



In association with Acosta

CATEGORY REPORT

The changing face of beer retailing in the U.S.



The changing face of beer retailing in the U.S.

Executive Summary

Growth in the U.S. beer market has been slowing over time, but it's anything but stagnant. While people are generally buying less beer, the breadth and depth of the beer category is constantly evolving. The number of new brands, styles and subcategories competing for space is increasing.

One of the most talked about changes has been the long term growth in craft beers. Fueled by millennial consumers and their palates, traditional brewers have created and acquired craft brands to meet demand. At the same time, a plethora of smaller brewers has sprung up across the country and the world, all seeking to cash in on millennials' thirst for new and interesting craft beers, and at higher price points. Despite its popularity and appeal, however, growth in the craft sub-segment has tapered significantly over the past few years.

To compete in this constantly evolving world, brewers don't just need to produce different beers to meet changing consumer taste; they need to market and position their brands smarter. They're fighting for shelf space with a growing selection of brands and segments at a time when overall sales growth is limited. Manufacturers need to find new ways to break through the clutter, embrace opportunities to interrupt the market and stand out on shelves with ample stocks of products consumers want.

To play smarter, manufacturers require data that gives them an understanding of their share of shelf space and how displays and point-of-sales (POS) materials influence sales in today's environment. We've brought together insights that create a view of how this is playing out in food, drug, mass merchandise and club stores, covering:

- ✓ Trends in beer sales
- ✓ Market share by segment
- ✓ Changes in Share of Shelf
- ✓ Sales impact of effective shelf positioning
- ✓ Promotional activity at the retailer level

While convenience stores are an important channel for beer, this analysis focuses on the state of the shelf across food, drug, mass, and club stores. We hope you find these insights valuable.

Contents

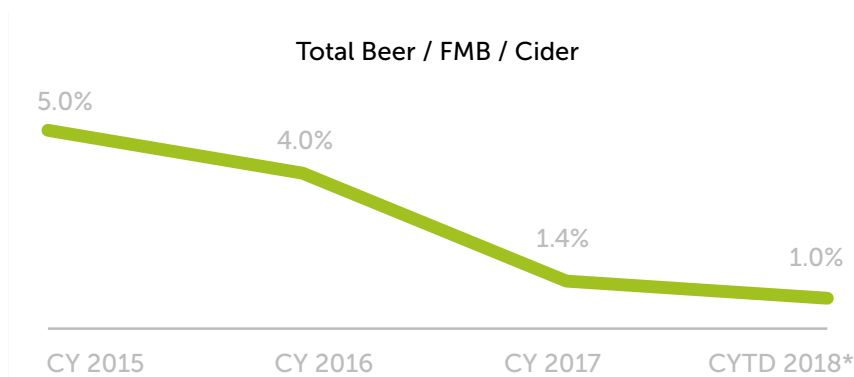
The State of the US Beer Market	4
The Shelf Shuffle	6
Power of Placement and Points of Interruption	10
There's No Time Left to Lose	15
Methodology	16



Chapter 1: The State of the US Beer Market

The U.S. beer market, which includes flavored malted beverages (FMB) and ciders, has undergone radical changes in recent years. Millennial consumers have come of age and are trading up the products they consume and demanding more choice. They're also happy to shift seamlessly between beer, wine and spirits, which is driving innovation as beer manufacturers try to keep consumer palates interested. While sales continue to grow, the rate of growth has dropped from 5% in 2015 to 1% in the first six months of 2018 in Nielsen measured off-premise channels.

Beer Trends – YoY Dollar Sales Growth



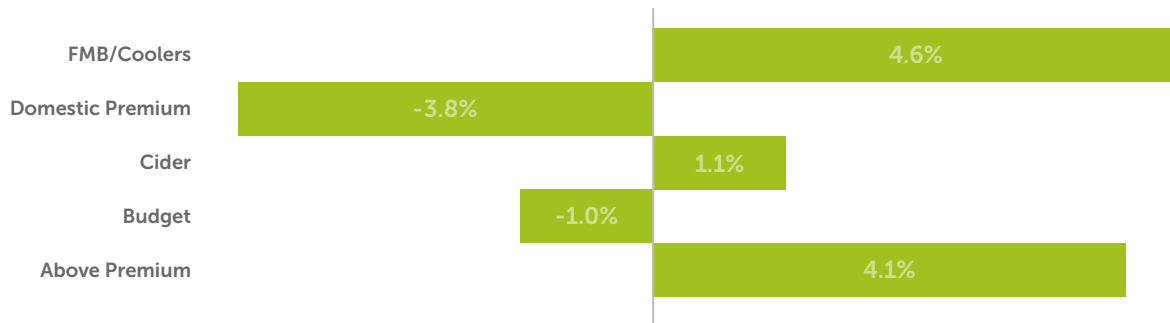
Source: Nielsen Scantrack, Nielsen US xAOC. *As of Aug 31, 2018

As consumers become more discerning and sophisticated, they are favoring above-premium beers, which have seen sales growth of 4.1% year-over-year. Even within this segment, consumer tastes continue to shift. While craft styles like Indian Pale Ales (IPAs) remain popular, new entries like sour, hazy and juicy ales are growing in popularity. Imported brands, such as Constellation's portfolio of Mexican beers, lifestyle brands such as Michelob Ultra, and an expanding range of local brands are also increasing in favor.

