



## Chain Retailers: How to Get the Most Out Of Category Management for Your Craft Segment

### The Current State of Category Management

Category Captains have a central and growing role in the category management decisions made in the nation's largest retail chains, and the beer shelf is no exception. The challenge inherent in this model is that while Category Captains are asked to advise retailers objectively, a growing body of evidence suggests that breweries funding Category Captain seats take advantage of these positions to control a larger and better part of retailers' shelf-sets than is objectively warranted. This occurs at the expense of consumer choice, retailer profitability, and other businesses in the brewing industry.

Today, Category Captain positions to an overwhelming degree belong to Anheuser-Busch InBev (ABI) and MillerCoors (MC). According to Bump Williams, a prominent industry analyst, ABI has secured the Category Captain role in nearly 100% ACV of all big box stores, 80% ACV of drug store chains, 65% ACV of grocery retailers, and 45% ACV of liquor store chains. Aside from a few exceptions, the remaining balance of Category Captaincies belongs to MC.

Bump Williams estimates there are approximately 250 people in these positions serving the top 100 retailers in the beer category alone and representing an estimated annual investment of over \$25 million (comprising salaries, business time and expenses, bonuses and benefits). This



### Glossary

#### Category Management

"The strategic management of product groups through trade partnerships that aims to maximize sales and profit by satisfying consumer and shopper needs." —U.S. Institute of Grocery Distribution

The predominant practice used to make product selection and merchandising decisions in the majority of large retail chains across the US.

substantial investment is indicative of the value that ABI and MC place on securing these powerful positions, as well as the direct economic benefit it provides to the retailers that are relieved of the need to employ their own category management analysts.

Breweries with neither Category Captains nor Validators are often largely excluded from retailers' decision-making processes. Whether required to present their own new item recommendations to the Category Captain, or permitted to present directly to chain buyers, their presentations are generally turned over to Category Captains and Validators to assess. Thus, many breweries must operate knowing that a person employed by a direct competitor will substantially or entirely determine the outcome of these critical decisions.

#### **The Challenges Inherent in Depending on Category Captain Recommendations**

The goal of retailers practicing Category Management is to choose and display products in a way that maximizes the profitability of a given product group. Yet, because the interests of the Category Captains are not 100% aligned with those of the retailers they serve, the Captains' recommendations sometimes reflect the interests of their employers over those of their clients.

For example, ABI and MC, under their own auspices and in their roles as Category Captains, have argued recently that retailers are shifting too much space to the craft beer segment from domestic premium brands. They have gone further to advocate for additional domestic shelf space to accommodate the numerous packaging formats of their brands.

And yet, there is strong evidence that these arguments are more closely aligned with the Category Captains' interests than retailers'.

First, ABI and MC have aggressively launched or purchased their own brands that strive for a "craft" brand image (e.g. Shock Top, Blue Moon,

#### **Category Captains**

The primary administrators of Category Management practices, also known as "Set Captains." These Category Captains are typically employed by a category supplier (e.g., Anheuser-Busch InBev or MillerCoors) and work on behalf of a retail chain buyer.

The standard duties of Category Captains are to assess the performance of the various product offerings within the category to determine which products become part of the shelf sets, how many facings they get, and where they are positioned on the shelf.

As a result of this practice, the retailer interacts with Category Captains to a far greater extent than representatives of other breweries, and consequently the Captains become highly influential in the retailer's decision-making process. Category Captain positions are typically awarded to the largest suppliers, since those are the companies with the resources to fund and employ Category Captains, as well as the sophistication to perform the role at a high level.

#### **Validators**

Category Captains are often paired with "Validators." Validators are employees of breweries whose products compete with those of Category Captains. They are charged

Batch 19, Goose Island, etc.). The extensive investment of dollars and attention that ABI and MC have devoted to promoting these brands belies their own insistence that grocery stores have overinvested in the craft segment.

Second, at the beer segment level, **quantitative analyses focused on the *ratio of share of space to share of profit and ratio of share of shelf space to share of incremental profit* demonstrate that space has generally been under-allocated to craft brewed products** (see [Volume 4 of the BA Insider](#) for a full analysis).

Third, at the SKU level, third party IRI reports show that many of the Category Captains' and Validators' less popular packaging formats retain their shelf space one shelf reset cycle after another, even though they contribute far fewer dollars to retailers' bottom lines than available craft SKUs contribute in comparable shelf sets.

