Q&A May Power Hour - On Premise Insights for Craft Brewers

Q01: Is the data region specific in any way or nationwide?

The data shown in the presentation was based on the approximately 5,000 alcohol-serving restaurants and bars in our same-store system (the locations that have been sending us data each and every day since January 2012), and are closely representative of the overall alcohol-serving on-premise universe in terms of (a) casual dining vs. fine dining vs. bars vs. lodging, (b) chain vs. independent, and (c) geography. Our locations are spread across the 180 largest markets in the United States, but the findings shown in our Power Hour presentation were based on the nationwide picture. Our web-based business intelligence tool allows our subscribers to slice and dice the data with respect to any market in the country.

Q02: Since the baseline data is POS derived, do you have any metrics on average wholesale prices for craft beer keg sales to the retailers?

The data we have in our system is the data captured at the POS systems of the nearly 5,000 alcohol-serving locations in our same-store sample, and represents over $10 billion in total food & beverage sales from over 300 million checks annually. Since the data is based on what is captured at the POS, it is a pure read on what the consumer is buying, when they’re buying it, where they’re buying it, how much they paid for it, and how they paid for it… but we currently do not have anything on our system regarding what the restaurant/bar operator paid for the items being sold. That is something we are exploring doing, but is not part of our current system.

Q03: Do you think the fact that many establishments run happy hour to 9pm or later skews the happy hour/dinner/late night data?

While we know when every check is opened and closed down to the minute/second, we define day-parts into five buckets: (1) breakfast from 5am to 11am, (2) lunch from 11am to 3pm, (3) happy hour from 3pm to 6pm, (4) dinner from 6pm to 10pm, and (5) late night from 10pm to 5am. The time-breaks above are arbitrary, and could be redefined, but ultimately it will always be difficult to know with perfect certainty whether beer X sold at 9:05pm is part of a happy hour, or just a regular sale. There are times when the POS captures specifically whether the item is “HH” (happy hour), but that is generally rare. We are developing with our new strategic partner (IRI) an algorithm that calculates a baseline price for every item sold (say the average price for the past 30 days), and then if the price is discounted say more than 20% at any point in time, it is flagged as being on promotion, which would then be a variable that could analyzed on our business intelligence tool. Our goal is to have that rolled out in the next 6-12 months.

Q04: Any data on craft beer on draft vs. bottled?
During the first 5 months of 2014, about 59% of all craft beers sold in the on-premise space were on draft (and 41% of craft beers sold were bottle), while about 44% of non-craft beers sold in the on-premise space were on draft (and 56% of non-draft beers sold were bottle).

Q05: Do you foresee the IPA category becoming oversaturated much like the vodka category and what could be done to prevent the downturn?

In analyzing the IPA category in our data, there were 1,113 individual IPA brands sold in the on-premise space in 1Q13. By 1Q14, that number increased to 1,524 individual IPA brands, which is a 37% increase. During that same span of time, IPA dollar sales increased by 27% and IPA volumes increased by 23%. While those are extremely robust growth figures (particularly given the softness of the overall beer category in the on-premise space), the brand proliferation is nonetheless outpacing the actual category growth of IPAs by 10-14 percentage points. As new entrants flood the category, it will be all the more important for existing IPA brands to make sure their product is high quality, that freshness is being monitored and managed at retailers, and that their brands have a unique and compelling story for the consumer.

Q06: Here in Washington State brewers can sell their own product on premise without volume limitation. How do you categorize this type of organization in your data? Have you done any analysis on states that allow this type of selling structure?

Of the locations on our same-store system of bars and restaurants, 136 of them are located in Washington State. As is the case with all our locations across the country, for the locations in Washington State, we gather check-level detail from the POS system which presents us with near-perfect information on what consumers are buying, when they’re buying it, where they’re buying it, and how much they are paying for those items. We have not specifically analyzed the impact of the different distribution model in Washington State, but in principle it is something we could certainly do to see what (if any) impact there is in terms of things like pricing, speed-to-market with new products, etc.

Q07: How do you account for the different price points of the same brands or categories across varying geographies?

While beer suppliers & distributors may ship their brands within a state or region with uniform pricing, it is up to the restaurant and bar operator to decide what they charge consumers for each brand they sell. Our analysis indicates there can actually be fairly significant variation in pricing for a given brand across different retailers within the same state or region.