Consumers are also looking to lighter and more sessionable styles (those with typically lower alcohol levels) on the one hand, while at the other hand, some higher ABV styles are also performing well. While overall growth in cider has slowed over the last couple of years, local and regional brands coupled with new cider flavors like Rose' ciders are experiencing strong increases in sales. FMBs are also growing well (4.6% growth in sales in the past year), with tailwinds coming from segments like Hard Teas and Seltzers, even as many Hard Sodas are exiting the category.

One of the effects of this new wave of consumers willing to try new flavors, and even spend more for something different, is that traditional budget and domestic premium beers have taken a hit. Sales of these sub-categories declined by 1.0% and 3.8% respectively.

YoY Dollar Sales Growth by Product Segment (W/E June 17, 2017 to W/E June 16, 2018)



Source: Nielsen US xAOC

As manufacturers lean heavily on the innovation lever, new launches in the FMB segment continue to expand shelf space. A case in point is Truly Spiked Hard Seltzer. Launched into this growing segment in 2016, the brand has achieved over 165% growth in sales in the first six months of this year, with distribution increasing by 24%, and facings more than doubling to 12 per store. The brand also improved shelf visibility, achieving placement on shelves three and four for the majority of its SKUs. As a result of these initiatives, the brand's display presence increased by more than 300%, translating to significantly more sales, as is expected from a new brand in a growing segment.

Truly Spiked Hard Seltzer Dollar Sales (W/E Apr 23, 2016 to W/E Sep 8, 2018)



Image: BevNET.com

Source: Nielsen US xAOC

Truly Spiked Hard Seltzer Shelf Analysis (W/E Jan 5, 2018 to W/E Sep 8, 2018)

What changed at shelf?

Distribution increased
+24pts for TSHS brand

Facings more than doubled to
12 per store

Display Presence Increased
+300%

Better Shelf Visibility =
Placement on shelves 3 and 4 for majority of SKUs



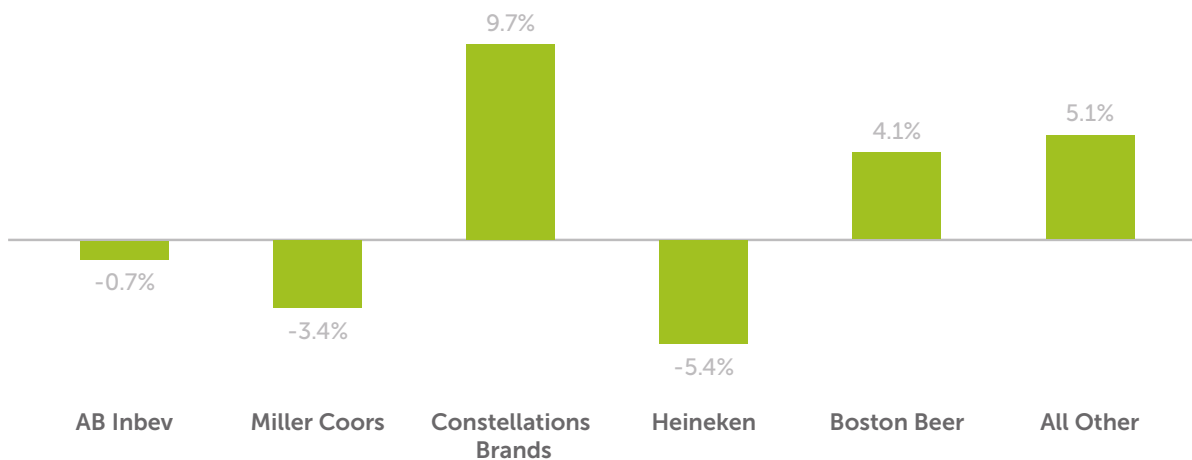
Image: Copyright © Alamy Ltd

Chapter 2: The Shelf Shuffle

As innovation sweeps through the industry, the market dominance of industry stalwarts like Anheuser-Busch InBev (AB InBev), MillerCoors and Heineken are being challenged by other companies with their eyes firmly on the prize. Take Constellation Brands and The Boston Beer Company (Boston Beer), for example. While AB InBev, MillerCoors and Heineken all experienced a decline in sales in 2017 (by 0.7%, 3.4% and 5.4%, respectively), Constellation and Boston Beer achieved growth of 9.7% and 4.1%, respectively.

Both companies had strong new product launches in 2017, with Constellation's brands targeting growing consumer demand for imported beers, while Boston Beer is growing their FMB and cider offerings.