Finally, and most convincingly, in a case study (see below) of an actual retail grocery in San Diego, swapping out just 17 SKUs from the Category Captain's recommended set for better choices would have resulted in an additional \$13,784 per retail location over the seven month period studied. This would amount to over \$2.2 million in additional revenue and \$617,000 in additional profit for a chain with 100 stores. Not surprisingly, most of the underperforming SKUs selected for removal belonged to the brand families of the Category Captain and the Validator. See the appendix below for the complete case study, including shelf set schematics and an explanation of objective metrics used to select SKUs for removal and replacement.

While some retailers are successful with a layout the Captains advocate, most leave significant money on the table as they constrain consumer choice. Often, products included in these shelf sets do not justify the retail space allotted them and primarily serve to crowd out other emerging brands to the detriment of both consumers and

with providing assistance to the Captains in developing their recommendations and ensuring that the Captains' work is objective and in the best interest of the retailer.

#### **All Commodity Volume (ACV)**

The total annual sales volume of retailers that can be aggregated from individual store level up to larger geographical sets. This measure is a ratio, and so is typically measured as a percentage (or on a scale from 0 to 100).

the retailers themselves by limiting their potential to maximize revenue and margin.

## Recommendations for Effective Category Management

In order for retailers to reap the rewards of unbiased category management, some vigilance and effort on their own part is required. To this end, there are a few cautions that retailers should be aware of:

**Not every SKU from a “power brand” is a “power SKU.”**

As shown above, retailers should be aware that while there are “power brands” that deserve ample shelf space (e.g., Budweiser, Coors Light), not every SKU from a power brands is a power SKU. While retailers should obviously not remove power brands from their sets entirely, they should consider the merits of each SKU individually. There are always slow-moving SKUs within these power brands that can be replaced to the benefit of the retailer. For example, in Southern California Miller Genuine Draft (MGD) 12-pack cans contribute around 5% of total sales for the brand, despite having 45% ACV. In many cases, alternate SKU’s would perform better than superfluous package formats or line extensions strategically created by the big brewers to monopolize shelf space.

**Craft has significantly higher profit per case, market basket value and drawing power than premiums.**

Retailers should deeply consider the compelling data behind the power of craft beer. Craft products provide benefits that extend beyond just a higher average profit margin. Craft brings new customers into the beer segment and, on average, craft drinkers purchase beer more frequently and at a higher volume per visit than standard beer customers. Furthermore, craft leads all other beer segments in both profit margin per case (at \$8.41 vs. \$2.23 for domestic premiums) and average

market basket dollars per customer. In convenience stores, for example, craft's average basket ring is \$14.93 vs. \$11.49 for overall beer.

**Look at incremental profit for the craft category and by brand.**

There are several specific metrics that savvy retailers should be aware of when approving shelf sets as proposed by their Category Captains. The most basic of these is gross profit by segment. Put simply, which segments are contributing a higher percent of profit than the percent of space they take up on the shelf? Additionally, retailers should look at incremental gross profit. That is, what brands or segments are helping them grow their overall beer category profits? Subsequently, to ensure shelf space is used effectively, retailers could devote more space to the specific brands that are driving these incremental profits. Craft is a big winner in terms of these criteria and the benefits accrue directly to the retailer.

In summary, while retailers receive value from Category Management, most are likely leaving far more value on the table by allowing ABI- and MC-sponsored Category Captains and Validators the run of the house. For a retailer to maximize profits in its beer category, it should be sure to hold all of its brewer suppliers to the same objective performance standards. In particular, retailers should carefully vet the work of their Category Captains and Validators to ensure that the shelf space allocated to craft, as well as the configuration of brands within that shelf space, is optimized. Specifically, retailers should look out for their own interests and ensure that Category Captains and Validators aren't allowed to team up to unfairly push their own brands ahead of more profitable and attractive craft brands.

Ultimately, chain retailers may decide to invest resources of their own to ensure the craft segment gets handled in a way that serves the interests of retailers and their customers first. This investment may well pay for itself many times over.

See Appendix (below) for additional information.