Q08: Is the proliferation of craft brewery tap rooms affecting any on premise segments and where do you categorize them? I would imagine it’s hard to define them as each do things a bit differently.
We currently classify alcohol-serving on-premise locations into 4 broad buckets: (1) bars/clubs, (2) casual dining, (3) fine dining, and (4) lodging. We currently do not have a specific designation for brewpubs, microbrew tap rooms, etc. but are actively exploring having a more detailed classification system for our locations, which would likely include those types of designations.

Q09: Any data on additional on premise segments such as music/sports venues?

As of June 2014, we do not have any music/sports venues on our system, but are actively pursuing bringing on some of those types of venues in the very near future.

Q10: Any data on average number of draft lines per account?

The overall average among our system of alcohol-serving restaurants and bars is 8 unique beer brands carried on draft during any month. However, when one takes into account that approximately 20% of the beer-selling accounts in our system only sell bottles (i.e., don’t have beer on tap), when looking specifically at the restaurants and bars that do sell beer on tap, they on average have 10 unique beer brands on tap during any month.

Q11: Do you ever see the craft beer segment hitting a ceiling? Will most small breweries fizzle out because the rise of malt and hops?

In our system of locations, the craft beer segment has 26-share of beer sales and a 23-share of the number of beers sold in the on-premise space. Comparing 2013 versus 2012, it gained about 2 points of share coming almost exclusively at the expense of Premium Light beers. Mathematically, the craft beer segment’s gains in beer share will eventually have to slow and eventually plateau, but in analyzing the past 9 quarters of data in our system (from 1Q12 through 1Q14), there is no sign of that happening yet. In terms of input cost inflation (malt & hops), significant increases in input costs could squeeze margins for craft brewers and/or cause them to further raise prices, but our analysis suggests consumers currently are not particularly price sensitive when it comes to buying craft beers in the on-premise.

Q12: I feel like I've seen social media more than ever flooded with petitions and movements to address the federal legal drinking age of 21, with a sizeable number of people wanting it to be more in line with Europe at the age of 18 or 19. Do you foresee this happening?

That would be a fairly large shift in regulation, and given the gridlock in our nation’s legislative body now over a prolonged time, it’s difficult to imagine something like this will happen anytime soon, but we do not have any particular insights into that.

Q13: Is craft growing at (generally) the same rate on premise vs. last year, even as on premise trends softened even further in the beginning of the year?
In 2013 (compared to 2012), craft beer grew sales in on-premise by 7% and volumes by about 4%. During the first 4 months of 2014 (compared to the first 4 months of 2013), craft grew sales by about 4.5% and volumes by about 1.5%. These growth rates are significantly more modest than craft’s growth in the off-premise space, but this is due to growing off of a much higher penetration base in the on-premise space with share about 4x greater in the on-premise than off-premise. The slow-down in growth from 2013 to 2014 to-date is symptomatic of a broad slow-down across all of on-premise and the beer category in general. Looking at year-over-year gains in share, craft gained +2.2 points of share during 2013 compared to 2012, and during 2014 to-date, its share gain remained at +2.2 points, showing that the slow-down in growth is not a sign of diminishing demand for craft beer.

Q14: Is there a correlation between distributor offerings and the sales?

The data we gather is the data that is captured at the POS and is a reflection of what the consumer is buying. In principle, if distributors were to feed us information on their offerings to specific accounts and/or regions, we would be able to analyze the impact on consumer take-away in terms of sales and volumes.

Q15: Do you now, or do you plan to, provide any trend forecasting based on the data you're collecting?

It is something we have discussed, and may start doing that in the next 1-2 years.

Q16: How much of the data is coming from the West Coast?

Looking specifically at California, Washington State, and Oregon, those three states make up approximately 15% (or about 700) of the alcohol-serving locations on system as of 1Q14.

Q17: Check averages- I assume that this is total check? Is there data on per capita spend? How many people on average per check?

Correct, when we say “check average” that refers to the average $ amount spent per check across all of food & beverage. We also have data on average # of people per check, so we are able to calculate average $ spent per check per capita.

Q18: Which POS system works best and/or is used most with your data collection?

We are fully compatible with the largest half dozen POS platforms, which represents at least 60% of all alcohol-serving restaurants and bars in the United States.