Top Beer Manufacturers – Sales Growth (W/E June 17, 2017 to W/E June 16, 2018)

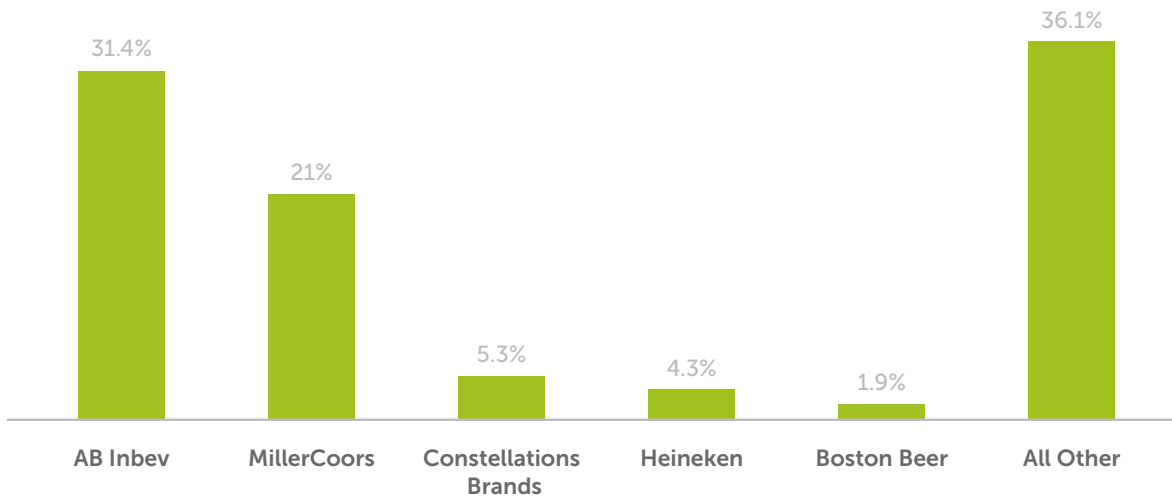


Source: Nielsen US xAOC

To keep up with changing consumer demand, retailers have been accommodating new products, segments and brands on their shelves. With only limited space available, the shelf shuffle is now a delicate balancing act. Even small amounts of shelf space gained or lost can tip the scales for any manufacturer.

Despite declining sales, some of the largest manufacturers have managed to dominate share of shelf-facings, with AB InBev commanding 31.4% and MillerCoors 21%. Constellation has captured a 5.3% share of shelf, higher than Heineken's 4.3%, while the rest of the brands combined command more than a third of the share of shelf.

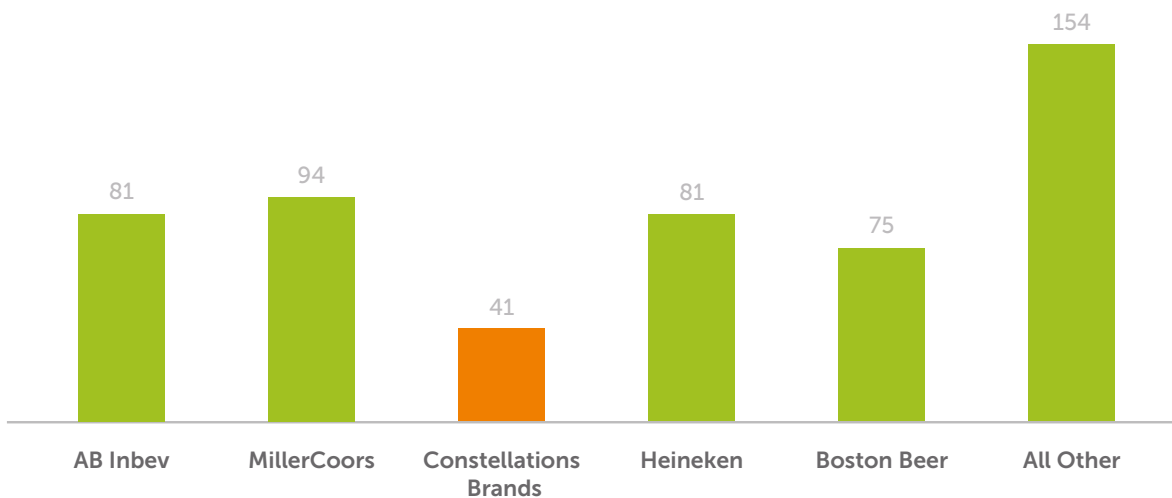
Top Manufacturers: Share of Shelf – Facings 6 months ending June 2018



Source: Trax-Nielsen-Acosta Shelf Pulse

To stay on trend and meet consumer demand, retailers are stocking a significant proportion of their shelves with new products and brands. This is something that should be cause for concern for all the major players. Even though they're still dominating shelf space, they're not receiving their fair share as illustrated in the graph below, and that will likely be reflected in their sales.

Fair Share Index (share of facings/share of dollar sales) 6 months ending June 2018



Source: Trax-Nielsen-Acosta Shelf Pulse

Constellation, for example, is experiencing share of shelf gaps with **Retailer B**, holding just 3.9% of share of shelf compared to 5.3% across all retail customers.