[Sales Statistics](#)

[Sell Sheets](#)

[Draught Quality](#)

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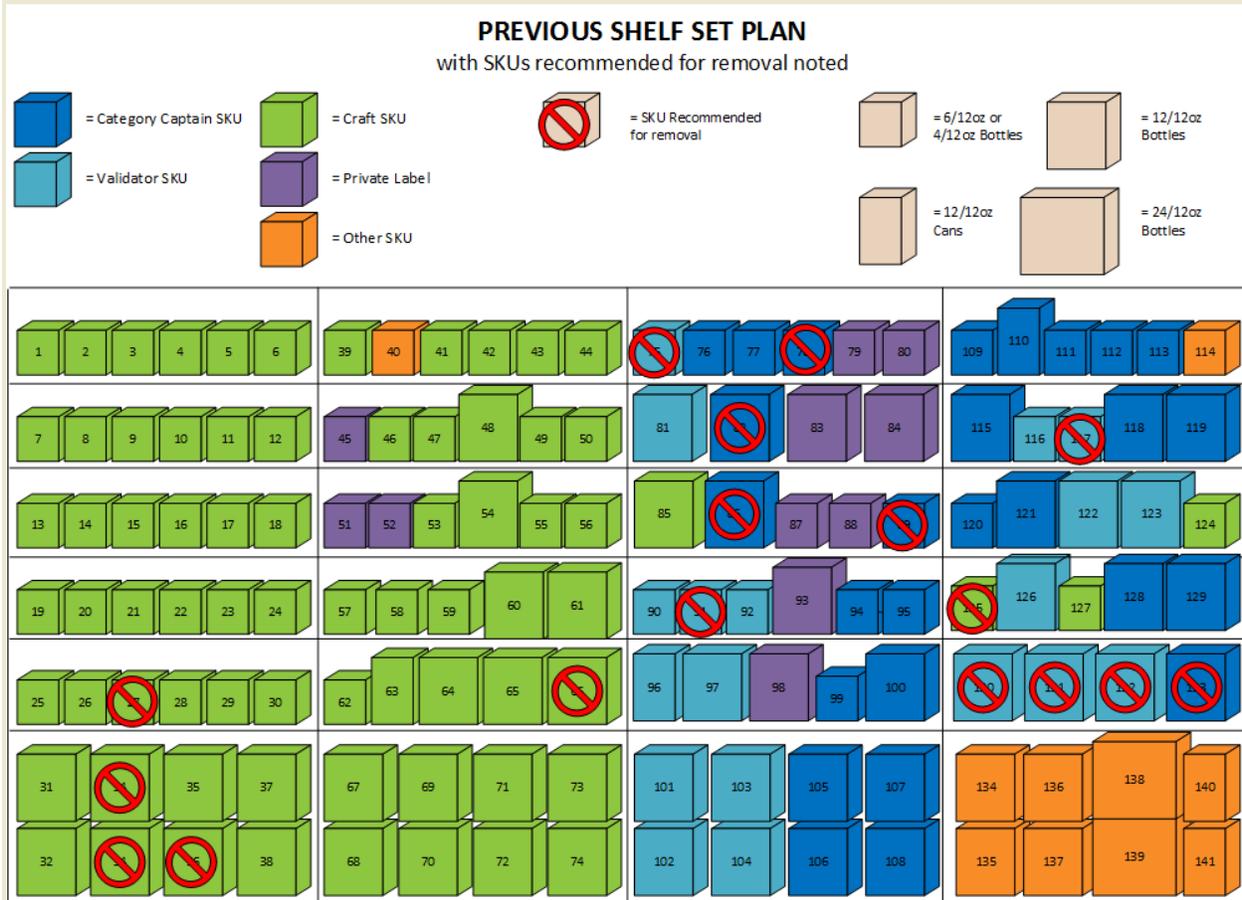
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# APPENDIX: Case Study: How Much Retailer Value Do Category Captains Leave On The Table?

Presented here is a case study based on an actual craft schematic from a spring 2013 reset in San Diego, where ABI was the Category Captain and MC was the Validator.

