Most shoppers are neutral towards colorful labels and do not even prefer, or are equally indifferent, about traditional looking labels. We found further support for the importance of the right packaging, as 38% of shoppers use it as a memory recall tool. It is evident however that packaging alone does not sell beer. And, for a final packaging issue, 75% of our respondents told us that they prefer craft beer in bottles, notwithstanding the growth of cans, which may be partially driven by brewers for production and cost reasons. There is evidence that convenience and ease of transportation drive the demand for canned craft beer, although there is also consumer research wherein bottles score higher based on taste, freshness, and quality perceptions. This remains a heavily debated issue therefore and a topic for future research; stay tuned we will investigate and report back to you.

We already noted that, with the rapid growth in the craft beer segment, the craft category is heavily (over)populated in styles, brands, and package sizes. As we suggested above, there is a growing similarity with the wine category, where earlier research showed a risk exists that shoppers feel overwhelmed and lacking in knowledge when making purchasing decisions. For now, this does not seem to be an issue for craft beer shoppers. Only 15% of our respondents find shopping for craft beer overwhelming, and not surprisingly, therefore, 65% enjoy the experience. A quarter of craft shoppers does fear to make a mistake, which is considerably less than wine shoppers, where half of all shoppers are afraid to buy the "wrong" wine. However, at the same time, many shoppers (60%) stay within a small group of craft beers they buy most of the time. Driven by experience with a particular craft beer, 76% will repeat buy it. Also, shoppers are brand loyal in the sense that 86% of shoppers will gladly try different styles from a favorite brewer. At the same time, however, 81% will gladly try and discover new craft beers. Understanding these trends, and in general, the shopping experience continues to grow in importance for craft brewers.

We feel that this is a topic where the difference between shoppers and consumers is evident. Recent research by the Brewers Association shows that regular craft consumers are more prone to

experimentation and enjoy having plenty of choice in craft. Shopping in a store is a different type of purchase occasion, and therefore choice in craft beer is not necessarily a positive when there is no opportunity for trial; be it in-store sampling, buying single bottles ("create your six-pack"), or smaller trial sizes. Point in case: behind limited time offers (price reductions are always attractive) the next suggested improvements of the craft beer shopping experience are indeed: in-store tastings, trial purchases, and descriptions and signage explaining the taste profiles respectively. Having an "enormous selection of craft beer" ranks only as the 5th choice, obviously important but less so than the other tools retailers and brewers can use to assist shoppers with the in-aisle craft purchase decision.

At the end of the day, the quality of the liquid remains as relevant for craft shoppers as much as it does for consumers. 97% of craft drinkers say flavor is important when choosing a beer to purchase. Other quality indicators such as freshness (93%), aroma (78%), and ingredients (73%) also rank as top purchase characteristics. 85% of shoppers agree that quality is more important than quantity when drinking craft beer. How to select that quality brew is the challenge we uncovered with this study. Craft shoppers still accept that they will have to pay more for a favorite craft, 74% of shoppers claim that they do not mind paying more, although, at the same time, 67% of shoppers also agree that you can buy craft beer without spending a whole lot of money. This seemingly paradoxical position indicates growing pressure on prices, specifically in crowded distribution channels, where new product introductions and price promotions are the go-to method to grab market share and developing a customer base, which, as we learned earlier, is crucial for longer-term success, given shoppers' loyalty to known beers and brewers. Indeed, IRI sales data shows us very different competitive challenges across different price points in the market. Craft continues to snowball above industry average at case equivalent prices, albeit on a small volume base. However, the majority of volume, in the \$25-\$35 per case range, has seen slower growth. This increases the pressure on retailers to use strategies such as price promotions. The downside of these price promotions is the "training" shoppers receive to buy "on promotion" only, developing lower price expectations for craft beer in general.

### *Conclusions*

This study tackled many different issues, but we can distill a few main takeaways for brewers developing a shopper-focused product, marketing, and distribution strategy.

- A Local-to-Regional growth strategy seems to work best. Brewers need to first tap (pun intended) their local following to build on-to-off-premise sales and build on it to grow a loyal shopper base.
- Collaboration between brewers, distributors, and retailers is a crucial success factor, not only to assure on shelf availability – without a doubt the biggest operational issue retailers face – but more so execute a multi-prong marketing strategy, including sampling, education, merchandising and (price) promotions to encourage trial purchases and create loyalty.
- Shoppers like to try new styles from familiar brewers, meaning that there is a place for seasonal and occasion brews.
- Packaging plays an important role, but it cannot compensate for everything.
- Being a smaller, local brewer has its benefits, use them. There is a reason larger breweries like to present themselves as small brewers. Shoppers associate small with better quality.
- Craft shoppers are important for retailers, ringing up larger, profitable baskets.

- Understand your shopper and how to connect with them. Pull marketing offers a clear opportunity for craft brewers, building on local and regional brand recognition to grow off-premise retail sales. It requires however that brewers can convincingly communicate their off-premise strategy with distributors and retailers and assist with promoting (in-store) trial and education.
- Understand that shoppers are not always the same as consumers and even when they are, off-premise shopping is different from on-premise consumption, there may well be certain connections and overlaps, but they differ enough to where there is no one size fits all marketing strategy.