Constellation Brands % SOS and Share of Shelf – Facings Index to Total

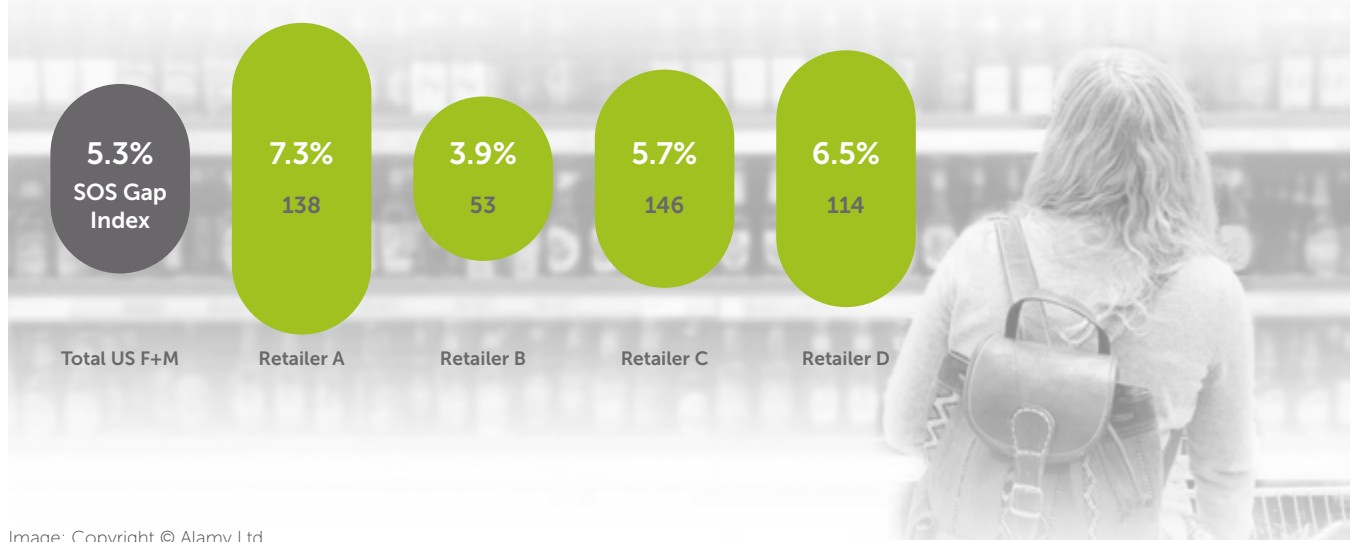
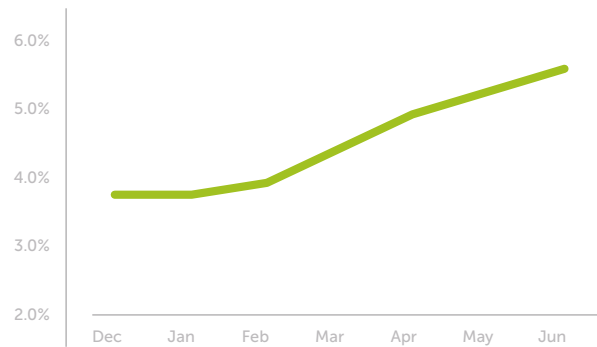


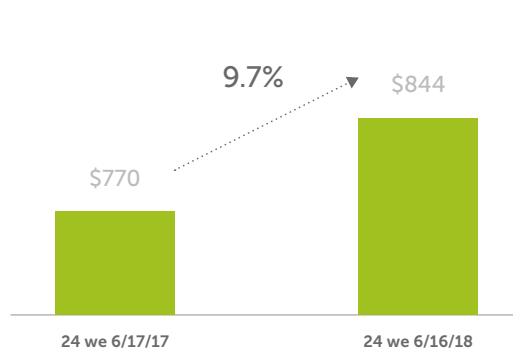
Image: Copyright © Alamy Ltd
 Source: Trax-Nielsen-Acosta Shelf Pulse – 6 months ending May 2018

Despite not receiving its fair share, its share of shelf has grown significantly in the past six months, increasing from just over 3.5% to 5.3%. This has resulted in a corresponding growth in dollar sales of 9.7% in the past year, which has been driven by new products and strong sales of their imported Corona and Modelo brands.