Figure 1



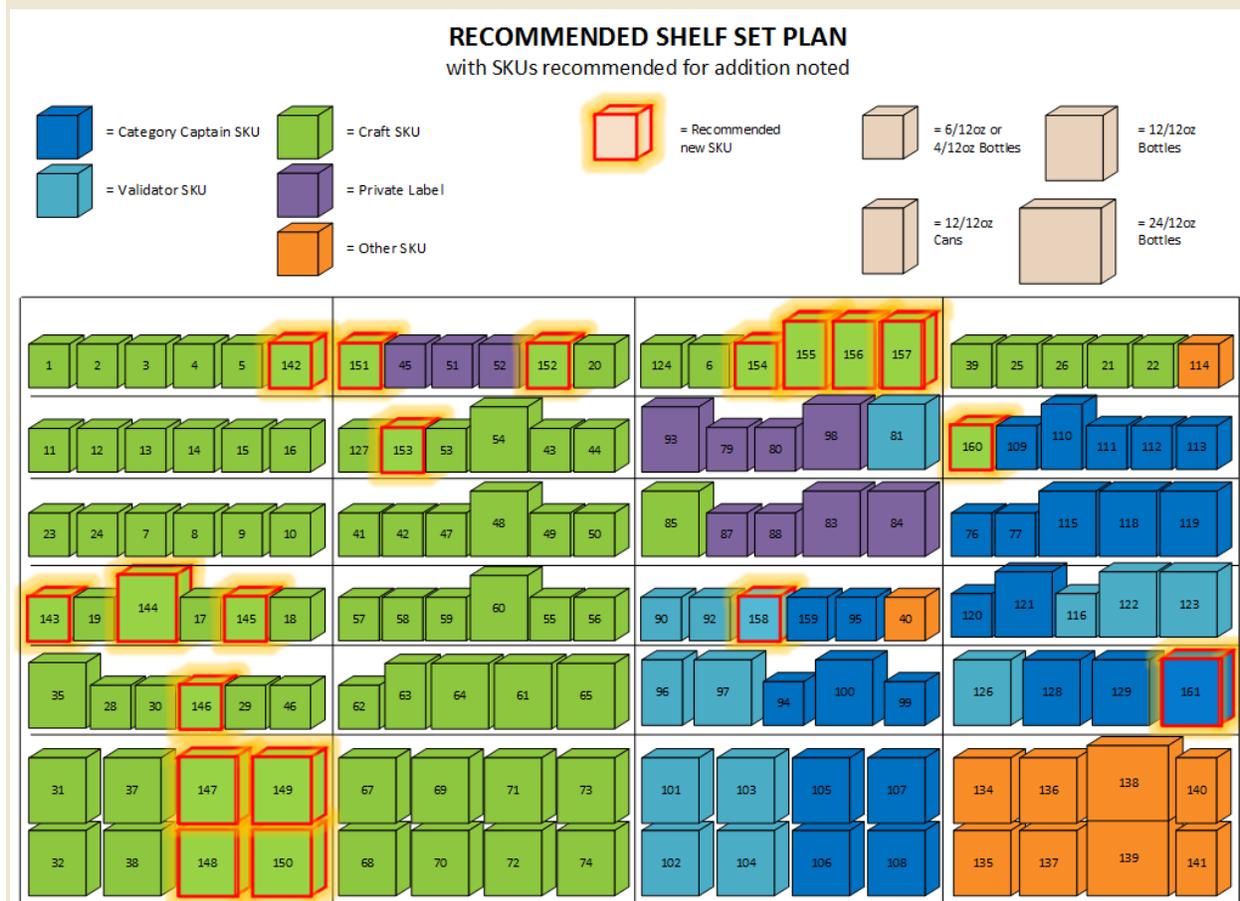
After reviewing this set, strong cases could be made for replacing 16 unique SKUs (17 units given that in one case both units of a double-stacked 12-pack SKU were removed) of the 124 unique SKUs (141 units). The items recommended for removal are indicated by the 17 marks in the figure above (one 12-pack SKU was double-stacked in the well). Of these 16 SKUs, 11 belonged to the Category Captain or Validator.

For example, consider the Goose Island brand. There are five Goose Island (ABI) SKUs in the set above (SKUs 76-78, 82 and 86). Yet, as a new brand in this market, Goose Island simply cannot muster the historical sales data to justify five placements. Typically, new entrants are required to prove themselves (in the eyes of the retail buyer and thus the Category Captain) with a single package before obtaining multiple placements and package sizes. Were the Category Captain to apply this often-made recommendation to his own company and not just competitors, he might suggest removing three of the five Goose Island SKUs as shown here.

Another case to consider is the three Henry Weinhard's 12-packs (SKUs 130-132). Lately, MC has been eager to champion its Henry Weinhard's brand. Yet, even in the brand's Pacific Northwest home market, it is experiencing double digit sales declines from last year according to IRI 26-week sales data. Its second-largest market, Northern California, is seeing similar sales declines as well. No independent party could look at that data and recommend giving this new-to-San Diego brand three 12-pack spots right off the bat. These packages are taking up real estate that could be better used to offer strong, proven, growing brands.