% SOS – Facings by Month



Dollar Sales Growth – CYTD'18 vs Year Ago

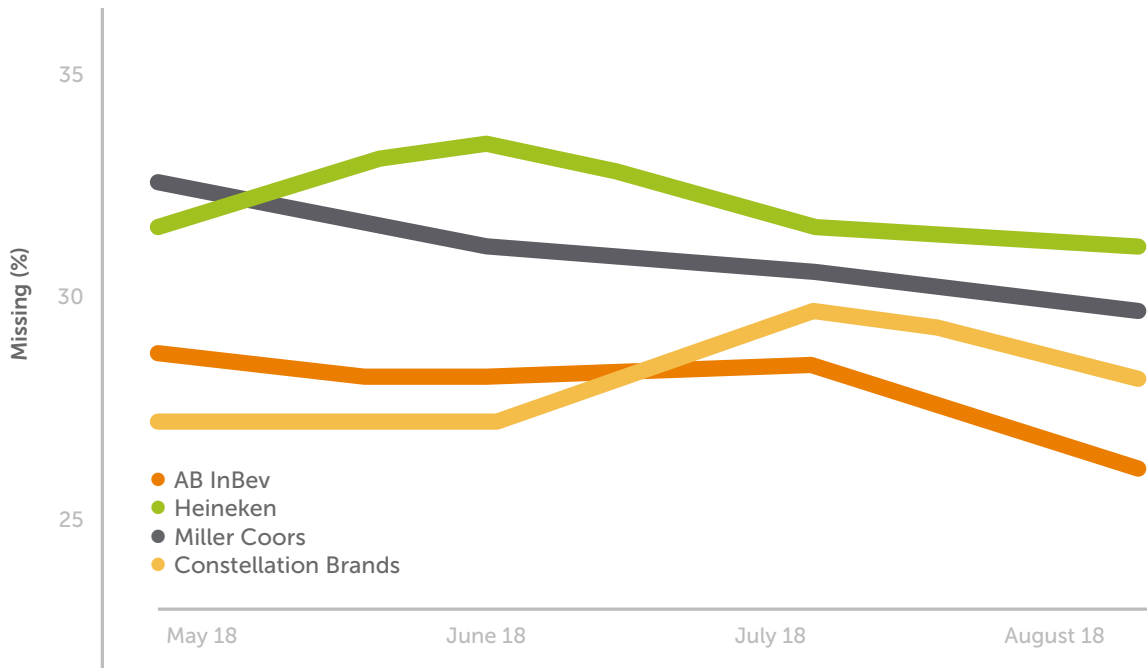


Source: Trax-Nielsen-Acosta Shelf Pulse & Nielsen US xAOC

As the appeal of imported and craft beers increases for consumers and retailers, large players whose portfolios are dominated by domestic premium and budget brands need to find new and innovative ways to react quickly. Time is of the essence for large manufacturers who risk their share and market slipping further. One way that they can address this is by shortening their order fulfillment rate.

For retailers, empty shelves mean lower revenue. Given the growth in the number of new brands available on the market, there is no shortage of product for retailers to stock their shelves. To prevent losing space, and to build mutually beneficial relationships with key retailers, manufacturers need to focus on improving their order fulfillment rates. This is something each of them appears to be making a concerted effort to do, with AB InBev leading the charge.

Average percentage of products missing from shelves in all the covered stores countrywide (May to Aug 2018)



Source: Trax-Nielsen-Acosta Shelf Pulse



Image: Copyright © Alamy Ltd

Chapter 3: The Power of Placement and Points of Interruption

The No. 1 rule in property is location, location, location, and shelf space is property. The right shelf positioning can make or break a brand. However, finding the right position for a brand is more complicated than finding a house in the right location. That's because there is no single ideal shelf position.

Ideal placement depends on the brand, segment, product, pack size and channel. To stay ahead of the curve, manufacturers need to continuously track shelf dynamics to find the strategy that will improve their topline revenues today.

Insights on how shelf positioning correlates to sales at the product level is invaluable to manufacturers. It not only helps them adjust their positioning strategy but can also ensure that they avoid making costly mistakes.

Take the graphs below as an example. They show that the five highest selling beer manufacturers position their products just above and below eye level, with the bottom shelves consistently driving higher sales across all brands. This is explained by the fact that bottom shelves are used to hold very large packs.

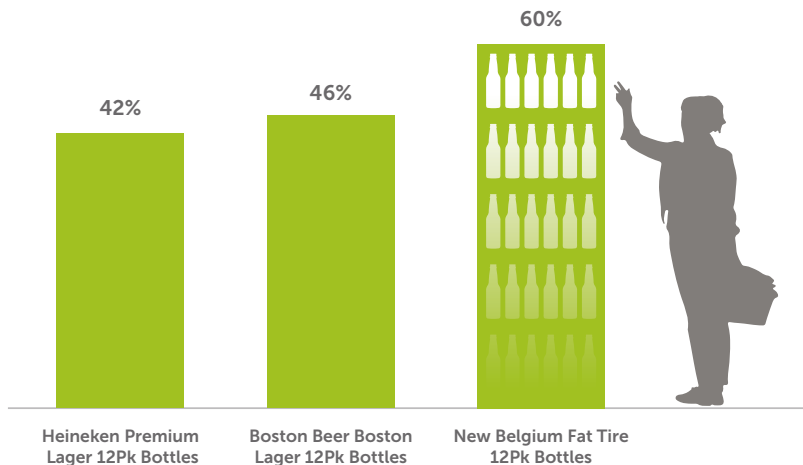
Average % product facings and dollar sales at various shelf positions June 2018



Source: Trax-Nielsen-Acosta Shelf Pulse

But a closer look at shelf configurations provides insight into how different pack sizes perform at different positions. In the examples below, key 12 packs performed much better when placed at eye level on the shelf compared to the bottom shelf in the mass merchandiser channel. Sales per facing increased 42%, 46% and 60% for Heineken, Boston Beer and New Belgium Fat Tire when each of their 12-packs moved to eye-level from their conventional positions.