These are two glaring examples, from among many, of how clearly the hands of the Set Captain and Validators are both visible in this shelf set. The following schematic shows how this set could have been built out to maximize retailer profits.

Figure 2



The diagram above shows 17 new SKUs added in the space previously occupied by the removed items. These new items are indicated by the 19 items with red outlines in the diagram above (two new SKUs are 12-packs double stacked in the well). By focusing on popular local brands in addition to non-local brands and packages that have a proven sales history in the market, the retailer can stock a beer section with brands that are in highest demand, thereby increasing profit potential. There are several differences between the two examples above.

For example, replacing one of ABI's Goose Island 12-packs with a particular leading craft 12-pack with a strong history in the San Diego market would allow the retailer to upgrade to a SKU with dollar sales

per point of distribution of \$3,618 year to date, compared to the only \$510 per point of distribution achieved by the Goose Island package.

In another case, MC's Leinenkugel 6-pack was swapped out for a successful craft 6-pack. This was an obvious choice given that while the Leinenkugel Sunset Wheat has 5% more points of distribution than the craft 6-pack chosen to replace it, it takes in only half the total dollar sales. This means that year to date the craft 6-pack has brought in an average of \$1,888 in sales per point of distribution, while the Leinenkugel 6-pack netted only \$808 per point of distribution. The craft SKU is outperforming the validator's SKU by more than \$1,000 for every point of distribution!