Sales Rate Analysis – Increase in Sales per facing when product at eye level 6 months ending June 2018



Source: Trax-Nielsen-Acosta Shelf Pulse

In yet another illustration of position-sales intricacy, the data below shows that Michelob Ultra and Budweiser are most often sold on the bottom shelves, while Bud Light sells more when positioned at eye-level. Making small adjustments to each brand's positioning can optimize sales.

% Facings Vs. Sales by Shelf Position

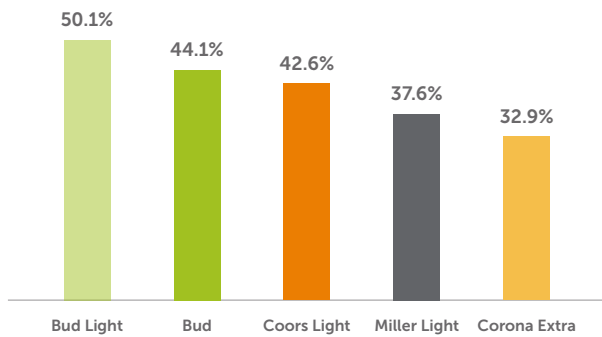


Source: Trax-Nielsen-Acosta Shelf Pulse – June 2018

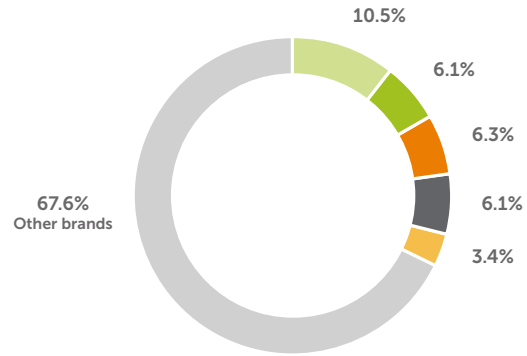
While share of shelf and positioning is important to grow sales, POS materials and displays also play a significant role in the promotional mix. Like Share of Shelf, the major manufacturers are also fighting to maintain share of display as retailers try to accommodate new products and brands.

While top-selling brands like Bud Light, Bud and Coors Light, Miller Light and Corona Extra were on display in over 30% of outlets for the first six months of 2018, smaller and craft brands enjoyed 67.6% of share of display, when Warm Shelf is considered as a secondary location.

% of Stores with Display



Share of Display – Facings



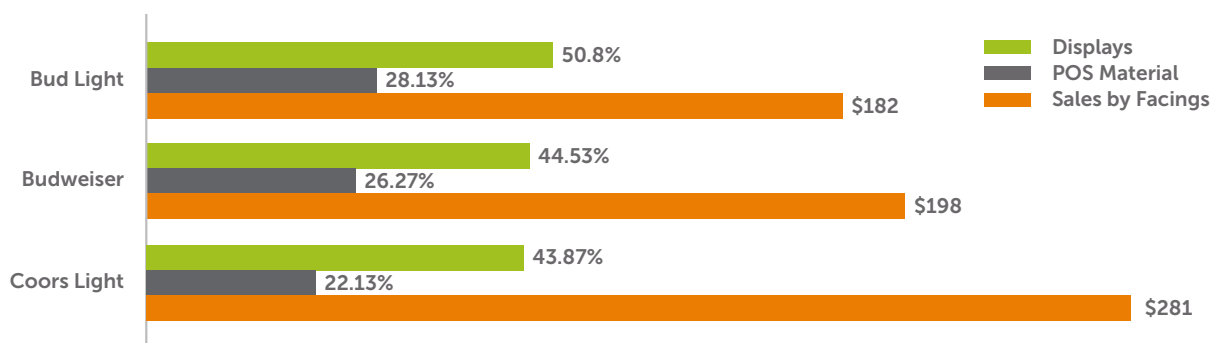
Source: Trax-Nielsen-Acosta Shelf Pulse – 6 months ending June 2018

With more data available to manufacturers, executing the right promotional tactic in the right store can now be more science than guesswork. By tracking the stores where a promotional tactic is executed and monitoring its correlated impact on sales, brewers can identify how effective the tactic is and where the opportunities lie.

Adjusting their merchandise or marketing strategy at the store level can increase sales by facings significantly as the graph below demonstrates. The combination of displays and POS materials have a strong connection to sales by facings.

With displays in over 44% stores and POS materials in over 26%, Bud Light and Budweiser enjoyed \$182 and \$198 sales by facings, respectively.

Top Brands Promotional Mix (% Store)

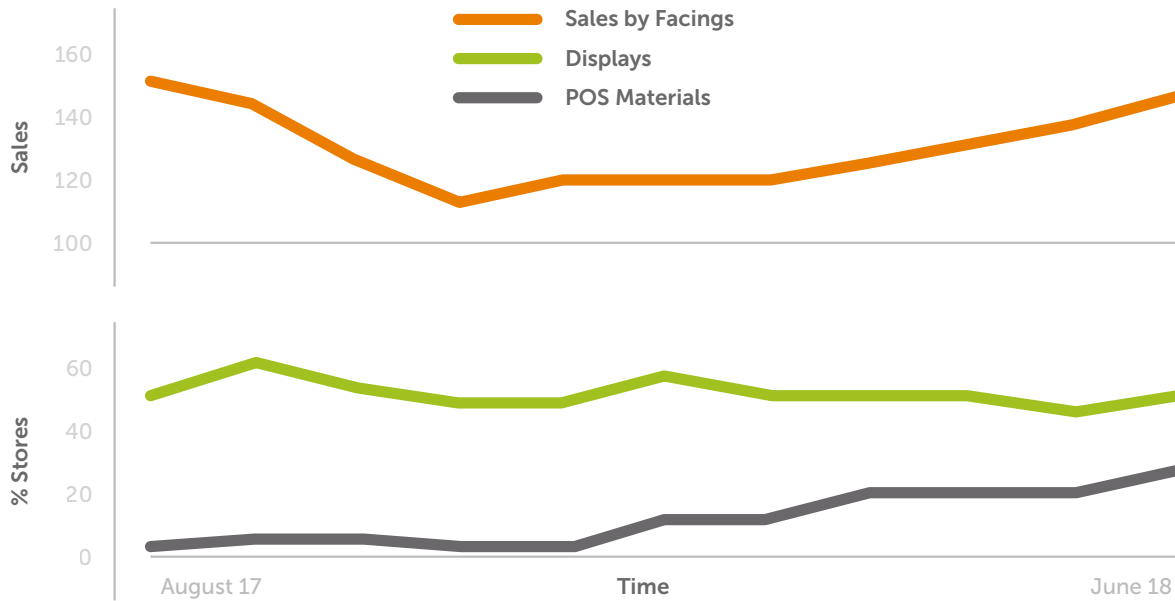


Source: Trax-Nielsen-Acosta Shelf Pulse – June 2018

Taking the insights to the next level, manufacturers can also see the impact of their own POS activity at the retailer or store level.

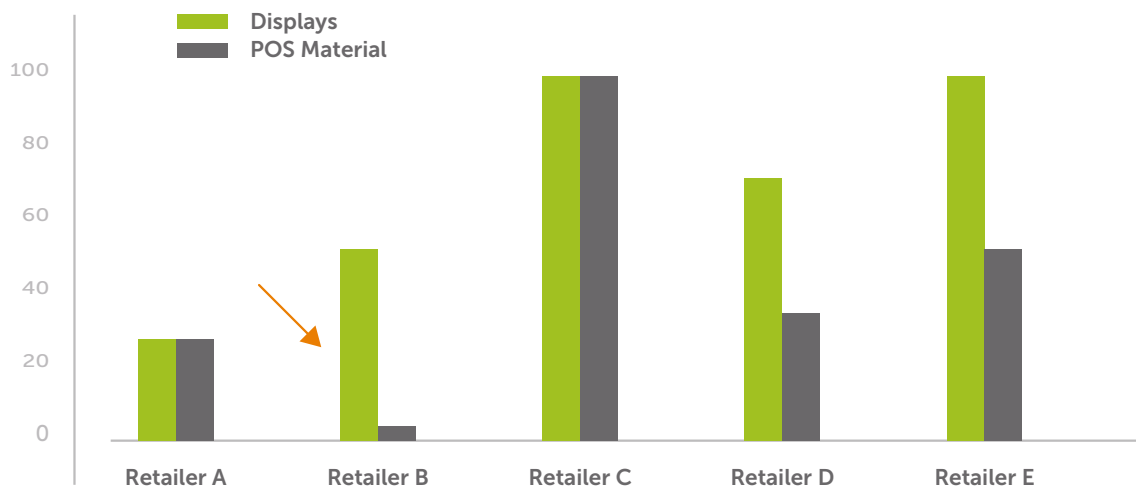
In the example below, presence of promotional materials has a positive correlation to sales over time for Bud Light. Retailer B is currently underweight when it comes to Bud Light POS materials. Without this information, the brand may have chosen to increase POS materials and displays across all retailers, but the insights allow them to target their in-store marketing initiatives more efficiently and effectively.