Figure 3

Change	Unit # in Figure 1	San Diego IRI YTD Ending July 14, 2013	Case Rank	Dollar Sales	Dollar Sales % Chg YA	Dollar Sales Chg YA	ACV Wtd Dist	ACV Wtd Dist Chg YA	Dollar Sales per Total Points of Dist	Avg Base Price per Case
Delete	133	CATEGORY CAPTAIN 12-PACK	187	\$ 11,446	-51%	\$(12,039)	15%	-12%	\$ 742	\$ 27.45
Delete	78	CATEGORY CAPTAIN 6-PACK	258	\$ 9,925		\$ 9,925	15%	15%	\$ 681	\$ 35.34
Delete	89	CATEGORY CAPTAIN 6-PACK	455	\$ 12,364	-49%	\$(12,041)	41%	-2%	\$ 305	\$ 30.99
Delete	132	VALIDATOR 12-PACK	213	\$ 8,962		\$ 8,962	17%	17%	\$ 524	\$ 26.70
Delete	131	VALIDATOR 12-PACK	426	\$ 685		\$ 685	6%	6%	\$ 119	\$ 26.32
Delete	117	VALIDATOR 6-PACK	154	\$ 28,146	-20%	\$(6,893)	35%	-23%	\$ 808	\$ 37.81
Delete	91	VALIDATOR 4-16OZ CAN	405	\$ 1,447		\$ 1,447	7%	7%	\$ 193	\$ 40.46
Delete	33 & 34	CRAFT 12-PACK	391	\$ 3,391	-41%	\$(2,403)	7%	-12%	\$ 503	\$ 23.45
Delete	66	CRAFT 12-PACK	150	\$ 31,614	179%	\$ 20,283	28%	5%	\$ 1,146	\$ 31.04
Delete	27	CRAFT 6-PACK	158	\$ 27,035	-32%	\$(12,482)	34%	-15%	\$ 797	\$ 32.48
Delete	125	CRAFT 6-PACK	262	\$ 10,185		\$ 10,185	6%	5.8%	\$ 1,766	\$ 38.25
Delete	82	CATEGORY CAPTAIN 12-PACK								Data Not Available: SKU not ranked in top 500 IRI packages for local market.
Delete	86	CATEGORY CAPTAIN 12-PACK								Data Not Available: SKU not ranked in top 500 IRI packages for local market.
Delete	130	VALIDATOR 12-PACK								Data Not Available: SKU not ranked in top 500 IRI packages for local market.
Delete	75	VALIDATOR 6-PACK								Data Not Available: SKU not ranked in top 500 IRI packages for local market.
Delete	36	CRAFT 12-PACK (1 unit of double stack)								Data Not Available: SKU not ranked in top 500 IRI packages for local market.
<b>Total Dollar Sales per Point of Distribution (for items with available data):</b>									<b>\$7,584</b>	
Change	Unit # in Figure 2	San Diego IRI YTD Ending July 14, 2013	Case Rank	Dollar Sales	Dollar Sales % Chg YA	Dollar Sales Chg YA	ACV Wtd Dist	ACV Wtd Dist Chg YA	Dollar Sales per Total Points of Dist	Avg Base Price per Case
Add	147 & 148	CRAFT 12-PACK	171	\$ 25,310	2709%	\$ 24,409	11%	9%	\$ 2,397	\$ 35.73
Add	149 & 150	CRAFT 12-PACK	48	\$155,327	903%	\$139,837	43%	35%	\$ 3,618	\$ 40.01
Add	144	CRAFT 12-PACK	174	\$ 17,929	761%	\$ 15,847	33%	27%	\$ 538	\$ 33.87
Add	145	CRAFT 6-PACK	104	\$ 51,213	155%	\$ 31,109	25%	7%	\$ 2,044	\$ 41.27
Add	142	CRAFT 6-PACK	274	\$ 12,800	633%	\$ 11,053	6%	2%	\$ 2,002	\$ 44.17
Add	152	CRAFT 6-PACK	89	\$ 56,157	227%	\$ 38,977	30%	25%	\$ 1,888	\$ 35.64
Add	154	CRAFT 6-PACK	246	\$ 7,237		\$ 7,237	4%	4%	\$ 1,738	\$ 39.96
Add	153	CRAFT 6-PACK	93	\$ 71,993	80%	\$ 31,981	52%	14%	\$ 1,381	\$ 43.89
Add	160	CRAFT 6-PACK	204	\$ 13,691	304%	\$ 10,302	18%	11%	\$ 762	\$ 30.28
Add	157	CRAFT 6-PACK CAN	224	\$ 16,572	4%	\$ 612	4%	-7%	\$ 3,842	\$ 39.96
Add	143	CRAFT 4-PACK	175	\$ 41,306	113%	\$ 21,870	36%	23%	\$ 1,156	\$ 67.68
Add	146	CRAFT 6-PACK								Data not shown in order to allow comparison of sales generated by equivalent amounts of shelf space.
Add	151	CRAFT 6-PACK								Data not shown in order to allow comparison of sales generated by equivalent amounts of shelf space.
Add	155	CRAFT 4-PACK								Data not shown in order to allow comparison of sales generated by equivalent amounts of shelf space.
Add	156	CRAFT 4-PACK								Data not shown in order to allow comparison of sales generated by equivalent amounts of shelf space.
Add	161	CATEGORY CAPTAIN 12-PACK								Data not shown in order to allow comparison of sales generated by equivalent amounts of shelf space.
Add	158	VALIDATOR 6-PACK								Data not shown in order to allow comparison of sales generated by equivalent amounts of shelf space.
<b>Total Dollar Sales per Point of Distribution (for items with data displayed):</b>									<b>\$21,368</b>	
<b>Incremental Dollar Sales per Point of Distribution for 'Add' Set vs. 'Delete' Set:</b>									<b>\$13,784</b>	

There are many more changes that could be made by replacing the products suggested by the Category Captain with better choices, especially given that some of the items that recommended for removal

from this set did not even crack the Top 500 packages in the market, so for them no data is available. However, the data that is available indicates that an average retailer switching from the Category Captain's set to the set recommended above would have earned an additional \$13,784 from January 1 to July 17, and could expect to earn an additional \$22,054 over the course of a full year.

For a regional chain of 25 stores, these substitutions add up to a \$551,356 increase in revenue. Using the generally accepted mark-up of 28% for craft beer, this amounts to \$154,380 in additional profit. For an even bigger national chain of 100 stores, these substitutions would amount to a revenue increase of over \$2.2 million and over \$617,000 in additional profit.

While the shelf set discussed above is fairly typical, each store and market is unique. The current ABI or MC Category Captains do provide a meaningful service of significant value by analyzing each market for their retail customers. And yet, it is also clear that great potential exists for retailers to bring in significant additional revenue and profit by investing in their own analysts or further vetting the analysis of their Category Captains. This extra scrutiny is clearly necessary to create unbiased shelf set that serve the retailer's own interests and those of its customers.

In addition, it is in the best interests of ABI and MC to work harder to ensure that the Category Captains and Validators they sponsor act in an empirically objective manner. If the current trends in category management were to continue as they are or become even less objective, surely this would augment arguments that this constitutes unfair trade practices and would invite regulatory intervention.