Promotional Mix Over Time – Bud Light



Source: Trax-Nielsen-Acosta Shelf Pulse

Promotional Mix (%Store) – Bud Light

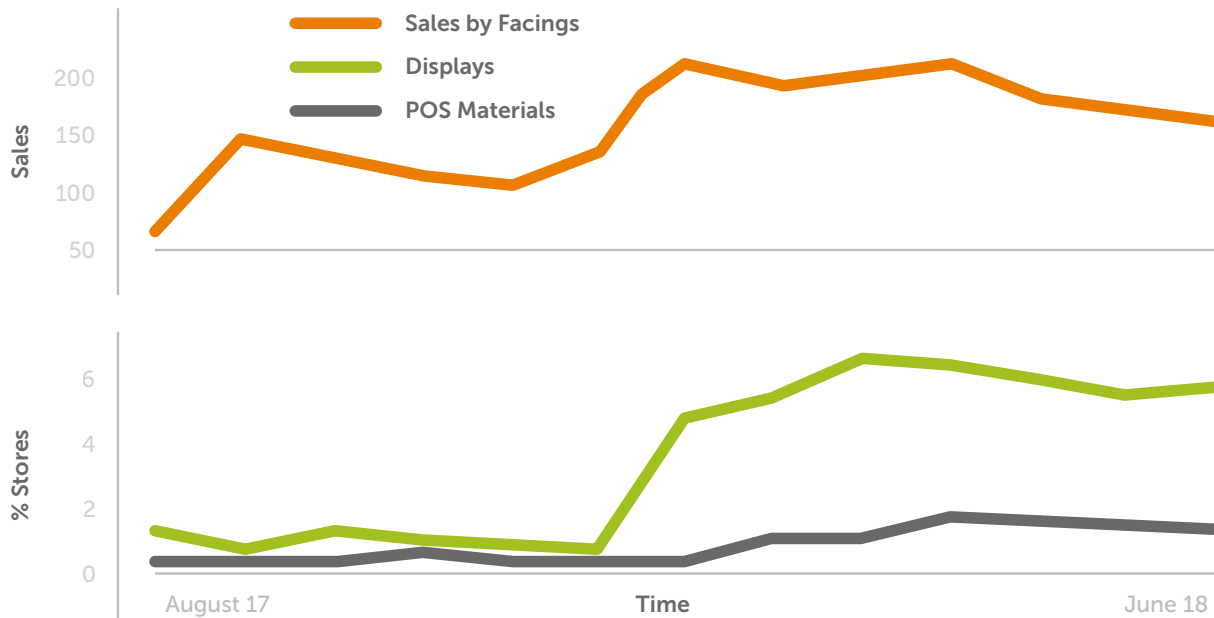


Source: Trax-Nielsen-Acosta Shelf Pulse – June 2018

Just like shelf positioning, brands perform differently across locations and retailers' outlets. For example, while POS material works well for Bud Light, displays have a more significant impact on sales by facings for Corona.

That's why manufacturers need to access granular data at the brand and outlet level, so they can make adjustments for their own brands and locations. By taking the guesswork out of promotional activity, manufacturers can not only increase sales, they can also reduce cost and waste in their marketing efforts.

Promotional Mix Over Time – Corona Familiar



Source: Trax-Nielsen-Acosta Shelf Pulse

There's No Time To Lose

There is no denying that the U.S. beer market is in the midst of significant change and there's no sign of this changing. Shifting demand, new product segments and styles and a growing number of brands are all creating new challenges that can't be solved with traditional sales and marketing strategies.

With change comes opportunity and it is there for the taking for both large manufacturers and smaller players. As retailers continuously leverage shelf space to meet consumer demand, manufacturers need to take control of their destiny by keeping a vigil on new launches and ensuring they maintain their fair share of shelf.



Image: Copyright © Alamy Ltd

The fight for consumer sales and market share is occurring at the shelf. Manufacturers are no longer just negotiating their fair share of shelf space; they also need to put forward a case that's attractive to both retailers and consumers. The key to understanding what tactics manufacturers can use lies in data.

Consumers are continually searching the shelves for something new. By understanding what is happening at the shelf level and having insight into how shelf conditions, display execution, placement and POS activity drive sales of brands, manufacturers can turn the tide. But they need to act now to stay ahead of the curve.

To find out more about how you can get your fair share of shelf space and optimize your sales, visit www.traxretail.com/contact

Methodology

The insights in this report were leveraged from the following sources:

1. Nielsen Scantrack
2. Nielsen US xAOC
3. Nielsen Syndicated AOD
4. Trax Nielsen Acosta Shelf Pulse

Segment definitions:

Segment	Sub-segment
Above premium	Import
	Craft
	Domestic super premium
Budget	Below premium
	Malt liquor
	Near beer
Cider	Cider
	Domestic premium
FMB/coolers	Flavored malt beverage
	Coolers

About Trax

Trax is the leading provider of computer vision solutions and analytics for retail, recently ranked in the top 25 Fastest Growing Companies on Deloitte's Technology Fast 500 list. The company enables tighter execution controls in-store and provides clients with the ability to leverage competitive insights through its in-store execution tools, market measurement services and data science to unlock revenue opportunities at all points of sale. Many of the world's top brands and retailers leverage Trax globally in more than 50 countries to manage in-store execution and increase revenues at the shelf. Trax is headquartered in Singapore with offices worldwide. To learn more about Trax, please visit www.traxretail.com

About Nielsen

Nielsen Holdings plc (NYSE: NLSN) is a global measurement and data analytics company that provides the most complete and trusted view available of consumers and markets worldwide. Our approach marries proprietary Nielsen data with other data sources to help clients around the world understand what's happening now, what's happening next, and how to best act on this knowledge. For more than 90 years Nielsen has provided data and analytics based on scientific rigor and innovation, continually developing new ways to answer the most important questions facing the media, advertising, retail and fast-moving consumer goods industries. An S&P 500 company, Nielsen has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com